

Financial Improvement and Audit Readiness (FIAR) Plan Status Report

May 2015



**OFFICE OF THE UNDER SECRETARY OF DEFENSE
(COMPTROLLER) / CHIEF FINANCIAL OFFICER**

United States Department of Defense

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

This year marks a turning point for the Department of Defense (DoD). In January 2015, independent public accounting firms began auditing the Military Departments' General Fund Schedules of Budgetary Activity (SBAs) for their fiscal year (FY) 2015 appropriations. Although a number of organizations and some of the Department's largest funds have already been sustaining full financial statement audit opinions, moving the Military Departments and many of the components into an annual audit routine represents a major cultural change for the Department.

No one feels the impact of this shift more than the over 53,000 members of the financial management workforce. Our financial management workforce must be prepared to work with auditors and respond to their requests, while also completing extensive and challenging audit readiness work for the remaining statements. Additionally, as we add increased emphasis on the correct financial account treatment of business transactions to our current budgetary focus, the workforces in our business areas will become more involved. Personnel in areas such as acquisition, human resources, logistics, maintenance, and facilities management are being called upon to strengthen their internal controls, processes, and systems while also supporting the warfighter.

Currently, the Department has nearly 90 percent of its General Fund FY 2015 budgetary resources under audit. The remaining budgetary resources are being readied for audit. With the audits of current year appropriations underway, our focus has expanded to include the Working Capital Funds and remaining financial statements. Many financial management issues that cut across the Department remain—future milestones critical to audit readiness will be a challenge for all components to meet. Regardless of these challenges and the amount of audit readiness work to be completed, I remain confident that with sustained emphasis and commitment from DoD leaders, the DoD workforce, and Congress, we will continue making progress toward our goals.



Michael McCord

Under Secretary of Defense (Comptroller)/
Chief Financial Officer

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The FIAR Plan Status Report was prepared in accordance with section 1003 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2010, as amended. The Report addresses issues impeding the reliability of the Department of Defense financial statements.

Preparation of this Report cost the Department of Defense an approximate total of \$164,560.00

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Executive Summary

The Honorable Ashton Carter was sworn in as Secretary of the Department of Defense (DoD) in February 2015. Secretary Carter previously served as Deputy Secretary of Defense from 2011 to 2013 and as Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) from 2009 to 2011. His commitment to having auditable financial statements has been constant, and as Secretary, he has renewed that commitment. He, Deputy Secretary Robert Work, Michael McCord, USD(Comptroller) and Chief Financial Officer (USD(C)/CFO), and other leaders have continually stressed accountability, sound business and financial management, and audit readiness as a DoD priority and an all-hands responsibility.

Since the November 2014 Financial Improvement and Audit Readiness (FIAR) Report, the Department has moved from focusing strictly on audit readiness to also being under audit. In December



Defense Secretary Ash Carter hosts an all-call meeting at the Pentagon, Feb. 19, 2015, to inform Defense Department personnel about his priorities as he takes office. (DoD photo by U.S. Air Force Master Sgt. Adrian Cadiz)

2014, the Department awarded contracts to three independent public accounting (IPA) firms. With the DoD Office of the Inspector General (DoD OIG) providing oversight, the IPAs began audits of the Military Departments' General Fund Schedules of Budgetary Activity (SBAs) reporting fiscal year (FY) 2015 appropriations. Additionally, the budgetary activities of most of the other Defense organizations (ODO) are under SBA examinations or completing mock audits.

Moving from audit readiness into audit is a tremendous accomplishment for the Department. Going under audit will highlight remaining deficiencies through an auditor's lens so that corrective actions can be implemented and full audit readiness achieved by FY 2018. Going under audit also means an important culture change is underway, requiring both military and civilian personnel across the Department to learn and understand the business of being audited.

Just over two years remain before the deadline of September 30, 2017, for auditable financial statements. Audit readiness activity is intensifying and focusing on the remaining financial statements. The Department has expanded its audit readiness priorities from budgetary data reported on the Statement of Budgetary Resources (SBR) to all financial transactions reported on the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. The focus of current FIAR activity includes:

- Valuing and accurately reporting over \$2.2 trillion in assets
- Reporting over \$2.4 trillion in liabilities
- Preparing full financial statements for audit

PROGRESS

Achieving audit ready financial information for the DoD Consolidated Financial Statements by September 30, 2017, is the goal of every Component. To date, six ODOs have received unmodified opinions on their FY 2014 financial statements, and one

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ODO has received a modified opinion. These Components will continue to prepare stand-alone, audited financial statements.

Figure ES-1 lists the Components that have already achieved the goal of preparing auditable financial statements and received positive audit opinions on their FY 2014 financial statements and prior years.

Figure ES-1. Financial Statement Audit Opinions

FY 2014 Unmodified Audit Opinions
U. S. Army Corps of Engineers – Civil Works
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Defense Health Agency – Contract Resource Management
Military Retirement Fund
FY 2014 Modified Audit Opinions
Medicare-Eligible Retiree Health Care Fund

Statement of Budgetary Resources

Although the Department did not achieve the September 30, 2014, SBR deadline, progress was made in how the Department manages and reports budgetary resources. The Department’s approach to SBR audit readiness starts with audits of each Military Department’s FY 2015 General Fund SBA and expands subsequent year audits to include all open appropriations and associated budgetary activities. Successful SBA audits will demonstrate the Department is effectively implementing improvements, allowing for materially complete and accurate reporting of current-year activity (including the receipt and execution of budgetary funding).

This approach follows the Marine Corps’ SBR strategy. Recently, the DoD OIG rescinded its opinion on the Marine Corps’ FY 2012 SBA due to newly discovered findings that provided enough

uncertainty that additional audit work is required. The Marine Corps is working to resolve the audit findings and is planning for an expanded scope SBA audit in FY 2016. The Department remains committed to the Marine Corps’ incremental approach to achieving audit readiness on the SBR.

FY 2015 SBA Audits

In the last quarter of FY 2014, each Military Department asserted audit readiness on their General Fund SBA and prepared for audits of their FY 2015 General Fund appropriations. The General Fund SBAs include financial transactions directly related to appropriations received in FY 2015 and do not include financial transactions for appropriations received in prior fiscal years.

In December 2014, the Department awarded contracts to three IPA firms to audit the respective FY 2015 General Fund SBAs of the Department of the Army, the Navy, and the Department of the Air Force. The Army, Navy, and Air Force audits began in January 2015 with entrance conferences, and the SBA audits are now well underway. The DoD OIG approved each audit plan, and IPA auditors are making site visits and familiarizing themselves with the business and financial operations of the Component they are auditing. The three audits are expected to continue through FY 2015 and conclude by the end of the calendar year.

Unmodified SBA audit opinions are not expected in the initial years. However, proceeding with audits helps the Department uncover remaining challenges and exercises the Department’s audit support infrastructure. Proceeding with audits now also follows the example of the Department of Homeland Security and is consistent with the feedback received from some members of Congress.

Other Defense Organizations Audit Readiness Assertions

In June 2014, the ODOs asserted audit readiness of the applicable SBR assessable units, such as Civilian Pay and Contract Pay, or of specific SBR line items, such as Obligations. Five of the ODOs completed mock audits in March 2015, and those organizations are

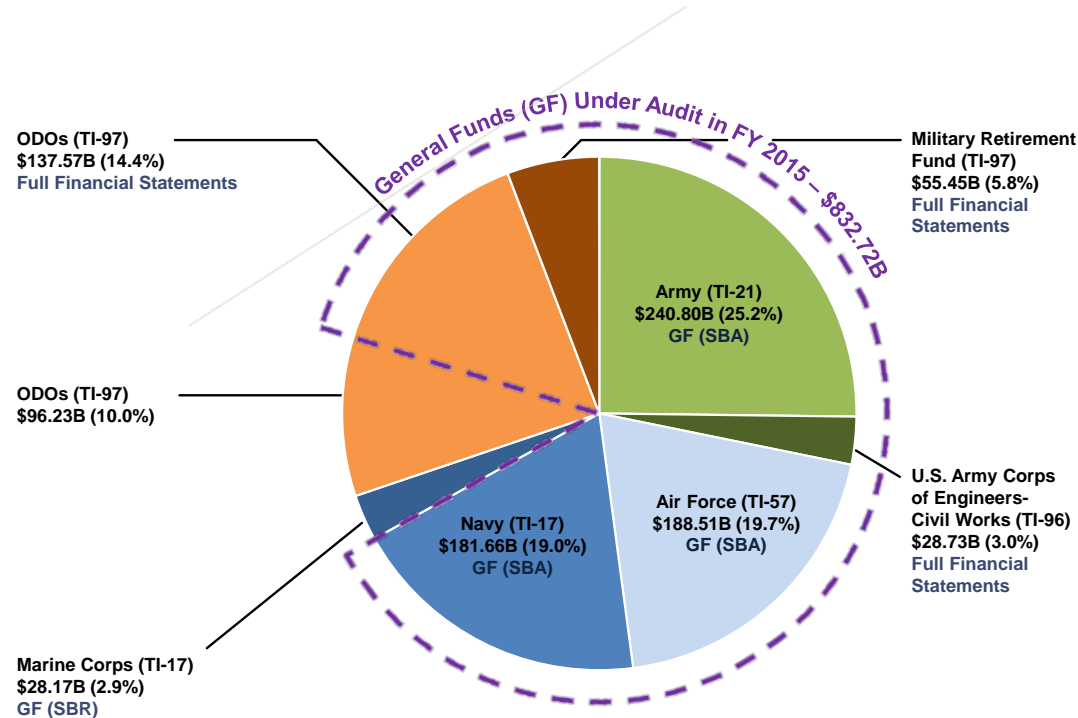
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now working to correct auditor-identified deficiencies. An additional eight ODOs began FY 2015 SBA examinations in April. The Department is planning to begin full financial statement audits and examinations for most of the material ODOs in FY 2016.

General Fund SBA Audits, Examinations, and Mock Audits

Nearly 90 percent of the total DoD General Fund appropriations are under audit. The remainder of General Fund appropriations not currently under audit are undergoing examinations or audit readiness activities. Figure ES-2 identifies the Components under audit in FY 2015 and their percent of the total DoD General Funds (based on FY 2014 total).

Figure ES-2. General Funds Under Audit in FY 2015



Based on FY 2014 Total Budgetary Resources.

Full Financial Statements

The audit of the DoD full financial statements in FY 2018 will likely be the largest consolidated financial statement audit ever undertaken. A considerable amount of work is ensuring the Department's approach and strategy is achievable.

FIAR Guidance

From September 2014 through March 2015, significant time and effort by the senior leaders of the OUSD(C) and the DoD Components was devoted to establishing an effective strategy for achieving full financial statement audit readiness. The updated FIAR Guidance issued in April 2015 provides specific tasks, work products, deliverables, and milestones for achieving and validating audit readiness of the General Fund and Working Capital Fund full financial statements.

The updated FIAR Guidance addresses each critical line item of the remaining financial statements and defines the critical path to achieving full audit readiness. In addition, it provides the target timeline for Military Department and ODO audit readiness validations. These validations are crucial to full audit readiness and help the Department to:

- Ensure corrective actions were completed
- Identify remaining process and system control weaknesses
- Exercise the Department's audit support infrastructure

Critical Path to Audit

The OUSD(C) identified milestones that are critical to achieving the audit readiness deadline. Significant effort and management oversight is needed to ensure these critical path milestones are completed or remediated timely. Senior leaders from the OUSD(C) and Military Departments met numerous times and devoted many hours to establishing and committing to the critical path requirements

and due dates. The Department has already begun tracking the status and completion of these milestones and related tasks during FIAR Governance Board and FIAR Committee meetings. Working groups have also been formed to address enterprise-wide issues related to the critical path milestone tasks. Critical path milestones include:

- Universe of Transactions
- Fund Balance with Treasury
- Journal Vouchers
- Open Obligations
- Existence, Completeness, and Rights and Obligations of Assets
- Valuation of Assets
- Environmental Liabilities

Figures ES-3 – ES-8 identify the critical path requirements and the Military Departments' planned completion dates. An explanation of each critical path milestone follows the figures. Each figure also includes the Military Departments' planned dates for completing all corrective actions identified during validation and the planned dates when full financial statement audits will begin.

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ES-3. Army General Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Army – General Fund		Develop Plan	Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	06/2015	SBA Audits (FY 2015 – FY 2017)	
	Balance Sheet	06/2015	03/2017	09/2017
Fund Balance with Treasury		06/2015	03/2016	09/2016
Journal Vouchers		06/2015	09/2017	09/2017*
Open Obligations		✓	09/2017	09/2017*
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	✓	✓	06/2015
	General Equipment (including Military Equipment)	✓	✓	✓
	Internal Use Software	06/2015	09/2016	03/2017
	Inventory and Operating Materials and Supplies	✓	✓	06/2015
Valuation of Assets	Real Property (including Construction in Progress)	06/2015	09/2016	03/2017
	General Equipment (including Military Equipment)	06/2015	03/2017	09/2017
	Internal Use Software	06/2015	09/2016	03/2017
	Inventory and Operating Materials and Supplies	06/2015	03/2017	09/2017
Environmental Liabilities	DERP	06/2015	09/2015	03/2016
	Non-DERP	06/2015	12/2016	04/2017

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

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	09/2017	10/2017
Balance Sheet	06/2017	10/2017

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ES-4. Army Working Capital Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Army – Working Capital Fund		Develop Plan	Implementation/ Remediation Complete	Validation Complete
Universe of Transactions		06/2015	09/2015	06/2016
Fund Balance with Treasury		06/2015	09/2015	06/2016
Journal Vouchers		06/2015	09/2015	06/2016
Open Obligations		06/2015	09/2015	06/2016
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	06/2015	09/2015	06/2016
	General Equipment (including Military Equipment)	06/2015	09/2015	06/2016
	Internal Use Software	06/2015	09/2015	06/2016
	Inventory and Operating Materials and Supplies	06/2015	09/2015	06/2016
Valuation of Assets	Real Property (including Construction in Progress)	06/2015	09/2015	06/2016
	General Equipment (including Military Equipment)	06/2015	09/2015	06/2016
	Internal Use Software	06/2015	09/2015	06/2016
	Inventory and Operating Materials and Supplies	06/2015	09/2015	06/2016
Environmental Liabilities	DERP	N/A	N/A	N/A
	Non-DERP	N/A	N/A	N/A

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	06/2016	10/2016
Balance Sheet	06/2016	10/2016

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ES-5. Navy General Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Navy – General Fund		Develop Plan	Implementation/ Remediation Complete	Validation Complete*
Universe of Transactions	Statement of Budgetary Resources	✓	09/2015	03/2016**
	Balance Sheet	✓	09/2015	03/2017
Fund Balance with Treasury		09/2015	09/2016	03/2017
Journal Vouchers		✓	09/2016	03/2017
Open Obligations		12/2015	01/2016	03/2016
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	✓	12/2015	03/2017
	General Equipment (including Military Equipment)	✓	06/2015	03/2017
	Internal Use Software	09/2015	09/2016	03/2017
	Inventory and Operating Materials and Supplies	✓	12/2015	03/2017
Valuation of Assets	Real Property (including Construction in Progress)	06/2015	03/2017	03/2017
	General Equipment (including Military Equipment)	06/2015	03/2017	03/2017
	Internal Use Software	06/2015	03/2017	03/2017
	Inventory and Operating Materials and Supplies	06/2015	03/2017	03/2017
Environmental Liabilities (DERP and Non-DERP)		08/2015	03/2017	03/2017

* The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

** The Navy plans to build beginning balances incrementally starting with the FY 2015 SBA audit and continuing each year until beginning balances are substantiated.

