

CHAPTER 15

AUDITED FINANCIAL STATEMENTS1501 GENERAL

The Chief Financial Officers Act of 1990 requires the Secretary of Defense to prepare and submit to the Office of Management and Budget, financial statements covering DoD substantial commercial functions, revolving funds and trust funds for the preceding fiscal year. These financial statements are expected to provide information to DoD program managers, the Congress and the public, regarding the effective allocation of resources, the assessment of management performance and the stewardship of public assets entrusted to the Department. Information contained in these financial statements must be accurate, consistent and meaningful--resulting in statements that can and will be used to improve the management of the Department. To accomplish this, program and financial information at all levels must be integrated for all programs and organizations.

1502 SCOPE

A separate financial statement is to be prepared for each reporting entity within the Department of Defense. A reporting entity is defined as a DoD Component (Army, Navy, Air Force, or Defense Agency), or a portion of such component (revolving fund, trust fund, etc.), for which meaningful performance measures can be developed. Reporting entities are determined by the Chief Financial Officer of the Department of Defense (CFO, DoD) in consultation with DoD Components, the Office of Management and Budget, and the Inspector General, DoD. Guidance issued by the CFO, DoD, will identify the substantial commercial functions, revolving funds, and trust funds to be covered in the financial statements, and will identify the types of financial activity into which to group these functions and funds. Groupings will consist of like functions for which meaningful performance

measures can be identified, including significant program outputs and program outcomes.

1503 FORMAT FOR FINANCIAL STATEMENTS

Each annual financial statement shall be comprised of the following, and be presented in the following sequence:

- (1) Overview of the Reporting Entity
- (2) Principal Statements and Related Notes
- (3) Consolidating Statements (when feasible and appropriate)
- (4) Supplemental Financial and Management Information

Preparation of all four parts of the annual financial statement is the joint responsibility of both the DoD accounting activity maintaining the official departmental accounting records and the DoD Component for which those official accounting records are maintained.

1504 OVERVIEW OF THE REPORTING ENTITY

150401 Each DoD Annual Financial Statement should include a narrative "Overview of the Reporting Entity." This Overview should provide a brief description of the reporting entity, to include program and administrative highlights. It also may identify critical areas for financial and management improvement. The Overview should include a narrative discussion and analysis of the financial condition of the reporting entity. This discussion should present information based on the results of an analytical review of relevant financial and performance data of the programs, activities and funds that make up the reporting entity. Important aspects of the reporting entity's financial operations

should be discussed and relevant trends identified.

150402 Wherever possible, financial data should be related to other measures of performance on a program-by-program basis. The inclusion of performance measures will facilitate using the financial statement to assess both financial and program performance. The Overview may identify programs or activities that may need significant future funding or may provide an early warning of other potential financial management problems.

150403 In developing financial, statistical and other information for presentation in the Overview, DoD Components should prepare adequate supporting documentation and retain such documentation to facilitate future review and audit. In the event that information is not available to complete the foregoing narrative discussion and analysis of the financial condition of the reporting entity, management must discuss why such information is not available and describe its plan for meeting these reporting requirements in the succeeding year and future years.

150404 Each applicable DoD Component is required to include performance measurements as a part of their financial statements. These performance measures provide quantification of the output of the applicable entities for which financial statements are prepared. For Business Operations Fund activities, separate performance measures should be provided for each business function. For appropriated funds, separate performance measures should be provided for each budget activity/major force program. Performance measures should be expressed in both financial (dollar) and nonfinancial (workload) terms.

1505 PRINCIPAL STATEMENTS

150501 The Principal Statements shall include:

Statement of Financial Position

Statement of Operations and Changes in Net Position

150502 Financial statements shall result from an accounting and budgeting system that is an integral part of the DoD Component financial management system, and one that contains sufficient discipline, effective internal controls, and reliable data. The financial statements, and underlying financial system, shall report on the total operations of the reporting DoD entity and shall comply with policies and procedures and related requirements published in this regulation. Principal statements shall present the financial position and operating results of the Department of Defense and contain proprietary information and footnote disclosures not found in monthly budget execution reports.

150503 Statement of Financial Position. The Statement of Financial Position, or Balance Sheet, presents the assets, liabilities, and equity of the DoD Component as of the end of the fiscal year. The Statement of Financial Position and accompanying Notes to the Principal Statements discloses the basis on which major categories of assets are accounted for and reported, the nature of any significant restrictions on the use of assets, the amount and nature of significant contingent liabilities, and such explanatory information on the assets, liabilities, and equity as is necessary to fully and clearly disclose the financial position of the DoD Component.

150504 Statement of Operations and Changes in Net Position. The Statement of Operations and Changes in Net Position, or revenue and expense statement, presents the financial results of activities of the reporting entity for the fiscal year, including (a) revenues and other financial sources, such as appropriations, and (b) operating expenses, including administrative

costs. The statement also presents the relevant changes in the net position during the year.