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	03/2017	10/2017
Balance Sheet	03/2017	10/2017

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ES-6. Navy Working Capital Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Navy – Working Capital Fund		Develop Plan	Implementation/ Remediation Complete	Validation Complete*
Universe of Transactions		✓	09/2015	03/2017
Fund Balance with Treasury		10/2015	03/2017	03/2017
Journal Vouchers		07/2015	03/2017	03/2017
Open Obligations		01/2016	03/2017	03/2017
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	✓	12/2015	03/2017
	General Equipment (including Military Equipment)	✓	06/2015	03/2017
	Internal Use Software	09/2015	09/2016	03/2017
	Inventory and Operating Materials and Supplies	✓	12/2015	03/2017
Valuation of Assets	Real Property (including Construction in Progress)	06/2015	03/2017	03/2017
	General Equipment (including Military Equipment)	06/2015	03/2017	03/2017
	Internal Use Software	06/2015	03/2017	03/2017
	Inventory and Operating Materials and Supplies	06/2015	03/2017	03/2017
Environmental Liabilities (DERP and Non-DERP)		08/2015	03/2017	03/2017

* The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	03/2017	10/2017
Balance Sheet	03/2017	10/2017

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ES-7. Air Force General Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Air Force – General Fund		Develop Plan	Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	✓	05/2016	06/2017*
	Balance Sheet	✓	03/2017	06/2017*
Fund Balance with Treasury		✓	✓	✓
Journal Vouchers		✓	03/2017	06/2017
Open Obligations		✓	06/2016	03/2017
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	✓	09/2015	03/2017
	General Equipment (including Military Equipment)	✓	06/2016	03/2017*
	Internal Use Software	✓	06/2016	03/2017*
	Inventory and Operating Materials and Supplies	✓	06/2016	03/2017*
Valuation of Assets	Real Property (including Construction in Progress)	✓	03/2017	06/2017*
	General Equipment (including Military Equipment)	✓	03/2017	06/2017*
	Internal Use Software	✓	03/2017	06/2017*
	Inventory and Operating Materials and Supplies	✓	03/2017	06/2017*
Environmental Liabilities (DERP and Non-DERP)		✓	03/2017	06/2017*

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

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	06/2017	10/2017
Balance Sheet	09/2017	10/2017

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ES-8. Air Force Working Capital Fund Audit Readiness Critical Path Milestones (✓ = Completed)

Air Force – Working Capital Fund		Develop Plan	Implementation/ Remediation Complete	Validation Complete
Universe of Transactions	Statement of Budgetary Resources	✓	05/2016	06/2017*
	Balance Sheet	✓	03/2017	06/2017*
Fund Balance with Treasury		09/2015	09/2016	06/2017*
Journal Vouchers		✓	03/2017	06/2017*
Open Obligations		09/2015	06/2016	03/2017
Existence, Completeness, and Rights and Obligations of Assets	Real Property (including Construction in Progress)	✓	09/2015	03/2017
	General Equipment (including Military Equipment)	✓	06/2016	03/2017*
	Internal Use Software	✓	06/2016	03/2017*
	Inventory and Operating Materials and Supplies	✓	06/2016	03/2017
Valuation of Assets	Real Property (including Construction in Progress)	✓	03/2017	06/2017*
	General Equipment (including Military Equipment)	✓	03/2017	06/2017*
	Internal Use Software	✓	03/2017	06/2017*
	Inventory and Operating Materials and Supplies	✓	06/2016	03/2017
Environmental Liabilities (DERP and Non-DERP)		✓	N/A	N/A

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

Financial Statements	Post-Validation Corrective Actions Complete	Audit Start
Statement of Budgetary Resources	06/2017	10/2017
Balance Sheet	06/2017	10/2017

The critical path milestones are defined as:

Universe of Transactions

Universe of transactions refers to the entirety of underlying, individual, accounting transactions that support a financial statement line item or balance. The ability to provide the universe of transactions is critical as an audit cannot begin without it.

During an audit, the IPA selects samples of transactions summarized in the financial statements to form an overall conclusion on the accuracy of the financial statements. One of the early steps in an audit involves the Component providing the auditors with a universe of transactions that reconciles to the financial statements. This universe must reconcile to subsidiary and feeder systems to demonstrate completeness to the auditors. As a result, the ability to provide to the auditors the universe of transactions is critical to moving a financial statement audit into the testing phase.

Providing complete universes of transactions is especially challenging for the Components because of the numerous accounting systems used to initiate and record transactions as well as hundreds of feeder systems where most transactions originate. To address this challenge, the Department is creating several transaction reconciliation tools, which will be used to collect and provide auditors with universes of transactions. The auditors will then use these universes to select samples for internal control and substantive testing.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) is an asset line on the Balance Sheet that represents the aggregate amount of funds in the Department's numerous accounts with Treasury that DoD is authorized to spend. In simple terms, FBWT is similar to a personal checking account balance that must be increased for deposits (appropriations and collections) and decreased for expenditures. Due to the size of the DoD budget and the enormous amount of funds expended and collected, the number of accounting transactions that

must be reconciled between DoD accounts and Treasury is very large and the task complex.

Further complicating reconciliations with Treasury are the Department's many nonintegrated accounting systems, incomplete lines of accounting information, and timing of transactions. Because of these complexities and other reconciliation challenges, the Department has routinely made unsupported journal entries to adjust DoD balances to match Treasury balances.

Interim and long-term solutions address this critical path milestone:

- Interim solutions include performing FBWT transaction-level reconciliations, instituting processes for timely and accurately recording financial events, and clearing differences between DoD and Treasury.
- The long-term solution is standardizing FBWT end-to-end processes by replacing multiple reporting and reconciliation tools with a single, auditable enterprise-solution that aligns with Treasury modernization initiatives.

Journal Vouchers

Journal vouchers are summary-level accounting adjustments made when balances between systems cannot be reconciled. Often these journal vouchers are unsupported, meaning they lack supporting documentation to justify the adjustment or are not tied to specific accounting transactions. While many adjustments are valid, having too many journal vouchers may be an indicator of underlying problems, such as weak internal controls.

For an auditor, journal vouchers are a red-flag for transactions not being captured, reported, or summarized correctly. Auditors must judge whether the errors that triggered the journal voucher are isolated or systemic, leading them to select more transactions to test. If the auditors cannot estimate the magnitude of the errors, they may not be able to complete the audit or issue an opinion on the financial statements.

Open Obligations

Open obligations are undelivered and delivered orders for which payment has not yet been made. Because SBA audits cover open obligations against new appropriations, Components must verify that open obligations for all active and expired appropriations are supported before beginning SBR audits, and many hundreds of open and expired appropriations must be reviewed. Components are using their triannual review process to ensure open obligations can be reconciled to the financial statements and appropriate documentation is available to support the remaining balances.

Existence, Completeness, and Rights and Obligations of Assets

In August 2009, the Department established achieving existence and completeness of mission-critical assets by June 30, 2016, as a priority. When FIAR existence and completeness activity is performed, rights and obligations are also validated since only those assets to which a Component has the rights and obligations are to be reported on the Component's financial statements.

The Department's extensive assets located worldwide make completing existence, completeness, and rights and obligations audit readiness challenging. Audit readiness ensures accurate information exists and is essential to establishing the baseline of existing assets each Component must value for Balance Sheet reporting.

Valuation of Assets

Valuation of General Property, Plant, and Equipment and of Inventory and Related Property is critical. Each of these Balance Sheet lines is material to the Department's financial statements and will require considerable time and resources to develop or validate auditable amounts.

Many of the Department's assets were acquired decades ago and before there was a requirement to produce financial statements. As a result, the acquisition (cost) documents required for supporting valuation and audit are often no longer available. For these assets, the Department must use alternative valuation methods.

The Department must also establish processes, controls, and systems for capturing the cost of assets while under construction (e.g., buildings) and in production (e.g., weapon systems) that allows the Components to capture the full cost of new assets. The acquisition and installations communities must also modify existing policies, processes, and systems to meet additional standards.

Environmental Liabilities

Significant challenges exist with Environmental Liabilities and time is needed to implement processes, controls, and systems capable of producing auditable liability cost estimates. Challenges include:

- Identifying all environmental liability sites and reconciling them with the accountable property systems of record
- Implementing methodologies to capture changes to detailed environmental liability clean-up cost estimates
- Establishing requirements for procedures, controls, and documentation when using cost estimation models
- Developing and supporting cost estimates for costs associated with the decontamination and decommissioning of assets with environmental and disposal liabilities
- Identifying and recording environmental liabilities for the disposal of General Equipment hazardous materials

CHALLENGES TO AUDIT READINESS

The Department faces many difficult challenges to audit readiness. Some of the challenges are more easily resolved than others, but several will be very difficult and are critical to success, including:

- Integration of Service Providers
- Systems Audit Readiness
- Qualified Personnel
- Audit-Related Impediments

Integration of Service Providers

A service provider is a DoD Component that performs a control or business process on behalf of another Component. In order for a customer Component to become audit ready, the service provider must be audit ready. The Components rely heavily on service providers to perform essential services, such as accounting and finance, military and civilian pay, and contract management.

The roles and responsibilities of the service providers are embedded in the end-to-end financial and business processes of their customers. During financial statement audits, the auditors trace financial transactions from their point of origin to the balances reported on financial statements, thus all processes, systems and controls material to the financial statements may be subject to audit. Some of these processes and systems are owned and operated by service providers such as Defense Finance and Accounting Service (DFAS), Defense Contract Management Agency (DCMA), and Defense Civilian Personnel Advisory Service (DCPAS).

The FIAR Guidance specifically addresses service providers, and the OUSD(C) routinely conducts a service provider working group involving the Component customers. Service providers supporting two or more customers should have Statement in Standards for Attestation Engagements (SSAE) No. 16 examinations performed by IPAs to validate audit readiness. Integrating service provider audit readiness activity with their Component customers' audit readiness activities is complex and will continue to be challenging until DoD audit readiness is fully achieved.

Systems Audit Readiness

To achieve and sustain an audit ready systems environment, the Department must evaluate and remediate controls for hundreds of information technology (IT) systems that materially affect the financial statements. Systems material to audit readiness include Enterprise Resource Planning (ERP) systems, custom built legacy systems, financial systems, and non-financial feeder systems.

Systems also vary widely in technology and function. Financial systems include budget, accounting, and finance systems, as well as business feeder systems, such as personnel, logistics, and property systems, where most financial transactions originate. Although some systems are being replaced, many will still be in use after FY 2017, when the Department is required to produce auditable financial statements. While the Department continues to make progress in addressing IT system audit readiness, a number of challenges remain.

Dependency on Legacy Systems

Most legacy systems were originally designed to address operational or mission requirements. Additionally, many were built prior to the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208), which requires financial systems to comply with the U.S. Standard General Ledger (USSGL) and Treasury Financial Manual. As a result, these systems were not designed to meet federal standards for financial systems. Data from these systems are difficult to reconcile to financial systems, and the systems may not include automated business control capabilities available in more modern systems. The Department will continue to look for opportunities to expedite retirement of systems while building compensating manual controls around the legacy environment.

Dependency on Service Provider Systems

The Components rarely control transactions from the point of a transaction being initiated to the point of it being reported on their financial statements. Furthermore, the Components do not own and operate all of the IT systems used to process their transactions. To process and record contract pay, for example, the Components depend on over a dozen systems owned and operated by service providers. This level of interdependency increases the complexity of identifying the systems affecting audit readiness and defining critical roles and responsibilities.

The migration to more modern systems, including ERPs, will ultimately yield many audit readiness and operational benefits.

However, transitioning to these new systems while supporting audit readiness and audits, is time consuming and difficult. The Department is making changes to legacy systems at multiple points to support audit readiness and at the same time trying to deploy new systems over many years and at locations worldwide.

Qualified Personnel

Attracting and retaining qualified personnel to help the Department achieve audit readiness and sustain an audit ready state has been an on-going challenge. Efforts such as the Financial Management Certification Program have helped give existing personnel the skills they need to improve controls and prepare for audit. Contractors with specialized skills have helped fill in gaps in knowledge. Additionally, as the Military Departments and ODOs move into audits and examinations, the availability of experienced personnel to support the audits is becoming a challenge. Additional personnel with different skillsets are needed to support and respond to the auditors. The Department's financial managers and personnel need to know how to work in an audit environment, and how to manage and respond to auditor requests.

The same individuals that have been performing audit readiness are now also supporting and responding to auditor requests, and the need for staff to support both audit readiness and audits exceeds the hiring authority. Exacerbating the problem is the IPAs are competing to hire people with the same skillsets. As the number of audits grows, the need for specialized resources also grows.

These personnel problems and concerns also convey to the DoD OIG. The DoD OIG must have adequate qualified personnel to oversee the IPA-conducted SBA and financial statement audits. A related issue involves the availability of qualified and independent IPAs. The sheer size of the DoD enterprise makes sustaining a viable and competitive private sector audit capacity challenging.

Audit-Related Impediments

The SBA audits have highlighted the unique challenges of some business processes, which the Department is working to resolve. For example, when disbursing and collection transactions do not meet the necessary data requirement to be recorded properly in the accounting system, those transactions are rerouted to a holding or suspense account. Each transaction remains in the suspense account until it is researched and posted. In order to properly clear the transaction, the process and controls around the suspense account must to be strengthened and clearly documented.

Suballotments also present challenges. Suballotments are funds that one entity gives to another entity for execution. Sometimes the funds are passed through to additional entities, creating multiple layers of suballotments. When the entity that originally owned the funds goes under audit, auditors must trace the suballment across all entities. The processes and controls of the entity or entities that received the suballotment must also meet audit standards. These additional dependencies and complexities expand the scope of the audit. The Department is working to reduce the number of suballotments and, where possible, replace them with reimbursable agreements.

Finally, sensitive activities also pose a challenge for the Department during audit. A standard framework and process for the appropriate handling of classified and unclassified documents and data during audit is essential. The Military Departments, the DoD OIG, and representatives of organizations with oversight of classified activities developed and are implementing a plan to mitigate this challenge.

AUDIT READINESS RESOURCES

Despite all of the challenges, substantial resources have been programmed to support achieving auditable financial statements. The Department will continue to refine resource requirements as remaining audit readiness activities are completed and audits continue. The FIAR activities funded by the amounts in Figure ES-9 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the Components and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions

- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure ES-9. ERP costs are reported in Section VII.

Figure ES-9. DoD Audit Readiness Resources (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	587	619	573	517	519	524
Financial Systems	53	60	62	54	44	42
Total Resources	640	679	635	571	562	566

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I. Enterprise-Wide Initiatives

In addition to aggressively working to achieve audit readiness, the Department has three enterprise-wide initiatives underway that improve the financial management workforce professional development, management of financial resources, and information in the end-to-end processes. Enterprise-wide financial improvement initiatives include:

- Financial Management Certification Program
- Cost Management
- Standard Financial Information Structure

Many of the remaining audit readiness challenges cut across the Components and require DoD-wide changes to policies, procedures, and regulations. To address these challenges, the OUSD(C) is leading enterprise-wide initiatives that will assist the Military Departments and ODOs in achieving the September 30, 2017, audit readiness deadline. Enterprise-wide audit readiness initiatives include:

- Funds Distribution of Defense-wide Appropriations
- Fund Balance with Treasury and Cash Accountability
- Balance Sheet Working Groups
- Service Provider Integration
- Sharing Lessons Learned and Solutions from Audits
- Transportation of Things
- Intragovernmental Transactions

FINANCIAL IMPROVEMENT INITIATIVES

Financial Management Certification Program

The DoD Financial Management (FM) Certification Program provides an overarching framework for professional development in the financial management career field. The program emphasizes training and development in areas such as audit readiness, fiscal law, ethics, decision support, and leadership development. As of March 2015, 98 percent of the active component and 97 percent of the reserve component were enrolled. In addition, there have been over 94,000 completions of OUSD(C) developed web-based training courses, and over 2,500 personnel have obtained certification.

The certification program is course-based, rather than test-based, with course hour requirements aligned to FM and leadership competencies. FM workforce members must achieve certification within two years of being assigned to an FM position. After meeting initial certification requirements, FM personnel must meet continuing education and training requirements every two years.

Three levels of certification outline training requirements in technical and leadership competencies. The DoD FM Learning Management System helps the workforce track progress against certification requirements. This tool enables supervisors and certification authorities to track and approve certifications and helps them identify where additional training is needed and plan for future training requirements.

Cost Management

Cost management refers to the management of information used for budgeting, estimating, forecasting, and monitoring costs. The offices of the USD(C) and the Deputy Chief Management Officer are jointly developing a management accounting capability that will improve the Department's ability to predict expenditures, execute budgets, and maximize resources. In today's resource-competitive

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environment, the ability to reduce costs and manage costs more strategically is critical.

A number of initiatives are underway to improve the fidelity of data and improve cost management. Initiatives include developing a unifying framework for consistent management information, application of cost standards, and improved cost identification and reporting at the enterprise-level. Additionally, the Department is working to improve the accuracy and timeliness of cost information, increase cost visibility, and enable decision-makers to track costs across systems.

To achieve an enterprise-wide solution, the Department must develop a common set of data standards and overcome technical challenges that make obtaining and managing very large volumes of data difficult. The solution must also normalize data so that decision-makers can make accurate cost comparisons. The Department developed a high-level cost management framework. The framework incorporates work done at the Component-level to improve cost management and integrates existing standards for financial information and accounting line data. Specific business lines, product lines, and performing activities will array cost information across the DoD enterprise.

Standard Financial Information Structure

The Standard Financial Information Structure (SFIS) is the Department's common financial business language. SFIS standardizes data elements, business rules, and the transaction posting logic used in DoD financial systems. Systems compliance with SFIS, as well as with the DoD Standard Chart of Accounts (SCOA) and USSGL ensures standard, consistent transaction accounting across the Components facilitating reconciliations and audit readiness.

In an effort to establish data standards between trading-partner systems, the USD(C)/CFO and Deputy Chief Management Officer directed the Components to implement a single standard line of accounting (SLOA)/accounting classification to all applicable

transactions. Having the Components use a SLOA will improve system interfaces and interoperability, and reduce the number of interfaces. For the remaining interfaces, the SLOA data exchange will improve controls and help financial managers and auditors trace business transactions across multiple systems.

On July 14, 2014, the Deputy Chief Financial Officer issued guidance for producing accurate and reliable Component trial balances. The guidance directs the Components and service providers to combine budgetary and proprietary general ledgers to a self-balancing trial balance and conduct edits and validations (“tie-points”) prior to reporting data. This guidance enforces the USSGL, SCOA, standard data elements, and posting logic at the transaction level.

Beginning in August 2014, the Joint Interoperability Test Command (JITC) began independent verifications of the Department's ERPs and key financial systems to determine system compliance with SFIS data element configuration, SCOA, USSGL posting logic, tie-points, and SLOA/trading-partner interface interoperability standards. Aligned with Federal Information System Controls Audit Manual (FISCAM) general application and interface controls, the results of JITC verification provides further insight into the audit readiness status of DoD systems.

AUDIT READINESS INITIATIVES

Funds Distribution of Defense-Wide Appropriations

The Enterprise Funds Distribution (EFD) system, Phase 2, will give the Department an audit ready system that allows funds distribution of Defense-wide appropriations to be tracked to the final allotment holder. The Program Budget and Accounting System (PBAS), which is used for funds distribution today, does not record accounting transactions at the level of detail needed for financial statement audits.

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Accounting transactions from the time appropriations are received through final distribution need to be identified and associated with each transaction. Such transactions could include accounting for continuing resolutions, transfers, or final rescissions. New functionality in EFD will provide direct interfaces between EFD and Component accounting systems, ensuring funds can be traced for audit.

EFD Phase 1 is already in use for congressional reporting and data calls. The OUSD(C) and DFAS are developing internal funds distribution guidance. System testing has been completed. In anticipation of EFD implementation, the OUSD(C) defined the coding to be used for funds distribution and execution, and required systems to use a single set of data defined in SFIS.

Cash Accountability and Traceability

The Department's audit success is closely linked to cash traceability, including proper management and accountability of all transactions affecting FBWT. Unsupported journal vouchers and unresolved FBWT differences between the Department and Treasury are material and jeopardize achieving audit ready financial statements.

Although there have been many initiatives related to FBWT audit readiness, there has not previously been a DoD program for developing a standardized FBWT end-to-end business process. The Deputy CFO established a Cash Accountability and Traceability Work Group in FY 2014. The working group endorsed a shared target end-state for cash accountability and reconciliations that delivers a single, auditable enterprise-wide FBWT solution that aligns with Department of Treasury modernization initiatives. The working group will test the new end-to-end notional target during third and fourth quarters FY 2015 with select DoD accounts.

Balance Sheet Working Groups

The OUSD(C) identified critical Balance Sheet line items that align with the critical path milestones and require a concerted effort to resolve long-standing issues. The valuation and reporting of General

Property, Plant, and Equipment is an example. To resolve these issues, the OUSD(C), jointly with process owners (OUSD(AT&L) and DoD Chief Information Officer (CIO)), established DoD-wide working groups.

The working groups comprise Component representatives and are co-chaired by the OUSD(C) and the OSD office with functional oversight. Five working groups were established:

- General Equipment Working Group
- Real Property Working Group
- Internal Use Software Working Group
- Inventory and Related Property Working Group
- Environmental and Disposal Liabilities Working Group

The goal of each working group is to identify audit readiness impediments, solutions, and implementation guidance. If policies require changes, the changes would be expeditiously made, or if a change or clarification is required of federal accounting standards, the Department would approach the Federal Accounting Standards Advisory Board (FASAB) to discuss the issue.

The Department met with the FASAB executive director to discuss the potential need to clarify or modify accounting standards. FASAB was very receptive to assisting the Department, and the executive director assigned a FASAB staff member to participate in specific working group meetings.

The working groups have identified many issues and solutions. The groups meet regularly and will continue to meet until they are no longer needed. Figure I-1 provides example issues and solutions for each working group.

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Figure I-1 Balance Sheet Working Groups

Working Group	Issues	Solutions
General Equipment	Implementation Issue – Valuation of Existing Assets (Baseline). The Department lacks an auditable valuation methodology that can consistently be deployed across all Components.	Using SFFAS No. 35, the working group is developing an estimating methodology that includes the use of budget and contract documentation. The methodology will focus on identifying and allocating costs to capitalized end items using contract and budget data.
	Policy Issue – Contracts Do Not Differentiate Capital vs. Expense. Major Defense Acquisition Programs include a significant percentage of General Equipment values on the Balance Sheet. Current program structures do not isolate capital costs or associate them to specific end items.	Major Defense Acquisition Programs will require estimates to value end items, but such estimates should be minimized to the extent possible. This includes differentiating between capital and expense costs and liquidating construction in progress amounts as end items are delivered. New CLIN structures must be embedded in future acquisition contracts to map capital costs to end items.
Real Property	Policy Issue – Unclear Financial Reporting Responsibilities. The Department has struggled for years to develop a GAAP-compliant real property reporting policy that is also doable in a practical sense. Preponderance of use, operational control, and Title X have all been considered at various times.	The working group considered options from GAAP compliance, audit risk, and operational perspectives. The pending solution requires Components that have exclusive right to use of real property assets to report them on their financial statements.
	Implementation Issue – Valuation of Existing Real Property Assets. Following Wave 3 (existence and completeness) work, a significant amount of the Department’s real property lacks documentation to support historical costs.	Based on SFFAS No. 35 (Estimating the Cost of PP&E), a methodology was developed to use deflated plant replacement values for existing real property. The methodology uses information already included in property systems and can be quickly and consistently deployed across the Department.
Internal Use Software	Policy Issue – Terminology and Conceptual Gap Between FM and CIO. Component FM and CIO organizations interpret SFFAS No. 10 and DoD FMR IUS definitions in a variety of ways. Further guidance is needed for consistent application of the accounting standard and financial reporting.	The working group is collecting areas that lack clarity. For example, the SFFAS No. 10 IUS definition includes the term “operating system programs,” which CIO and FM personnel understand differently. This causes a disconnect in what IUS is reported. The group is also working with FASAB to clarify future guidance.

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Working Group	Issues	Solutions
Internal Use Software (Cont.)	Implementation Issue – Lack of a Complete IUS Universe. IUS is underreported in many Components (e.g., Navy reports \$5 million in IUS on its General Fund Balance Sheet). To establish a baseline, a methodology is needed to identify the complete universe of IUS.	A methodology is being developed to identify a complete IUS universe by reviewing multiple software record repositories, such as electronic discovery reports, APSRs, contracts, and budget documents. Following the accumulation of a potential IUS universe, functional and FM personnel will reduce the list to potentially capital IUS. Lessons learned from the Components that have completed this requirement are being considered.
Inventory and Related Property	Policy Issue – Valuing existing OM&S. Much of the Department’s OM&S predates the requirement for historical cost supporting documentation. As a result, an initial moving average cost cannot be supported without a lot of manual effort to estimate values.	The working group is working with FASAB to consider other valuation options. One option under consideration is to establish a baseline at latest acquisition cost and use moving average cost going-forward.
	Implementation Issue – Defining the “end user” for OM&S. The Components have difficulty determining whether the purchases or consumption method is appropriate for OM&S. A big contributor to this challenge is that there are no criteria defining OM&S end users.	The working group is developing criteria to help evaluate whether OM&S stored in locations, such as on ships or field units, can be expensed because they are in the hands of the end user or must be valued and reported on the Balance Sheet.
Environmental and Disposal Liabilities	Policy Issue – Required Support for Cost Models. Cost models are used to estimate cost to complete. However, a recent DLA audit highlighted the need for additional clarification to determine how cost models should be supported during an audit.	The working group is reviewing the Department’s cost models to determine appropriate procedures for validating and documenting cost data sources, table updates, and supporting documentation, as well as responsibilities for supporting the audit.
	Implementation Issues – E&DL Completeness Challenge. Environmental liabilities can be associated with DoD assets but can also exist outside fence lines or even in locations where the Department has not operated in many years.	The working group developed several approaches to establishing a complete universe of E&DL. Establishing a complete universe may require more than one approach, such as: <ol style="list-style-type: none"> 1. Reconciling to APSRs 2. Fence-to-fence surveys 3. Historical studies 4. Reconciling to other authoritative listings (e.g., EPA listings)

Service Provider Integration

A service provider is a Component that performs a control or business process on behalf of another Component. In order for a customer Component to become audit ready, the service provider must also be audit ready. The OUSD(C) conducts quarterly Service Provider Working Group meetings between service provider and Component representatives to discuss issues, deficiencies, and solutions. Additionally, the FIAR Guidance includes specific direction and requirements for service providers, including requiring the service providers to:

- Perform SSAE No. 16 examinations of the processes, controls, and systems they use to support their customers
- Address deficiencies identified in the examinations by implementing corrective actions

Service provider representatives also participate in the FIAR Governance Board and three FIAR committee meetings, giving them the opportunity to participate in discussions on issues affecting them and their customers, and ensuring they are up to date on FIAR progress and plans.

Sharing Lessons Learned and Solutions from Audits

The Military Services' FY 2015 SBAs are under audit, eight other Defense organizations' FY 2015 SBAs are being individually examined, and five mock audits were completed in March 2015. Over the next two and one-half years, many more audits and examinations of Component financial statements and financial statement line items will be completed.

After completing an audit or examination, the auditors issue a Notice of Findings and Recommendations (NFR) detailing deficiencies that require corrective actions, and process, control, and system solutions. The OUSD(C) is tracking the NFRs and Component corrective actions and solutions to ensure they are properly and timely remediated. In addition, the OUSD(C) is using the visibility of

auditor identified deficiencies to share lessons learned and solutions across the Department, since deficiencies at one Component are likely to be deficiencies at another Component.

To facilitate the process of monitoring the NFRs and sharing lessons learned and solutions, the OUSD(C) developed the NFR Tracker. The NFR Tracker includes:

- DoD OIG or IPA examinations for specific FIAR assessable units (e.g., Military Equipment – Aircraft)
- Mock audits
- SSAE No. 16 examinations
- Audit findings by IPAs, Government Accountability Office (GAO), DoD OIG, and the Military Departments' audit services

The OUSD(C) is also reviewing the Components' corrective action plans and work products, and providing feedback. This helps ensure the Components timely and properly resolve auditor identified deficiencies and implement auditor recommendations, keeping the Components on track to achieve audit readiness by the September 30, 2017, deadline.

Transportation of Things

A Transportation Financial Auditability (TFA) Working Group was established in September 2013 to improve the auditability of the Department's transportation payment transactions by standardizing procedures and recommending changes to guidance, systems integration, and training. The group comprises transportation and financial managers from the Military Services, Joint Chiefs of Staff, U.S. Transportation Command, Defense Logistics Agency (DLA), DFAS, and DCMA. The Deputy Assistant Secretary of Defense (Transportation Policy) and the Director of Revolving Funds, OUSD(C), oversee and guide this effort.

The working group is approaching transportation audit readiness issues in two phases. During Phase 1, the working group published

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an obligation methodology based on FIAR requirements. The methodology provided a baseline for Components to continue to develop and refine corrective action plans in preparation for the FY 2015 SBA audits.

Phase 2 focuses on longer-term business process improvements to support auditability of three major transportation initiatives:

- Commercial Freight
- Organic Freight
- Personal Property

A dedicated working group was established for each initiative to look at policy, process improvement, system integration, and billing, and to identify best practices across the Department.

A direct result of the TFA Working Group was a recent decision to migrate the Military Services and Components to a single shipper system. A single shipper system establishes standard processes and procedures for account code management, bill payments, and supporting documentation, such as proof of delivery.

By FY 2018, the TFA Working Group expects to have standardized commercial freight business rules codified in policy and a single shipper system for the Military Services and Components. Using a similar approach for commercial freight, the TFA Working Group is also developing courses of actions for the other two major transportation initiatives: Organic Freight and Personal Property.

Intragovernmental Transactions

One of the Department's material weaknesses is the inability to reconcile intragovernmental transactions (IGT) and balances. In FY 2013, DoD IGT imbalances with civilian agencies exceeded \$10 billion. To manage DoD IGT buy and sell transactions, the Department is partnering with the Department of Treasury to implement the Treasury's Invoice Processing Platform.