1506 NOTES TO THE PRINCIPAL STATEMENTS

The Notes to the principal statements should contain all disclosures necessary to make the financial statement fully informative and to avoid misinterpretations. The notes should be an integral part of the principal statements. The notes should contain a discussion of all accounting policies, and any deviations from the standards contained in the policies and procedures published in this Regulation. The Federal Accounting Standards Advisory Board, with approval of the General Accounting Office, Office of Management and Budget, and the Treasury, has approved the following hierarchy of account standards for use in preparing federal agency financial statements:

A. Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) principals. (The JFMIP principals are the Secretary of the Treasury, the Directors of the Office of Management and Budget, the Office of Personnel Management, and the Comptroller General of the United States.)

B. Form and content requirements included in OMB Bulletin 94-01, dated November 16, 1993 and subsequent issuances.

C. Accounting standards contained in agency (i.e., DoD) accounting policy, procedures manuals, and/or related guidance as of March 29, 1992, so long as they are prevalent practices.

D. Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

1507 CONSOLIDATING/COMBINING STATEMENTS

Consolidating Statements present by programs, activities or funds, summary information which is presented in total in the principal statements. Consolidating statements show programs, activities or funds of a reporting entity horizontally with a consolidated total equal to that of the principal statement.

1508 SUPPLEMENTAL FINANCIAL AND MANAGEMENT INFORMATION

Each Annual Financial Statement should contain, where appropriate, "Supplemental Financial and Management Information" that supports information presented in the Overview or which otherwise enhances an understanding of the financial condition and operations of the reporting entity. Within the DoD, such supplemental financial and management information will consist of program and agency attributes quantified in terms of measures and indicators analyzed to produce an evaluation and interpretation of the program and agency financial attributes.

1509 RESPONSIBILITY FOR PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS

The Defense Finance and Accounting Service (DFAS), the DoD Components, and the Office of the Under Secretary of Defense (Comptroller) (USD(C)) are identified as lead organizations for specific parts of the report. In addition, some actions require a coordinated effort between the DFAS and the DoD Components. Figure 15-1 depicts the responsibilities of lead organizations and coordinating office.

1510 SUBMISSION OF FINANCIAL STATEMENTS AND CFO ANNUAL REPORT TO OFFICE OF MANAGEMENT AND BUDGET

151001 Financial Statements. Not later than March 1st of each year, the Secretary of Defense shall prepare and submit to the Director of the Office of Management and Budget a financial statement for the preceding fiscal year. These statements shall encompass each revolving fund and trust fund of the Department of Defense and, to the extent practicable, the accounts of each office, bureau and activity which performed substantial commercial functions during the preceding fiscal year.

151002 Report On Audited Financial Statements. Office of Management and Budget (OMB) Bulletin No. 93-18, "Audited Financial Statements," of June 25, 1993, and OMB memorandum on "Submission of Annual Financial Statements" of February 7, 1994, require that the Chief Financial Officer of the Department of Defense (CFO, DoD) prepare an annual report, not later than March 1, following the fiscal year reported, summarizing the critical information contained in the audit reports and include the Department's summary response to those reports. The "Report of Audited Financial Statements" includes:

- Scope and results of audit,
- Findings, internal controls, and compliance issues contained in audit reports,
- Impediments to auditable financial statements, identified deficiencies, and management responses and corrective actions,

- Annual financial statements prepared in response to the Chief Financial Officers Act, and
- Audit reports prepared and transmitted to the Secretary of Defense under the CFO Act.

The Report on Audited Financial Statements replaces the Chief Financial Officer Annual Report required by the Chief Financial Officers Act.

1511 REPORTING AUTHORITIES

To meet the above reporting requirements, the CFO, DoD, is provided the following authorities:

151101 To mandate DoD-wide data and reporting format requirements.

151102 To review and approve financial reports and statements prepared by DoD Components for transmittal to the Secretary of Defense, the OMB, the President, the Congress or external groups.

151103 To prepare consolidated and/or combined agency financial statements and work with the Inspector General and other auditors to improve the statements' independent review and auditability.

151104 To develop, in coordination with program managers, financial and programmatic performance indicators for inclusion in financial systems and financial reports and statements.

151105 To advise and provide direction to program managers on financial management matters.

RESPONSIBILITY FOR PREPARATION AND SUBMISSION OF FINANCIAL STATEMENTS				
	CFO, DoD	DFAS	DoD COMPONENT	COORD. EFFORT
Overview of the Reporting Entity			L	X
Preparation of Principal Statements		L		
Notes to the Principal Statements:				
Note 1 Significant Accounting Policies		L		X
All other Footnotes			L	X
Consolidating Statements		L		X
Supplemental Financial and Management Information			L	X
Supplemental Schedules			L	X
Revaluation of Inventories			L	X
Valuation of Property			L	X
Submission of Unaudited Financial Statements to OIG	L			
Preparation of Report on Audited Financial Statements	L			

L = Organization to take leadership role in the preparation of the specified part of the financial statement.

X = Coordinated Effort

Figure 15-1