IGT Challenges

Intragovernmental transactions result when business is conducted between two federal entities. Both entities must accurately record the event so that the buying and selling documentation can be matched. Imbalances occur when the federal entities are unable to account for and reconcile differences. These differences in recording the buying and selling of goods and services from one another often lack proper documentation.

The Department identified six intragovernmental transaction challenges:

- Proper documentation not available for audit
- Buyer and seller transactions and accounting out of balance and not reconciled
- Proof of receipt and acceptance not always available
- Buyer and seller not in full agreement on terms and detail of transactions
- Status of interagency agreements not clear, including remaining period of performance, available funding, unfilled orders, and paid orders
- Volume of transactions across multiple systems

Accomplishments and Progress

To address DoD-wide IGT issues, four working groups comprising representatives from across the Department were formed:

- Strategy and Policy Working Group – Developing a single, standard process for buying and selling that includes policies, guidance, and IGT controls.
- Data Requirements and Standards Working Group – Defining required system and data exchanges, standardizing data elements, and mapping business rules and data validations in the DoD Global Exchange.

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- Monitoring and Reporting Working Group – Reporting IGT program status, generating required DoD financial reporting, and defining reports and metrics needed for audit.
- Change Management Working Group – Managing communication and training for new process and data standards.

During FY 2014, the Strategy and Policy Working Group consolidated the laws, regulations, and policies for intragovernmental transactions, including FIAR requirements and financial reporting objectives. Using existing process standards in DoD's Business Enterprise Architecture, the group established a single standard process for IGT activity. The Data Requirements and Standards Working Group overlaid financial systems and identified the accounting events to standardize the data elements.

During FY 2015, the Department is piloting buyer/seller activity in the Invoice Processing Platform, with further implementation plans for early adoption by specific Defense Agencies, followed by broader implementation across the Department in FY 2016 and FY 2017.

Message from the Department of the Army Under Secretary and Chief Management Officer

Financial improvement and audit readiness continue to be a top Army priority as we progress towards meeting the 30 September 2017 milestone in our capability to produce fully auditable financial statements. The Army is executing a sound plan in meeting audit readiness goals due in large part to the hard work and effort of our leadership, Soldiers and Civilians. In December 2014, these efforts led to the Army commencing the Fiscal Year 2015 Schedule of Budgetary Activity (SBA) audit. This significant event marked the largest external validation of the Army's financial activity to date with all fiscal year 2015 appropriations under independent audit. Additionally, in November 2014 the Department of Defense Office of Inspector General issued a clean opinion on the existence and completeness of the Army's audit readiness assertion of general equipment and is currently working to complete examinations on two additional asset classes to serve as key building blocks to achieve an auditable balance sheet.



An Army enterprise audit is a challenging effort given the complexity and change management required. However, the Army is better positioned to meet our future goals through leadership engagement and investments in Enterprise Resource Planning (ERP) systems. Audit readiness is embedded in daily operations and reviewed by leadership on a regular basis to evaluate compliance and milestone progression. In addition, the Army's ERPs will yield an efficient and reliable enterprise-wide architecture to support the Army's audit goals.

The guiding principles of this important endeavor continue to be accountability, leadership and consistent governance. The Army has made certain that both civilian and uniformed leaders are fully engaged in audit readiness to focus on achieving financial audit objectives. The Army continues to enhance our professional financial management workforce through learning initiatives that have trained more than 24,000 personnel. Our continued engagement with key stakeholders helps to confirm consistent and achievable objectives are aligned with Department of Defense guidance.

All of the accomplishments to date are a direct result of the dedicated efforts by the entire Army and our commitment to audit readiness. The potential of sequestration and budget uncertainty adds an additional unneeded risk to accomplishing our goals. I am proud of the Army's accomplishments and look forward to continuing to build momentum as we execute our plan to achieve full auditability by 30 September 2017.

A handwritten signature in black ink, appearing to read 'Brad R. Carson'.

Brad R. Carson

Under Secretary and Chief Management Officer
Department of the Army

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II. Army Audit Readiness

The Army entered a new phase of its audit readiness program with the start of the audit on the Schedule of Budgetary Activity. In December 2014, a contract was awarded to an IPA to perform the FY 2015 SBA audit. Over the next three years, the Army will continue to support SBA audits and perform audit readiness activities to meet FIAR milestones for the audit of the Army's full financial statements beginning in FY 2018.

The Army's plan for the 2015 SBA audit and audit readiness activities is based on a solid foundation and strategy. This strategy includes using ERPs to standardize business processes across functional areas thus enabling more effective implementation, assessment, and corrective actions of internal controls. In addition,



A U.S. Army UH-60 Black Hawk helicopter flies over Stryker armored vehicles in Vilseck, Germany, as a part of Dragoon Ride April 1, 2015. (U.S. Army photo by 1st Lt. Henry Chan/Released)

the Army continues to make audit readiness a regular part of

everyday operations and validates progress through independent examinations of audit readiness assertions for specific assessable units.

The Army worked hard to instill the culture needed to achieve full audit readiness. The Army established a “tone at the top” from senior leadership that prioritizes audit readiness activities and holds leaders accountable for attaining audit readiness. Activities include monthly control and substantive testing, training to address knowledge gaps, and the inclusion of audit readiness objectives in the annual performance plans of members of the Senior Executive Service.

Progress Highlights Since the November 2014 FIAR Report

Since the last FIAR report, the Army made significant progress in several areas:

- In November 2014, the DoD OIG issued an unmodified opinion on the existence and completeness of the Army's General Equipment assertion.
- In November 2014, the DoD OIG began existence and completeness examinations of the Army's audit ready assertions for Real Property and Operating Material and Supplies (OM&S). In support of these examinations, the Army responded to over 3,500 sample requests.
- In December 2014, a contract was awarded to KPMG LLC to conduct an audit of the Army's SBA for FY 2015 appropriations. This is a tremendous accomplishment, and the funds under audit represent most of the financial information reported in the Statement of Budgetary Resources.
- The General Fund Enterprise Business System (GFEBS) is key to the Army's audit ready systems environment. The Army is well on the way to addressing GFEBS deficiencies and has completed 236 of 258 (91 percent) of the corrective actions identified during a FY 2014 examination.

Challenges to Audit Readiness by September 30, 2017

While the Army has made significant progress toward audit readiness, challenges remain:

- The Army will have SBA audits over the next three years while also supporting seven examinations and preparing for full financial statement audit in FY 2018. Successfully supporting these audits and examinations, which includes responding to potentially hundreds of site visits and tens of thousands of sample requests, will strain resources that are also responsible for implementing audit readiness strategies. The Army's plans for audit readiness rely on having a measured approach through FY 2017 to implement and execute audit readiness activities and examinations.
- The Army has retired many legacy systems, however, it is still relying on other legacy systems, such as Standard Financial System (STANFINS), Standard Operation and Maintenance Army Research and Development System (SOMARDS), and Corps of Engineers Financial Management System (CEFMS) to support business processes and operations. Successfully replacing these legacy systems is critical to audit readiness in FY 2017.
- The Army must maintain strong relationships with its service providers. The Army's service providers operate essential systems, perform business processes in support of the Army's operations, and maintain supporting documentation that will be needed by the auditors. Success in FY 2018 is dependent on the service providers' ability to achieve and sustain unmodified opinions on SSAE No. 16 examinations on their business and system environments.
- The Army's ability to strengthen its internal control environment, obtain and provide supporting documentation within the required timeframes, reduce the number of unsupported journal vouchers (JVs), and improve FBWT reconciliation are ongoing challenges. Continuing to identify

root causes and implementing corrective actions is essential to audit success in FY 2018. The Army also is developing a robust audit infrastructure environment to better respond, track, and review the thousands of expected responses to auditor testing samples.

- The Army, like the other DoD Components, is evaluating methods for determining and reporting the values of mission-critical assets. Early determination of an acceptable valuation strategy will be important to allowing sufficient time for the systems and process actions needed for the Balance Sheet audit readiness assertion by September 30, 2017.

AUDIT READINESS PLANS

The Army's audit readiness plans follow the FIAR Guidance for incrementally achieving audit readiness by September 30, 2017. The following briefly describes the audit readiness status and plans depicted in Figure II-1.

General Fund Financial Statements

SBR – Appropriations Received (Wave 1) Corrective actions completed in FY 2010 and audit readiness validated by an IPA examination in FY 2011.

SBR – Schedule of Budgetary Activity (Wave 2) FY 2015 SBA audit ongoing by KPMG LLC.

SBR – Open Obligations and FBWT Reconciliation (Wave 2) The Army is working to develop auditable SBR open obligations in preparation for the SBR audit. Preparations are also underway to develop an audit ready FBWT going back to FY 2012 for examination in third quarter FY 2016.

Existence and Completeness of Mission-Critical Assets (Wave 3) The DoD OIG is conducting an examination of Wave 3, Real Property and OM&S with expected completion in third quarter FY 2015. The Army will continue to remediate and sustain all

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Wave 3 assessable units as part of Balance Sheet audit readiness activities.

Full Financial Statements (Wave 4) For the SBR, the Army will continue to develop and implement corrective action plans based on existing and new NFRs identified during audits. An FBWT examination is planned to start in third quarter FY 2016. Examinations of the Balance Sheet, Statement of Net Cost, and Statement of Changes of Net Position will start in first quarter FY 2016 and continue through fourth quarter FY 2017. A continuing cycle of remediation and sustainment efforts will progress using the Army's audit readiness strategy.

Working Capital Fund Financial Statements

Full Financial Statements (Wave 4) Corrective actions will be completed by the end of FY 2015, and an IPA examination is planned for FY 2016. Corrective actions resulting from the examination will be completed in FY 2016 in preparation for an IPA audit of the Working Capital Fund Financial Statements in FY 2017.

The remainder of the Army section of the report provides the Army's audit readiness plans for the General Fund Financial Statements followed by the Working Capital Fund Financial Statements.

Figure II-1. Army Audit Readiness Plans

Department of the Army	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend	
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4		
General Fund Financial Statements																						
SBR - Appropriations Received (Wave 1)																					<ul style="list-style-type: none"> Corrective Actions/Assert Validation Sustainment SBA Audits Financial Statement Audits NFR Corrective Actions ▲ Existence and Completeness Audit Ready 	
SBR - Schedule of Budgetary Activity (Wave 2)																						
SBR - FBWT (Wave 2)																						
SBR (Wave 2)																						
Existence and Completeness (Wave 3)																						
Full Financial Statements (Wave 4)																						
Working Capital Fund Financial Statements																						
Full Financial Statements (Wave 4)																						

General Fund Financial Statements

The Army completed three IPA examinations on SBR processes and systems and is now undergoing an audit of the FY 2015 General Fund SBA. The SBA audit includes evaluating the presentation of current year budget activity in accordance with U.S. Generally Accepted Accounting Principles and is important to achieving full audit readiness of the SBR. The audit will also evaluate the IT controls over the Army’s general ledgers in various systems.

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 &2)

Figure II-2 highlights the FIAR Strategy and approach for achieving and validating General Fund SBR audit readiness.

Figure II-2. FIAR Strategy for the General Fund SBR

	Completion	Status / Description
Appropriations Received (Wave 1)		
Appropriations Received	FY 2011	IPA examination validated audit readiness
Statement of Budgetary Resources (Wave 2)		
SBA Assertion	FY 2014	Asserted in 06/2014
SBA IPA Audits	FY 2015 – FY 2017	IPA audit started in 12/2014
SBR Open Obligations, FBWT Reconciliation, and JVs	FY 2017	Corrective actions to be completed by 09/30/17
SBR Audit	FY 2018	IPA audit of SBR

FY 2011 – Appropriations Received

The Army completed corrective actions of the processes, controls, and systems used for funds appropriated by Congress and received by the Army. In FY 2011, an IPA performed an examination and issued an unqualified opinion.

FY 2014 – Schedule of Budgetary Activity Assertion

The Under Secretary of the Army/Chief Management Officer asserted audit readiness of the SBA in June 2014. Audit readiness work continued after June 2014 addressing outstanding audit readiness issues through a combination of internal control and substantive testing activities (i.e., test of details and substantive analytics). These activities were used to determine the effectiveness of the controls over financial reporting and confirm that documentation required to support balances is readily available and can be retrieved timely. Corrective action plans prioritized NFRs by material transaction and the related specific process and system owners.

FY 2015 – Schedule of Budgetary Activity Audit

The Army welcomed its external auditors in December 2014 with an entrance conference and a plan for supporting requests related to the SBA audit. The Army developed and implemented additional training modules to communicate what personnel can expect during an audit including the timeline, process walkthroughs, and requests for supporting documentation. This training complements business process specific training already available for accredited learning on the Army’s learning management portal. The Army also improved its ability to provide complete and accurate data to the auditors. The Army is now able to provide timely transaction-level data for more than 30 million records on a monthly basis to the auditors.

The auditors conducted walkthrough interviews at many installations for Active, Reserve and Guard Components, and with other stakeholders, including DFAS and U.S. Army Corps of Engineers (USACE). The auditors completed initial walk through discussions

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in second quarter FY 2015 with transaction-level testing beginning early third quarter FY 2015.

In the upcoming months, the Army anticipates thousands of transaction-level samples, and response preparedness remains a high priority. The Army's Audit Data Repository, an online based SharePoint site, will facilitate requests from the field all the way to the auditor. In addition, the Army has a strong audit liaison team, which includes the assistance of Army's Internal Review Office to support a quality review of sample requests.

DFAS and other service providers, such as USACE, are also working closely with the Army to support audit requests. These service providers provide support for transactions and can affect the schedule. Working closely with service providers is a key component of the Army's audit success.

Risks to a Successful SBA Audit

Risks to a successful SBA audit and mitigation activity include:

- Lack of complete or sufficient supporting documentation to support financial statement balances. To mitigate this risk, the Army developed strong working relationships with its service providers and invested in training the functional owners on the types of and need for supporting documentation. The Army is also implementing corrective action plans to better understand root causes and sharing best practices across the Army's Commands.
- The ability to adequately support or eliminate journal vouchers.
- The Army implemented many corrective actions to address system deficiencies. However, challenges may still exist with legacy systems, including the ability of these systems to provide transaction-level detail to support sample requests during an audit. The dollar amounts in the legacy systems will be small in comparison to the Army's total budget and will be phased out over time, lessening the impact on future audits.

FY 2015 – SBR Open Obligations, FBWT Reconciliation, and Journal Vouchers

In order to successfully transition from an SBA to SBR audit, the Army is validating open obligations and working through challenges with locating supporting documentation. In addition, the Army is using a strategy for tracking and resolving stale obligation balances in a timely manner to meet audit standards. Corrective actions to address these issues are being implemented.

The Army is working toward an examination of FBWT in third quarter FY 2016. Actions are ongoing with DFAS to implement tools and processes to better support completeness of the Army's FBWT. Whereas the SBA only includes current-year activity related to the FBWT, transitioning to the SBR will require validating pen obligations and FBWT balances from prior fiscal years. The Army analyzed outstanding appropriations to determine the level of supporting documentation needed to support open obligations and FBWT. The Army anticipates reconciling FBWT from FY 2012 going forward and will continue to analyze open and expired appropriations to determine the necessary level of effort.

The Army and DFAS have taken steps to evaluate journal vouchers to meet audit standards. However, due to the volume and types of journal vouchers, there is risk these steps may not be sufficient to address audit requirements and ensure all are fully supported and documented. The Army and DFAS are developing a working group to identify root causes, improve related business processes, and reduce the volume of journal vouchers.

FY 2017 – General Fund SBR Audits

The Army is preparing to assert General Fund SBR audit readiness by the end of FY 2017 and begin the SBR audit in conjunction with the full financial statement audit in FY 2018. Audit readiness plans include implementing corrective actions to address NFRs resulting from the SBA audits and deficiencies identified in internal testing. In FY 2017, the Army will implement additional corrective actions to

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address NFRs resulting from the FBWT examination, which should be completed fourth quarter FY 2016.

FY 2015 – FY 2017, a FBWT examination is planned for FY 2016, and the SBR audit is planned for FY 2018.

Figure II-3 provides the Army General Fund audit readiness plans. As shown, the General Fund SBA is being audited by an IPA in

Figure II-3. Army General Fund SBR Audit Readiness Plans

Department of the Army	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
SBR - Appropriations Received (Wave 1)																					<ul style="list-style-type: none"> Corrective Actions/Assert Validation Sustainment SBA Audits Financial Statement Audits
SBR - Schedule of Budgetary Activity (Wave 2)																					
SBR - FBWT (Wave 2)																					
SBR (Wave 2)																					

Statement of Budgetary Resources (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete SBA FY 2015 through FY 2017 audits and apply lessons learned to transition from SBA to SBR audit.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2017
Discovery	09/2017
Corrective Actions	09/2017
Valuation	09/2017
Valuation Methodology Approval	09/2017
Baseline Valuation	09/2017
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2017
Audit Readiness Assertion	09/2017
Audit Readiness Validation	09/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2017
Reconcile APSR(s) to the General Ledger(s).	09/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs, GCSS-A)	09/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	09/2017

BALANCE SHEET (WAVES 3 & 4)

The Army continues to make progress in preparing an audit ready General Fund Balance Sheet with a plan in place for each of the critical and noncritical asset and liability lines. The DoD OIG is conducting the final examination of Wave 3 mission-critical assets, Real Property and OM&S, with expected completion third quarter FY 2015. The Army will continue to remediate and sustain all Wave 3 assessable units as part of its Balance Sheet audit readiness activity (Wave 4). Wave 4 audit readiness activities are underway as the Army works to create a strategy for asset valuation. The Army has already implemented internal control testing of Balance Sheet assessable units as part of ongoing discovery.

Balance Sheet Assets

The Army developed a comprehensive approach to validate and assert to the audit readiness of General Fund assets. Efforts include existence, completeness, rights, and obligations examinations conducted by the DoD OIG for General Equipment, Real Property, and OM&S, as well as monthly control and balance testing. The Army began asset valuation planning and discovery in FY 2015.

Critical Asset Line Items

Discovery, remediation, and validation activities are planned for FY 2015, FY 2016, and FY 2017. The Army is anticipating an audit readiness assertion for other Balance Sheet line items in fourth quarter FY 2016 with an examination to follow in first and second quarters FY 2017. Based on discovery activities, the Army will develop detailed timelines for critical Balance Sheet line items. For example, the Army is working the following critical Balance Sheet asset line items:

General Equipment

The Army obtained an unmodified opinion from a DoD OIG examination in November 2014 for the existence, completeness, rights, and obligations of General Equipment assets in Property Book Unit Supply Enhanced (PBUSE). General Equipment assets in depot reset/recapitalization, wholesale equipment, and Government Furnished Equipment will be reviewed in conjunction with General Equipment discovery activities. In addition to valuation, the following challenges must be remediated:

- Incomplete or insufficient recorded data in PBUSE
- Inability to classify each item to specific programs or asset types (e.g., aircraft, vehicles)
- Errors when data was entered (e.g., inconsistent nomenclature for the same item)
- Quantities of recorded at zero (0)
- Accumulated depreciation not updated regularly

Real Property

The Army received an unmodified opinion from an IPA examination on the existence and completeness Quick Wins assertion in November 2013. The Army validated the existence and completeness of over 95 percent of real property on Army installations through monthly testing and asserted audit readiness on the existence and completeness of real property in September 2014. The DoD OIG began an examination of the Army real property assertion in FY 2015 and an opinion is expected later this year.

The Army will continue to evaluate internal controls and the availability of documentation to support real property transactions. In addition, the Army is implementing corrective actions with a focus on the timely processing of real property transactions in GFEBS. The Army's tasks for FY 2015 include control risk assessments and initial valuation testing. The initial valuation testing will determine the availability of documentation to support acquisition value and

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capital improvements. The information gathered during this phase of testing will help provide the basis for any corrective actions needed for asset valuation. The next real property assertion is planned for fourth quarter FY 2016.

Operating Materials and Supplies

The Army received a qualified opinion from a DoD OIG examination on existence and completeness Quick Wins assertion. The Army validated the existence and completeness of OM&S assets in the Worldwide Ammunition Reporting System – New Technology (WARS-NT) and Standard Army Ammunition System – Modernization (SAAS-Mod) on Army installations through monthly testing and asserted audit readiness on the existence and completeness of OM&S.

The DoD OIG began an examination of the Army OM&S existence and completeness assertion in FY 2015. Challenges include incomplete asset information, which affects the auditors' ability to determine the items to be sampled and tested.

Internal Use Software

Discovery, remediation, and validation activities are planned for FY 2015 and FY 2016. The Army expects to assert audit readiness for Internal Use Software fourth quarter FY 2016 with an examination in first and second quarters FY 2017.

Noncritical Asset Line Items

The Army approach for noncritical asset line items includes discovery, remediation, and validation activities planned for FY 2015 and FY 2016. The Army is planning an audit readiness assertion for the other Balance Sheet line items in fourth quarter FY 2016 with an examination to follow in first and second quarters FY 2017.

Risks and Challenges

Challenges in addressing noncritical asset line items include weaknesses with supporting documentation, controls implementation, and transaction accuracy.

Accounts Receivable

The Army identified weaknesses in its management of Accounts Receivable. The weaknesses are considered DoD-wide and apply to both public and intragovernmental receivables at the General Fund level. Challenges include:

- Being in compliance with policies and procedures on referrals to the Department of Treasury Debt Management Office and the write-off of 2-year old debt
- Implementing controls to ensure entitlement receivables are recorded in GFEBS
- Implementing controls to validate that Accounts Receivable balances are supportable at the transaction level

Other Assets

Other Assets include amounts for military and civil service employee pay advances, travel advances, and certain contract financing payments. There are risks associated with outstanding contract financing payments that include:

- Improper amounts in outstanding contract financing balances due to adjustments when processing payments
- Billing and payment errors

To mitigate risks associated with Other Assets, the Army will assess transactions that support the outstanding contract financing payment line item and identify processes for testing to validate the accuracy and completeness of the transaction population.

Balance Sheet Liabilities

The Army identified both critical and noncritical General Fund liabilities to focus its audit readiness efforts. With each line item, the emphasis will be on processes, controls, and the financial management systems that generate, process, or maintain the transactions.

Critical Liabilities Line Item

Discovery, remediation and validation activities are planned for FY 2015 and FY 2016. The Army is anticipating an audit readiness assertion for the other Balance Sheet line items in fourth quarter FY 2016 with an examination to follow in first and second quarters FY 2017.

Based on discovery activities, the Army will develop detailed timelines for critical Balance Sheet line items. For example, the Army developed a two-stage approach for its environmental and disposal liabilities line item. The Army first plans to assert for Defense Environmental Restoration Program (DERP) active installations in September 2015 and assert the remaining assessable units in December 2016.

In FY 2014, the Army performed substantive testing for the DERP active installation population. Similar substantive testing will be performed in FY 2015. Additionally in FY 2015, the Army will validate the current artifacts available to develop the DERP active installation assertion package, evaluate internal controls, and establish corrective actions.

The Army identified the environment and disposal liabilities timeline for completely asserting audit readiness and remaining work and challenges, and the dates by which deal-breakers will be completed.

Noncritical Liabilities Line Items

Discovery, remediation and validation activities for noncritical liabilities line items are also planned for FY 2015 and FY 2016. The

Army is anticipating an audit readiness assertion for the other balance sheet line items in fourth quarter FY 2016 with an examination to follow in first and second quarters FY 2017.

Risks and Challenges

The Army identified risks and challenges to Balance Sheet liabilities:

Environmental Liabilities

The primary challenge for the Army is the amount of resources required to support the cost estimate values. The Army is currently working with OUSD(C) to establish a materiality threshold for reporting environmental and disposal liabilities.

Accounts Payable

The Army is unable to properly account for and report accounts payable. Due to material weakness in current accounting and financial feeder systems, the Defense Department is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable and accounts receivable at the time accounting reports are prepared. In addition, the Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales. Therefore, the Army is unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payables.

To address accounts payable risks and challenges, the Army will begin discovery of accounts payable processes that materially affect the accounts payable balance. In addition, the Army will begin reviewing supporting documentation and developing control risk assessments to identify controls applicable to determining a testing approach for assertion and examination.

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Other Liabilities

The Army has significantly more nonfederal other liabilities than federal. Nonfederal other liabilities largely comprise accrued funded payroll and benefits, as well as, accrued unfunded annual leave. A major risk associated with these accruals is the methodology used to

derive the accruals and the accuracy of the transactional data within the sub-ledgers of the accounting systems.

Figure II-4 Provides the Army audit readiness plans for the General Fund Balance Sheet. It also shows when existence and completeness was completed or planned to be completed.

Figure II-4. Army General Fund Balance Sheet Audit Readiness Plans

Department of the Army	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																					
General Equipment	▲																				▲
Real Property				▲																	
Operating Materials and Supplies				▲																	
Internal Use Software												▲									
Other Assets																					
Liabilities																					
Environmental and Disposal Liabilities																					
Other Liabilities																					

General Equipment (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete Discovery and valuation testing including approval of the Army strategy for General Equipment valuation and implementation.
- Develop and implement corrective actions for Wave 4 assertion.
- Assert on all of General Equipment to include existence, completeness, rights and obligations, presentation and disclosure, and valuation.
- Implement corrective actions identified during DoD OIG examination.
- Challenges include incomplete or insufficient recorded data in PBUSE and the inability to classify each item to a specific program or type of asset.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	02/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	02/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	09/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile APSR(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (PBUSE, DPAS, DMLSS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	09/2017

Real Property (General Fund)

Remaining Audit Readiness Actions and Challenges

- Continue corrective actions for deficiencies and weaknesses across Commands that maintain accountability of assets.
- Conduct monthly internal control testing and report results, trends, and recommendations to Commands.
- Distribute lessons learned and corrective actions to real property stakeholders.
- Support audit readiness validation, including valuation efforts, to begin by 03/2015.
- Implement corrective actions identified during DoD OIG examination.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	08/2016
Valuation Methodology Approval	06/2015
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	08/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile APSR(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Operating Materials and Supplies (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete Discovery and valuation testing including approval of the Army strategy for valuation and implementation.
- Develop and implement corrective actions for valuing OM&S items.
- Assert on all of OM&S to include existence, completeness, rights and obligations, presentation and disclosure, and valuation.
- Implement corrective actions identified during DoD OIG examination.

Completion Dates (✓ = Completed)

Deal-Breakers	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	09/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile APSR(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (LMP, SAAS-MOD, WARS-NT)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	09/2017

Internal Use Software (General Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for deficiencies and weaknesses identified by testing of controls for existence, completeness, rights, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.
- Perform quarterly testing of controls and supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2016
Discovery	03/2016
Corrective Actions	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2016
Valuation	09/2016
Valuation Methodology Approval	09/2016
Baseline Valuation	09/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DPAS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Assets (General Fund)

Remaining Audit Readiness Actions and Challenges

- Identify major processes impacting Other Asset balances.
- Develop and implement corrective actions.
- Review applicable supporting documentation.
- Begin control risk assessment to identify relevant controls and determine testing approach.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Continue discovery to document processes and controls.
- Test Environmental and Disposal Liability balances.
- Develop and implement corrective actions for existence, completeness, rights and obligations, and valuation.
- Assert Environmental Liabilities for Defense Environmental Restoration Program (DERP) sites on 09/2015 and the remaining assessable units in 12/2016.
- Support the examination review.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	11/2016
Discovery	04/2016
Corrective Actions	09/2016
Processes, Controls, and Systems Corrected and Tested for New Liabilities	11/2016
Cost/Valuation Estimation	09/2016
Cost/Valuation Methodology Approval	06/2016
Baseline Cost/Valuation	09/2016
Audit Readiness Assertion	12/2016
Audit Readiness Validation	04/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS)	12/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	12/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	04/2017

Other Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Identify critical Other Liabilities processes.
- Develop and implement corrective actions.
- Review supporting documentation.
- Begin control risk assessment to identify key controls and determine testing approach.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBs)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

STATEMENT OF NET COST

The General Fund Statement of Net Cost provides the Army's net cost of operations for the period. The net cost of operations is the gross cost incurred by the Army less any exchange revenue earned.

The Army's FIAR activity is addressing the following Statement of Net Cost line items.

- Revenue
- Gross Costs

The Army will apply the work completed in other areas, such as the Balance Sheet and SBR, in assessing the Revenue and Gross

Cost balances on the Statement of Net Cost. For example, the Army will rely on the testing for the General Equipment and Real Property assessable units for depreciation expense, the Inventory assessable unit for cost of goods sold, the Civilian Pay assessable unit for payroll expense, and the Reimbursable assessable unit in assessing earned revenue.

For areas not covered by previous work, the Army will use materiality to scope the remaining balances to determine on which areas to focus further control testing and substantive sampling. The results of those tests should indicate whether further corrective action and audit readiness activity is needed.

Figure II-5. Army General Fund Statement of Net Cost Audit Readiness Plans

Department of the Army	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Revenue																					Discovery Corrective Action/Assert Validation NFR Corrective Actions Financial Statement Audits
Gross Costs																					

Revenue (General Fund)

Remaining Audit Readiness Actions and Challenges

- Apply lessons learned from the SBA to Statement of Net Cost audit readiness activity.
- Develop and implement corrective actions based on findings and recommendations from the FBWT examination and internal reviews.
- Continue to improve and develop business processes.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS, GFEBS-SA, GCSS-A, STANFINS, SOMARDS, CEFMS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Gross Costs (General Fund)

Remaining Audit Readiness Actions and Challenges

- Apply lessons learned from the SBA to Statement of Net Cost audit readiness activity.
- Develop and implement corrective actions based on findings and recommendations from the FBWT examination and internal reviews.
- Continue to improve and develop business.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS, GFEBS-SA, GCSS-A, STANFINS, SOMARDS, CEFMS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

STATEMENT OF CHANGES IN NET POSITION

The General Fund Statement of Changes in Net Position provides the difference between the assets and liabilities reported on the Army Balance Sheet. The Statement of Changes in Net Position presents a reconciliation of cumulative results of operations and unexpended appropriations from the beginning to the end of the reporting period. The Army's FIAR activity is addressing the following Statement of Changes in Net Position line items.

- Appropriations Used
- Budgetary Financing Sources
- Other Budgetary Financing Sources
- Appropriations Received

Because the balances for the Statement of Changes in Net Position are mainly derived from the SBR, the Army will apply the testing of accounting entries to ensure the appropriate budgetary and proprietary accounts are impacted for specific transaction types. For areas not covered by previous work, the Army will use materiality to scope the remaining balances to determine on which areas to focus further control testing and substantive sampling. The results of those tests should indicate whether further corrective actions and audit readiness support may be needed.

The Army is moving forward with its commitment to achieving full financial statements audit readiness by September 30, 2017. Using lessons learned from previous audit readiness efforts, examinations and current SBA audit, the Army is developing priorities and timelines for achieving full financial statement audit readiness by September 30, 2017.

Figure II-6. Army General Fund Statement of Changes in Net Position Audit Readiness Plans

Department of the Army	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Appropriations Used																					Discovery
Other Financing Sources																					Corrective Action/Assert
Appropriations Received																					Validation
Other Adjustments																					NFR Corrective Actions
																					Financial Statement Audits

Appropriations Used (General Fund)

Remaining Audit Readiness Actions and Challenges

- Apply lessons learned from the SBA to the Statement of Changes in Net Position audit readiness activity.
- Develop and implement corrective actions based on findings and recommendations from the FBWT examination and internal reviews.
- Continue to improve and develop business.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS, GFEBS-SA, GCSS-A, STANFINS, SOMARDS, CEFMS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Financing Sources (General Fund)

Remaining Audit Readiness Actions and Challenges

- Apply lessons learned from the SBA to the Statement of Changes in Net Position audit readiness activity.
- Develop and implement corrective actions based on findings and recommendations from the FBWT examination and internal reviews.
- Continue to improve and develop business processes.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS, GFEBS-SA, GCSS-A, STANFINS, SOMARDS, CEFMS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Appropriations Received (General Fund)

Remaining Audit Readiness Actions and Challenges

- Apply lessons learned from the SBA to the Statement of Changes in Net Position audit readiness activity.
- Develop and implement corrective actions based on findings and recommendations from the FBWT examination and internal reviews.
- Continue to improve and develop business processes.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS, GFEBS-SA, GCSS-A, STANFINS, SOMARDS, CEFMS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Adjustments (General Fund)

Remaining Audit Readiness Actions and Challenges

- Apply lessons learned from the SBA to the Statement of Changes in Net Position audit readiness activity.
- Develop and implement corrective actions based on findings and recommendations from the FBWT examination and internal reviews.
- Continue to improve and develop business processes.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS, GFEBS-SA, GCSS-A, STANFINS, SOMARDS, CEFMS)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Working Capital Fund Financial Statements (Wave 4)

During FY 2016, the Army plans to undergo an examination of all four Working Capital Fund financial statements. The Army will continue corrective actions during the examination in FY 2016 and address deficiencies identified during the examination.

STATEMENT OF BUDGETARY RESOURCES

The Army Working Capital Fund audit readiness began in April 2012. Discovery was completed in December 2013, and the Army Working Capital Fund is currently in the corrective action phase. As part of this phase, the Army is performing quarterly testing of internal controls across assessable units, and developing and implementing corrective actions necessary to undergo an audit. The corrective actions focus on supporting documentation and controls where substantive audit procedures cannot be performed.

FY 2016 – Working Capital Fund SBR Examinations

During FY 2016, the Army plans to undergo an examination of the four Army Working Capital Fund financial statements, including the Statement of Budgetary Resources. The Army will continue corrective actions during the examination in FY 2016 and address any deficiencies identified during the examination in subsequent periods.

Balance Sheet Assets

The Army focused significant effort on discovery and corrective actions for mission-critical assets, specifically Inventory and General Property, Plant, and Equipment. Current effort is focused on corrective actions to develop and implement key controls and identify supporting documentation.

Critical Asset Line Items

The Army is working the following critical Balance Sheet assets lines:

- General Equipment
- Real Property
- Inventory
- Internal Use Software

The FIAR team is working closely with the Headquarters Departments of the Army Logistics G-4, Office of the Assistant Chief of Staff For Installation Management, Army Materiel Command, Life Cycle Management Commands, Industrial Operations Activities, Army Sustainment Command, Army Prepositioned Stock sites, and Army Commands that have command and control of Supply Support Activities holding Army Working Capital Fund Inventory to develop and implement corrective actions. The Army is also performing quarterly testing of key controls for mission-critical asset assessable units.

For Inventory, the Army is coordinating with an IT team and the SBR assessable units to test valuation. For General Property, Plant, and Equipment, the Army is developing an alternative valuation methodology in accordance with SFFAS No. 35.

Noncritical Asset Line Items

The Army Working Capital Fund audit readiness team is coordinating its assessment of Accounts Receivable with the testing of Unfilled Customer Orders and Revenue. Other Assets, which consists primarily of Contract Financing Payments, are being assessed in coordination with Obligations and Disbursements.

Risks and Challenges

Risks associated with Inventory include completion of physical inventories during the year, reliance on controls over inventory held

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by DLA, reconciliations with inventory sub-ledgers, and valuation of excess and obsolete inventory. To address these challenges, the Army is:

- Implementing new procedures to perform physical inventory cycle counts at the Industrial Operations activities
- Meeting with DLA biweekly to discuss the status of their SSAE No. 16 examination and other inventory-related issues
- Working with Army Materiel Command and DLA to reconcile inventory balances in Defense Standard System (DSS) and Global Combat Support System – Army (GCSS-A) to Logistics Modernization Program (LMP)
- Working with Army Materiel Command to define procedures for identifying and valuing excess and obsolete inventory

Risks associated with General Property, Plant, and Equipment include lack of supporting documentation for valuation and challenges in obtaining reliable data for developing and implementing an alternative valuation methodology. The Army is working with the each of the Working Capital Fund sites that have Real Property and General Equipment to identify the documentation needed to support valuation and to ensure the documentation is maintained and readily available for review by an auditor.

Balance Sheet Liabilities

The Army is applying testing completed for the Statement of Budgetary Resources during its assessment of its liabilities.

Critical Liabilities Line Item

The Army Working Capital Fund audit readiness team is working closely with the Army General Fund team currently in the Discovery phase for Environmental and Disposal Liabilities. The Army identified the initial population of Environmental and Disposal Liabilities related to the Army Working Capital Fund. The Army will be evaluating the supporting documentation available for the valuation of the identified Environmental and Disposal Liabilities.

Noncritical Liabilities Line Items

Other Army Working Capital Fund liabilities include:

- Accounts Payable
- Military Retirement and Other Federal Employment Benefits
- Other Liabilities

The Army plans to leverage work completed for civilian payroll in assessing related liabilities and testing of obligations and disbursements in assessing the Accounts Payable balances.

Risks and Challenges

The risks and challenges associated with the Environmental and Disposal Liabilities include identifying a complete population and identifying and maintaining supporting documentation for the value of the liability.

Figure II-5 provides the Army audit readiness plans for the Working Capital Fund Balance Sheet.

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Figure II-7. Army Working Capital Fund Balance Sheet Audit Readiness Plans

Department of the Army	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																					
General Equipment								▲													▲ Existence and Completeness Audit Ready ■ Corrective Action/Assert ■ Validation ■ NFR Corrective Actions ■ Financial Statement Audits
Real Property								▲													
Inventory								▲													
Internal Use Software								▲													
Liabilities																					
Liabilities																					

General Equipment (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective actions for deficiencies and weaknesses identified through testing of controls over existence, completeness, rights, and obligations, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective action plans.
- Continue quarterly testing of controls and supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2015
Valuation	09/2015
Valuation Methodology Approval	06/2015
Baseline Valuation	09/2015
Audit Readiness Assertion	09/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DPAS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2016

Real Property (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for deficiencies and weaknesses identified through testing of controls over existence, completeness, rights, and obligations, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective action plans.
- Continue quarterly testing of controls and supporting documentation.
- Implement corrective actions identified during DoD OIG examination.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2015
Valuation	09/2015
Valuation Methodology Approval	06/2015
Baseline Valuation	09/2015
Audit Readiness Assertion	09/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GFEBS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2016

Inventory (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for audit impediments identified in Inventory processes at the Depots, LCMCs, Supply Support Activities, War Reserve sites, and contractor locations.
- Implement corrective actions for physical inventory procedures at depots.
- Monitor the status of DLA efforts to obtain an SSAE No. 16 examination for Army-owned items in DLA custody.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2015
Valuation	09/2015
Valuation Methodology Approval	06/2015
Baseline Valuation	09/2015
Audit Readiness Assertion	09/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (LMP, GCSS-A, DSS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2016

Internal Use Software (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for deficiencies and weaknesses identified through testing of controls over existence, completeness, rights, and obligations, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.
- Continue quarterly testing of controls and supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2015
Valuation	09/2015
Valuation Methodology Approval	06/2015
Baseline Valuation	09/2015
Audit Readiness Assertion	09/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DPAS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2016

Liabilities (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for deficiencies and weaknesses identified through testing of controls over existence, completeness, rights, and obligations, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.
- Continue quarterly testing of controls and supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions	09/2015
Audit Readiness Assertion	09/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (MOCAS, CAPS-W)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2016

STATEMENT OF NET COST

The Army Working Capital Fund Statement of Net Cost provides the Army's net cost of operations for the period. The net cost of operations is the gross cost incurred by the Army less any exchange revenue earned.

The Army's FIAR activity is addressing the following Statement of Net Cost line items.

- Revenue
- Gross Costs

The Army will apply the work completed in other areas, such as Balance Sheet and SBR, in assessing the Revenue and Gross Cost balances on the Statement of Net Cost. For example, the Army will rely on the testing for the General Equipment and Real Property assessable units for depreciation expense, Inventory assessable unit for Cost of Goods Sold, Civilian Pay assessable unit for payroll expense and Reimbursable assessable unit in assessing Earned Revenue. For areas not covered by previous work, the Army will use materiality to scope remaining balances to determine which areas to focus further control testing and substantive sampling. The results of those tests should indicate

whether further corrective actions and audit readiness support is needed.

In order to assess the audit readiness of the Statement of Net Cost, the Army plans to leverage the interrelationships between budgetary and proprietary accounting and rely on the audit readiness efforts performed for the SBR and Balance Sheet. By assessing these interrelationships, the Army will identify any areas not covered in the prior audit readiness efforts and focus attention on these areas to:

- Identify and evaluate balances of significant line items that are impacted by low-volume-high-dollar transactions
- Determine whether the documentation required to support balances is readily available and can be retrieved and provided to auditors within required timeframes

Potential risks and challenges for the Statement of Net Cost are:

- Elimination of intragovernmental activities from the statement
- Service provider support and involvement
- Supporting documentation to support transactions, complete universe of transactions
- Posting logic that drive the statements

Statement of Net Cost (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for deficiencies and weaknesses identified through testing of controls over existence, completeness, rights, and obligations, and valuation.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective actions.
- Implement corrective actions for the elimination of intragovernmental activities.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions	09/2015
Audit Readiness Assertion	09/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (LMP, MOCAS, CAPS-W, ADS)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2016

STATEMENT OF CHANGES IN NET POSITION

The Army Working Capital Fund Statement of Changes in Net Position presents a reconciliation of cumulative results of operations and unexpended appropriations from the beginning to the end of the reporting period. The Army's FIAR activity is addressing the following Statement of Changes in Net Position lines:

- Appropriations Used
- Budgetary Financing Sources
- Other Budgetary Financing Sources
- Appropriations Received

Because the balances for the Statement of Changes in Net Position are mainly derived from the SBR, the Army will apply the testing of accounting entries to ensure the appropriate budgetary and proprietary accounts are impacted for specific transaction types. For areas not covered by previous work, the Army will use materiality to scope the remaining balances to determine on which areas to focus further control testing and substantive sampling. The results of those tests should indicate whether further corrective actions and audit readiness support may be needed.

The Army is moving forward with its commitment to achieving full financial statements audit readiness by September 30, 2017. Using lessons learned from previous audit readiness efforts, examinations and current SBA audit, the Army is developing priorities and timelines to achieve full financial statements audit readiness by September 30, 2017.

Statement of Changes in Net Position (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Perform testing of accounting entries to ensure the appropriate budgetary and proprietary accounts are impacted for specific transaction types.
- Reconcile amounts on the Statement of Changes in Net Position to the amounts reported on the Balance Sheet and the Statement of Budgetary Resources.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions	09/2015
Audit Readiness Assertion	09/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (LMP, DDRS-B, DDRS-AFS)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2016

ARMY AUDIT READINESS RESOURCES

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

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

- Supporting audit infrastructure to sustain audit readiness including tools (e.g., Access Control List) and data repositories (e.g., Army Audit Data Repository)

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included in Figure II-8. ERP costs are reported in Section VII.

Figure II-8. Army Audit Readiness Resources (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	89	69	73	58	59	63
Financial Systems	4	4	5	4	4	2
Total Resources	93	73	78	62	63	65

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Message from the Department of the Navy Chief Management Officer

The Department of the Navy (DON) is currently undergoing audit of the Navy General Fund (GF) Schedule of Budgetary Activity (SBA) for Fiscal Year (FY) 2015, and related notes. This is a growth year for the DON as the SBA audit marks the first time the DON has encountered a wide-scale financial audit. We anticipate the audit to reveal, through our sustained improvements, that the Navy has made tremendous strides toward conformity with U.S. Federal Generally Accepted Accounting Principles. We continue to make significant progress in establishing audit readiness for the existence and completeness of mission critical assets by June 30, 2015. Finally, the DON began execution of audit readiness efforts for its Working Capital Fund financial statements as it continues its journey toward full financial auditability by September 2017.



As the DON undergoes SBA audit, our focus turns from the audit readiness of SBA assessable units to the audit readiness of our financial statements. The DON has developed a full financial statement auditability strategy encompassing the four primary financial statements of the General Fund and Working Capital Fund, including: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. The DON Full Financial Statement Auditability Strategy provides a robust integrated approach to focus audit readiness efforts on critical line items of the noted statements. Additionally, the DON will continue to synergize efforts, of the Navy, with the United States Marine Corps and engage managers and staff across the Enterprise as we continue the march toward full financial statement auditability.

Building on the momentum gained through our achievements thus far, the DON will continue to pursue its end-goal of full financial statement auditability by September 30, 2017, in preparation for a full financial audit in FY 2018, as mandated by the National Defense Authorization Act of 2014. We will leverage lessons learned through the SBA audit process to continuously strengthen and improve our business processes across the DON Enterprise. I am confident through the hard work and steadfastness of our leadership, management, and staff together we will continue to make sustainable changes to improve a culture of financial accountability.

A handwritten signature in black ink, appearing to read 'Thomas W. Hicks', written in a cursive style.

Thomas W. Hicks

Performing the Duties of the
Under Secretary of the Navy

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III. DON Audit Readiness

Since the November 2014 FIAR Plan Status Report, the Department of the Navy (DON) began an IPA audit of the Navy General Fund FY 2015 SBA. The DON is also working to achieve audit readiness on existence and completeness of mission-critical assets and on the full financial statements. The complex effort of achieving full audit readiness requires the shift from focusing on business processes to developing and supporting a comprehensive strategy that supports assertions at the financial-statement level.

Accountability and Commitment

DON senior leaders, including the Assistant Secretary of the Navy (ASN) Financial Management and Comptroller (FM&C), DON CIO, Chief of Naval Operations, Vice Chief of Naval Operations (VCNO), have coordinated with functional leadership and the financial communities at each Command to ensure all levels of the DON are ready to support audit readiness and the audit of the SBA in FY 2015. In addition, DON senior leaders are setting the tone at the top by inculcating the importance of being audit ready down to the deck-plate level through site visits, training sessions, and communications. For example, the ASN (FM&C) and the ASN’s Office of Financial Management (FMO) regularly engage the budget submitting offices through roundtables with Command comptrollers. These meetings ensure consistent and frequent messaging on audit readiness initiatives and make certain Commands are progressing toward full audit readiness.

Scope and Prioritization

The full financial statement auditability strategy addresses the Navy General Fund and Working Capital Fund across all four financial statements. The scope does not include the United States Marine Corps, which will be undergoing a full financial statement audit independent from the DON. Information on the Marine Corps



The guided-missile destroyer USS Donald Cook (DDG 75) travels through the Mediterranean Sea Jan. 15, 2015, in support of Operation Atlantic Resolve. (U.S. Navy photo by Mass Communication Specialist 2nd Class Karolina A. Oseguera/Released)

strategy, progress, and milestones follows the Navy information in this section.

The Navy is assessing financial statement line items then breaking the line items into more detailed components. After identifying the general ledger account codes, the Navy is identifying source systems, Navy Commands, fiscal years, and related business processes that affect the balances reported. For each of the four financial statements, and consistent with the FIAR Guidance, the Navy is preparing:

- Quantitative Drill Downs
- Systems Inventory and Listing of System Users
- Audit Readiness Scope and Strategy
- Process and Systems Documentation

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- Financial Reporting Objectives and Control Activities
- Test Plans and Test of Controls
- Control of Assessments and Test Results
- Electronic Detail Populations and Reconciliations
- Data Mining and Corrective Actions
- Supporting Documentation Matrix
- Test Plans and Test Results
- Evaluation of Test Results

The Navy will focus initial efforts on Fund Balance with Treasury; Accounts Receivable; Other Assets; Inventory; General Property, Plant, and Equipment; Accounts Payable; Other Liabilities; and Environmental and Disposal Liabilities. The financial statement compilation and reporting process related to preparing the Balance Sheet is also a focus area.

Timing and Approach

The Navy established milestones that will lead to auditability of the full financial statements by September 30, 2017. By January 31, 2017, the Navy will have conducted internal reviews or engaged an IPA to perform an examination of significant financial statement lines and activities. As the Navy concludes audit readiness activities for full financial statements, it will forego examinations and, instead, proceed from assertion to full financial statement audits.

Challenges to Audit Readiness by September 30, 2017

- Availability of Command personnel to respond to SBA audit requests while also continuing audit readiness work.
- Complex systems environment that includes both legacy and ERP systems. Many systems require changes that may not be in place by the time the Navy asserts its full financial statements in 2017. The Navy prioritized systems changes so that the changes

most critical to achieving audit readiness are addressed first, and work-arounds or mitigating activities can be taken if necessary.

- The Navy is developing a beginning balance validation strategy that ensures beginning balances for all financial statements and line items are adequately supported and able to withstand audit.
- Availability of supporting documentation and development of a full universe of transactions that supports financial statement balances.
- Dependencies that exist between DON and the service providers and where their readiness efforts affect DON processes.
- Corrective action plans may not have sufficient time to be institutionalized and validated.
- Resource constraints due to the high volume of ongoing audit readiness and audit activity as well as other primary job responsibilities. Such constraints may lead to Commands not being able to support required audit readiness activities in the timeframe required. The Navy is working with the Commands and its budget office to ensure adequate resources are available to support audit readiness and audit activities.

AUDIT READINESS PLANS

The Navy developed an integrated approach to achieving full financial statement auditability for the General Fund and Working Capital Fund. The strategy for both funds ensures progress toward readiness milestones by using:

- Confidence checkpoints to confirm progress is being made as expected. This measure allows the Navy to consistently evaluate tasks and timelines and, if needed, make revisions.
- Internal reviews, performed by an IPA, to assess audit readiness.

The following briefly describes the audit readiness status and plans depicted in Figure III-1.

General Fund Financial Statements

SBR – Appropriations Received (Wave 1) Corrective actions were completed in FY 2010 and audit readiness validated by an IPA examination in FY 2011.

SBR – Schedule of Budgetary Activity (Wave 2) FY 2015 budgetary information reported in the Navy's SBA is being audited by Cotton & Company LLP.

SBR – Beginning Balances and FBWT Reconciliation (Wave 2) The Navy is taking an iterative approach to building SBR beginning balances each year starting with FY 2015 and implementing FBWT reconciliations by the end of FY 2015 in preparation for SBR internal reviews by an IPA in FY 2016 and an IPA audit in FY 2018.

Existence and Completeness of Mission-Critical Assets (Wave 3) The Navy expects to complete development of corrective actions for mission-critical assets by June 2016. Existence and completeness audit readiness will be validated during the internal reviews planned for the Balance Sheet in FY 2017.

Full Financial Statements (Wave 4) The Navy plans to complete development of corrective actions for all financial statements by the end of FY 2017, followed by an IPA audit in FY 2018.

Working Capital Fund Financial Statements

Full Financial Statements (Wave 4) The DON will develop individual Working Capital Fund assertion packages for each of its

four financial statements. As a result, the transaction universe will be tied out by each financial statement, and the general ledger accounting systems will be tied out at the line item level. The DON will also reconcile feeder systems and general ledger accounting systems to substantiate a complete universe of transactions.

The DON's audit readiness activities extend until September 2017. This means the Navy Working Capital Fund will not undergo a full audit until FY 2018. To verify the Navy is on track to meet its FY 2017 audit readiness deadline, internal reviews will be conducted or an IPA examination performed in FY 2016.

The Navy Working Capital Fund environment relies on six general ledger systems and hundreds of feeder systems and has never been analyzed as it relates to audit readiness. The DON will identify all systems with a financial impact used by Navy Working Capital Fund organizations and document the flow of data from source system to financial statement. Simultaneously, the DON will work with systems owners, Commands, and DFAS to define and assemble the universe of transactions.

The remainder of the DON section of the report provides the Navy's then the Marine Corps' audit readiness plans for the General Fund financial statements followed by the Working Capital Fund financial statements.

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Figure III-1. Navy Full Financial Statements Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Fund Financial Statements																					
SBR - Appropriations Received (Wave 1)	Discovery	Discovery	Discovery	Discovery	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	
SBR - Statement of Budgetary Resources (Wave 2)	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	SBA Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	
SBR - Beginning Balances & FBWT (Wave 2)					Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Internal reviews	Internal reviews	Internal reviews	Internal reviews	Internal reviews	Internal reviews	Internal reviews	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	
Existence and Completeness (Wave 3)	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Sustainment	Sustainment	Sustainment	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	
Full Financial Statements (Wave 4)									Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Internal reviews	Internal reviews	Internal reviews	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	
Working Capital Fund Financial Statements																					
Full Financial Statements (Wave 4)									Discovery	Discovery	Discovery	Discovery	Corrective Actions/Assert	Internal reviews	Internal reviews	Internal reviews	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	Financial Statement Audits	

General Fund Financial Statements

Pending DoD OIG and GAO concurrence, the Navy will start with FY 2015 to build beginning balances to support audit readiness of the SBR. The Navy plans to assert audit readiness on the SBR by September 30, 2015, but will not undergo examination of the SBR in FY 2016. Instead, by January 2016, the Navy will assess progress, and by March 2016, an IPA will be engaged to perform an internal review to verify audit readiness.

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 & 2)

Figure III-2 highlights the FIAR strategy and approach for achieving and validating General Fund SBR audit readiness. More detailed information follows the figure.

Figure III-2. FIAR Strategy for the General Fund SBR

	Completion	Status / Description
Appropriations Received (Wave 1)		
Appropriations Received	FY 2011	IPA examination validated audit readiness
Statement of Budgetary Resources (Wave 2)		
SBA Assertion	FY 2014	Asserted in 06/2014
SBA IPA Audit	FY 2015	IPA audit started in 12/2014
SBR Beginning Balances, FBWT Reconciliation, and JVs	FY 2016	Corrective actions to be completed by 09/2016
SBR Internal Reviews	FY 2016	IPA conducts internal review of SBR
SBR Audit	FY 2018	IPA audit of SBR

FY 2011 – Appropriations Received

The Navy completed corrective actions of the processes, controls, and systems used for funds appropriated by Congress and received by the Navy. In FY 2011, an IPA performed an examination and issued an unqualified opinion.

FY 2014 – Schedule of Budgetary Activity Assertion

The Under Secretary of the Navy/Chief Management Officer asserted audit readiness of the SBA in September 2014. Audit readiness work continued after September 2014 to ensure previous improvements were sustained and activities to mitigate challenges were completed. The DON completed several important milestones following the September 2014 assertion, which included the conclusion of three SBA assessable unit examinations by an IPA, DoD OIG, and GAO:

- Reimbursable Work Orders (Performer and Grantor)
- Fund Balance with Treasury
- Contract/Vendor Pay

Through continued efforts to address examination findings and building on the feedback received from the auditors, the DON is confident the first Navy General Fund SBA audit for FY 2015 and related notes, will significantly inform efforts and accelerate overall progress.

FY 2015 – Schedule of Budgetary Activity Audit

Kick-off for the SBA audit began in December 2014 by Cotton & Company LLP.

Risks to a Successful SBA Audit

Risks to a successful SBA audit and mitigation activity include:

- Navy General Fund, Navy Working Capital Fund, and Asset Management branches continue to perform audit readiness

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activities in preparation of the full financial statement audit. The budget submitting offices will be stretched as they respond to the on-going audit readiness activities in addition to responding to audit requests from the SBA audit.

- Availability of supporting documentation and development of a full universe of transactions.
- Unclassified information, such as system network diagrams, identified system vulnerabilities, and similar data requested by the IPA, may be deemed sensitive, and any compromise of the data would be detrimental to the Navy.
- Contract modification is necessary to address the following:
 - Security issues to enable the IPA to gain access to classified information
 - DFAS' financial reporting closing schedule (year-end) does not align with the IPA's dates to complete the audit

FY 2015 – SBR Beginning Balances, FBWT Reconciliation, and Journal Vouchers

The Navy will iteratively build beginning balances starting with FY 2015 to support audit readiness of the SBR. The Navy plans to assert the SBR by September 30, 2015, but will not undergo examination of the SBR in FY 2016.

FY 2016 – General Fund SBR Examinations

In place of an examination, an IPA will perform an internal review to assess controls within key end-to-end business processes. Findings from the IPA will be considered and addressed prior to testing at the line item level.

FY 2017 – General Fund SBR Audits

In place of an SBR audit in FY 2017, the Navy plans to continue a series of internal reviews by an IPA to validate the universe of transactions and progress toward assertion goals. The scope of the internal reviews includes:

- Reconciling financial statement values from one reporting system to another
- Reconciling the reporting system to the general ledger systems trial balances (summary-level)
- Identifying and developing a data warehouse to hold general ledger systems and feeder systems data
- Reconciling general ledger systems trial balances to the general ledger systems detailed transactions
- Identifying and obtaining feeder systems data
- Reconciling feeder systems to the general ledger systems
- Identifying and obtaining remaining feeder systems data

Figure III-3 provides the Navy General Fund SBR audit readiness plans. As shown, the General Fund SBA is being audited by an IPA in FY 2015 – FY 2017. General Fund SBR internal reviews are planned for FY 2016 and FY 2017 to validate audit readiness by September 30, 2017. As shown, the SBR will be audited as part of the full financial statements audits that begin in FY 2018.

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Figure III-3. Navy Statement of Budgetary Resources Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
SBR - Appropriations Received (Wave 1)	Blue	Blue	Blue	Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Dark Purple	Dark Purple	Dark Purple	Dark Purple	<ul style="list-style-type: none"> Discovery Corrective Actions/Assert Sustainment Internal Reviews SBA IPA Audit SBR Audit
SBR - Statement of Budgetary Resources (Wave 2)	Light Green	Light Green	Light Green	Light Green	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Dark Purple	Dark Purple	Dark Purple	Dark Purple	
SBR - Beginning Balances & FBWT (Wave 2)							Light Red	Light Red	Light Green	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Dark Purple	Dark Purple	Dark Purple	Dark Purple	

Beginning Balances (General Fund)

Remaining Audit Readiness Actions and Challenges

- Prioritize SBR line items based on the outcome of activities performed during the Discovery phase (e.g., data mining, risk assessment) for each of the statements.
- Build beginning balances incrementally starting with the FY 2015 SBA audit and continuing each year until the balances are substantiated.
- Beginning balances audit readiness steps include performing aging of balances, if transaction detail is not available to age, the Navy will develop alternative approaches to substantiate the recorded balances.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	09/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	03/2016

Note: The Navy will conduct internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2016

BALANCE SHEET (WAVES 3 & 4)

To achieve audit readiness of the General Fund Balance Sheet, the DON will employ a three-phased approach: 1) Discovery, 2) Corrective Action, and 3) Evaluation. The Navy General Fund Balance Sheet strategy is underway and in the Discovery phase. Discovery includes data mining, reconciliations, risk assessment, business process standardization documentation review, gap analysis, command questionnaires, walkthroughs, testing, and the reporting of deficiencies.

There are 16 line items on the General Fund Balance Sheet. The Navy will focus efforts on 6 Balance Sheet lines: Fund Balance with Treasury; Accounts Receivable; General Property, Plant, and Equipment; Inventory and Related Property; Accounts Payable; and Environmental and Disposal Liabilities.

Balance Sheet Assets

Net values for General PP&E and Inventory and Related Property make up 65 percent of assets reported on DON's FY 2014 Balance Sheet. Confirmation of existence, completeness, and rights and obligations is essential to reaching auditability, and DON is completing internal reviews for all components that feed into those balances.

In-Progress Asset Line Items

Eight Balance Sheet focus areas are in progress and three remain:

- General Equipment
- Real Property Phase 1
- Real Property Phase 2
- Internal Use Software
- Operating Materials and Supplies – Ordnance
- Operating Materials and Supplies – Uninstalled Aircraft Engines

- Operating Materials and Supplies – Remainder
- Government Furnished Property

Remaining Asset Line Items

- Accounts Receivable
- Other Assets
- FBWT

A tri-chart is provided for each of the above Balance Sheet line items, except FBWT which is being worked with the SBR. The tri-charts identify the timeline for asserting readiness, remaining work and challenges, and the dates when the FIAR identified deal-breakers will be completed.

Risks and Challenges

The DON identified risks to a successful financial statement audit including trial balance, universe of transactions, evidential matter, and resources. DON must be able to produce a trial balance that agrees with the financial statements. The general ledger detail must be produced at the transaction-level that ties in to the trial balance. The details from feeder systems are necessary to produce the full populations from which samples will be selected. During the audit, the auditor can choose to review any transactions for sampling procedures at any point; therefore, all transactions must have readily available, detailed supporting documentation. This includes system-generated and manual journal vouchers.

Audit readiness progress will need to be made consistently and over time to reach the DON goals and milestones. If the SBA audit consumes most resources, the timing of audit readiness progress will suffer.

Balance Sheet Liabilities

The DON established critical line items and testing areas based on an analysis of the contribution of each line item to the total financial statement.

Critical Liabilities Line Item

- Environmental and Disposal Liabilities

The DON asserted to Environmental and Disposal Liabilities in FY 2009. The DON re-established a working group in early FY 2015 to better understand how these liabilities are calculated and recorded across the Department. The primary challenge is the time and effort it will take to collect the detailed information that is required from all levels to gain a comprehensive understanding of the Environmental and Disposal Liabilities process at the DON.

Noncritical Liabilities Line Items

Audit readiness efforts for the financial statement line items listed below are in the Discovery phase. Information about business and

financial activity is being gathered via data mining, review of existing documentation, and interviews with key stakeholders.

- Accounts Payable
- Other Liabilities
- Military Retirement and Other Federal Employment Liabilities

Risks and Challenges

Major risks include whether a defined, uniform methodology exists for calculating environmental and disposal liabilities, and whether supporting documentation exists and is readily available. Efforts to remediate these risks include developing a sound methodology and standard operating procedures for environmental liabilities.

Figure III-4 provides a summary view of the Navy's audit readiness plans for the General Fund Balance Sheet. Following Figure III-4 are tri-charts for each Balance Sheet line item identifying the remaining FIAR work, challenges, milestones, the dates deal-breakers will be resolved.

FIAR Plan Status Report

Figure III-4. Navy General Fund Balance Sheet Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																					
General Equipment								▲													▲ Existence and Completeness Audit Ready ■ Discovery ■ Corrective Action/Assert ■ Internal Reviews ■ Financial Statement Audits
Real Property Phase 1							▲	▲													
Real Property Phase 2											▲										
Internal Use Software												▲									
OM&S - Ordnance																					
OM&S - Uninstalled Aircraft Engines																					
OM&S - Remainder											▲										
Government Furnished Property								▲													
Accounts Receivable																					
Other Assets																					
Liabilities																					
Environmental and Disposal Liabilities																					
Accounts Payable																					
Military Retirement and Other Fed Employment Liabilities																					
Loan Guarantees																					
Other Liabilities																					

General Equipment (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete reviews to confirm existence, completeness, rights and obligations, and valuation for all asset classes; implement corrective actions; confirm business processes; and timely produce accurate, complete asset records.
- Finalize and safeguard supporting documentation, ensuring availability of audit evidence for the IPA.
- Complete valuation on all Navy General Equipment, establishing beginning balances and accumulated depreciation.
- Wave 4 actions will be included in DON’s line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2015
Discovery	✓
Corrective Actions	06/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (EXMIS, SEMS-SERMIS, SWALIS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Real Property Phase 1 (General Fund)

Remaining Audit Readiness Actions and Challenges

- Phase 1 includes Acquisition, Inventory, and Disposal processes.
- Distributed a Phase 1 assertion summary letter defining accomplishments, test results, and sustainment plan.
- Implemented sustainment testing.
- Wave 4 action to be included in DON’s line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (FIS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Real Property Phase 2 (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete corrective action plans from Discovery test findings.
- Address updates to Plan of Actions and Milestones to timely assert Wave 3 (confirmation processes are producing complete, accurate, reliable, and timely results).
- Build Phase 2 assertion package, including Phase 1 test results, and move into sustainment.
- Wave 4 actions to be included in DON’s line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	12/2015
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (FIS, INFADS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Internal Use Software (General Fund)

Remaining Audit Readiness Actions and Challenges

- Define Internal Use Software lifecycle and asset list.
- Complete Discovery testing.
- Conduct valuation Discovery.
- Address document retention to support testing and audit readiness validation.
- Wave 4 actions will be included in DON’s line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	9/2016
Discovery	9/2016
Corrective Actions	9/2016
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems.	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Operating Materials and Supplies (Ordnance) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Completed Wave 3 examination, asserted asset class, and moved to sustainment.
- Wave 4 actions are included in the DON's line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (OIS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Operating Materials and Supplies (Uninstalled Aircraft Engines) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Completed assertion of existence and completeness and moved into sustainment.
- Wave 4 actions are included in DON’s line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DECKPLATE)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Operating Materials and Supplies (Remainder) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Develop corrective action plans for Navy budget submitting offices not currently using Navy ERP.
- Implement corrective action plans and validate processes by conducting Round 2 testing.
- Wave 4 actions will be included in DON’s line item valuation approach.

Challenges

- Establish a comprehensive universe of OM&S (Remainder) assets that includes assets not currently recorded in a DON-approved Accountable Property System of Record (APSR).

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	✓
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (EXMIS, MATMF (HI), SEMS-SERMIS, SWALIS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Government Furnished Property (General Fund)

Remaining Audit Readiness Actions and Challenges

- The Government Furnished Property Working Group will assess requirements for inclusion in Wave 3, major asset type assertions, such as General Equipment and OM&S.
- Issue guidance reiterating DoD and DON requirements for Government Furnished Property procured through contracts and accounted for in the Item Unique Identification Registry
- The Navy is combining testing for Government Furnished Equipment in General Equipment assertion and Government Furnished Material in OM&S-R assertion.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2015
Discovery	06/2015
Corrective Actions	06/2015
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Accounts Receivable (General Fund)

Remaining Audit Readiness Actions and Challenges

- Obtain the universe of transactions and related process documentation.
- Obtain and analyze aging schedules for completeness and beginning balance assessment. Create an aging schedule if one is not available.
- Interview and perform walkthroughs with stakeholders to document the Accounts Receivable process from beginning to end, identify controls, and assess risks.
- Develop corrective action plans to mitigate deficiencies.

Challenges

- Limited coverage on previous business process standardization, process cycle memos, and standard operating procedures, including test work regarding key controls.
- Insufficient or unavailable supporting documentation and data related to Accounts Receivable business activity.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	08/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Assets (General Fund)

Remaining Audit Readiness Actions and Challenges

- Obtain the universe of transactions and related process documentation.
- Obtain and analyze population for completeness and beginning balance assessment.
- Interview and perform walkthroughs with stakeholders to document the other assets process from beginning to end, identify controls, and assess risks.
- Develop corrective action plans to mitigate failures and deficiencies.

Challenges

- Limited coverage on previous business process standardization, process cycle memos, and standard operating procedures, including test work regarding key controls.
- Insufficient or unavailable supporting documentation and data related to other assets business activity.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	08/2015
Test Plans	08/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Asserted to Environmental and Disposal Liabilities in FY 2009.
- Complete Discovery and the gathering of information needed to document the Environmental and Disposal Liabilities end-to-end business process.
- Develop corrective action plans to mitigate failures and deficiencies.

Challenges

- Determine whether a defined, uniform methodology exists for calculating the Environmental and Disposal Liabilities.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	11/2015
Discovery	11/2015
Corrective Actions	11/2015
Processes, Controls, and Systems Corrected and Tested for New Liabilities	11/2015
Cost/Valuation Estimation	03/2017
Cost/Valuation Methodology Approval	✓
Baseline Cost/Valuation	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Accounts Payable (General Fund)

Remaining Audit Readiness Actions and Challenges

- Obtain the universe of transactions and related process documentation.
- Obtain and analyze aging schedules for completeness and beginning balance assessment. Create an aging schedule if one is not available.
- Interview and perform walkthroughs with stakeholders to document the Accounts Payable and accrual processes from beginning to end, identify controls, and assess risks.
- Develop corrective action plans to mitigate failures and deficiencies.

Challenges

- Limited coverage on previous business process standardization, process cycle memos, and standard operating procedures, including test work regarding key controls.
- Insufficient or unavailable supporting documentation and data related to Accounts Payable business activity.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	08/2015
Test Plans	08/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Military Retirement and Other Federal Employment Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Gain an understanding of how these liabilities are calculated and determine availability of supporting documentation.
- Determine the control environment by applying relevant information from the Civilian Pay and Military Pay assertions.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	08/2015
Test Plans	08/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Gain an understanding of what comprises Other Liabilities and determine availability of supporting documentation.
- Determine the control environment by applying relevant information from other assertions.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	08/2015
Test Plans	08/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

STATEMENT OF NET COST

The Statement of Net Cost provides the Navy’s net cost of operations for the period. The net cost of operations is the gross cost incurred by the Navy less any exchange revenue earned.

Navy FIAR activity is addressing two line items:

- Revenue
- Gross Costs

A tri-chart is provided for Revenue and Gross Cost, identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Audit Readiness work has not begun directly for the Statement of Net Cost. The Navy will prioritize line items based on risk assessment activities and the results of detailed data mining. Data mining will use a testing and sampling strategy that keeps the number of testing activities to a minimum. The purpose of the testing is to support DON’s intention to use a single transaction to support testing lines from more than one statement based on their relationships in the accounting entries (e.g., FBWT on the Balance Sheet, and Outlays on the SBR). The DON is gathering data to support this analysis.

Figure III-5 provides the Navy audit readiness plans for the General Fund Statement of Net Cost. As shown, Discovery started in FY 2015 and ends in FY 2016.

Figure III-5. Navy General Fund Statement of Net Cost Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Revenue																					<ul style="list-style-type: none"> Discovery Corrective Action/Assert Internal Reviews Financial Statement Audits
Gross Costs																					

Revenue (General Fund)

Remaining Audit Readiness Actions and Challenges

- Begin Discovery for the Statement of Net Cost after completing Balance Sheet line items. The estimated start date is FY 2016.
- Prioritize Statement of Net Cost line items based on the outcome of activities performed during the Discovery phase (data mining, risk assessment, etc.) for each of the statements.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2016
Process Documentation	08/2016
Test Plans	08/2016
Controls and Supporting Documentation Testing	08/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Gross Costs (General Fund)

Remaining Audit Readiness Actions and Challenges

- Begin Discovery for the Statement of Net Cost after completing Balance Sheet line items. The estimated start date is FY 2016.
- Prioritize Statement of Net Cost line items based on the outcome of activities performed during the Discovery phase (data mining, risk assessment, etc.) for each of the statements.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2016
Process Documentation	08/2016
Test Plans	08/2016
Controls and Supporting Documentation Testing	08/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position provides the difference between the assets and liabilities reported on the Navy Balance Sheet. The statement presents a reconciliation of cumulative results of operations and unexpended appropriations from the beginning to the end of the reporting period.

Navy FIAR activity is addressing four line items:

- Appropriations Used
- Other Financing Sources

- Appropriations Received
- Other Adjustments

A tri-chart is provided for each line item identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Figure III-6 provides the Navy audit readiness plans for the General Fund Statement of Change in Net Position. As shown, Discovery started in FY 2015 and ends in FY 2016.

Figure III-6. Navy General Fund Statement of Changes in Net Position Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Appropriations Used																					<ul style="list-style-type: none"> Discovery Corrective Action/Assert Internal Reviews Financial Statement Audits
Other Financing Sources																					
Appropriations Received																					
Other Adjustments																					

Appropriations Used (General Fund)

Remaining Audit Readiness Actions and Challenges

- Begin Discovery for the Statement of Net Cost after completing Balance Sheet line items. The estimated start date is FY 2016.
- Prioritize Statement of Changes in Net Position line items based on the outcome of activities performed during the Discovery phase (data mining, risk assessment, etc.) for each of the statements.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2016
Process Documentation	08/2016
Test Plans	08/2016
Controls and Supporting Documentation Testing	08/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Financing Sources (General Fund)

Remaining Audit Readiness Actions and Challenges

- Begin Discovery for the Statement of Net Cost after completing Balance Sheet line items. The estimated start date is FY 2016.
- Prioritize Statement of Changes in Net Position line items based on the outcome of activities performed during the Discovery phase (data mining, risk assessment, etc.) for each of the statements.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2016
Process Documentation	08/2016
Test Plans	08/2016
Controls and Supporting Documentation Testing	08/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Appropriations Received (General Fund)

Remaining Audit Readiness Actions and Challenges

- Begin Discovery for the Statement of Net Cost after completing Balance Sheet line items. The estimated start date is FY 2016.
- Prioritize Statement of Changes in Net Position line items based on the outcome of activities performed during the Discovery phase (data mining, risk assessment, etc.) for each of the statements.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2016
Process Documentation	08/2016
Test Plans	08/2016
Controls and Supporting Documentation Testing	08/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Adjustments (General Fund)

Remaining Audit Readiness Actions and Challenges

- Begin Discovery for the Statement of Net Cost after completing Balance Sheet line items. The estimated start date is FY 2016.
- Prioritize Statement of Changes in Net Position line items based on the outcome of activities performed during the Discovery phase (data mining, risk assessment, etc.) for each of the statements.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2016
Process Documentation	08/2016
Test Plans	08/2016
Controls and Supporting Documentation Testing	08/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Working Capital Fund Financial Statements (Wave 4)

The DON prioritized Working Capital Fund assertion activities to begin with the Balance Sheet. Accordingly, the Navy is focusing on proprietary accounting and the magnitude of total assets and liabilities.

STATEMENT OF BUDGETARY RESOURCES

In order to assert audit readiness of all four financial statements, the DON must develop an approach to aging receivables that is different from the General Fund approach. The General Fund approach for developing auditable beginning balances over time works because accounts receivable expire. However, in the Navy Working Capital

Fund environment, accounts receivables do not expire and must continue to accumulate within the beginning balances.

The Navy will prioritize SBR line items based on risk and the results of detailed data mining. Data mining will use a testing and sampling strategy that keeps the number of testing activities to a minimum. The purpose of the testing is to support DON’s intention to use a single transaction to support testing lines from more than one statement based on their relationships in the accounting entries (e.g., FBWT on the Balance Sheet, and Outlays on the SBR). The DON is gathering data to support this analysis.

Figure III-7 provides the Navy Working Capital Fund SBR audit readiness plans. As shown, the Navy Working Capital Fund SBR will be audited in FY 2018 as part of the full financial statements audit.

Figure III-7. Navy Working Capital Fund Statement of Budgetary Resources Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Beginning Balances																					Discovery
Obligations Incurred																					Corrective Actions/Assert
Outlays (Gross)																					Internal Reviews
Budget Authority (Gross)																					SBR Audit
Actual Offsetting Collections																					

Beginning Balances (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Develop approach for beginning balances.
- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2016
Process Documentation	01/2016
Test Plans	04/2016
Controls and Supporting Documentation Testing	09/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Obligations Incurred (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	10/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Outlays (Gross) (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	10/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Budget Authority (Gross) (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	05/2016
Test Plans	07/2016
Controls and Supporting Documentation Testing	12/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Actual Offsetting Collections (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	02/2016
Test Plans	04/2016
Controls and Supporting Documentation Testing	10/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

BALANCE SHEET

The DON prioritized Navy Working Capital Fund assertion activities to begin with the Balance Sheet. The Navy is focusing on proprietary accounting and the magnitude of total assets and liabilities.

Balance Sheet Assets

The DON's approach to the Balance Sheet is to focus FIAR activity on the material critical line items, as well as certain noncritical line items important to Working Capital Fund operations and the Balance Sheet.

Critical Asset Line Items

The DON established critical testing areas based on an analysis of the contribution of each line item to the total financial statement.

The Navy is working the following critical Balance Sheet asset line items:

- General Equipment
- Real Property
- Inventory
- Internal Use Software

Noncritical Asset Line Items

- Accounts Receivable (Net)
- FBWT

A tri-chart is provided for Accounts Payable identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Risks and Challenges

The DON engaged the Navy Working Capital Fund entities, systems owners, DFAS and OUSD(C) to develop an audit readiness strategy that reflects the current financial environment across Navy Working Capital Fund entities. However, there are some inherent risks that must be mitigated in order for this large-scale transformation initiative to achieve success.

The Navy Working Capital Fund has six general ledger systems, as compared to three general ledger systems for the General Fund, with Navy ERP as the sole overlapping system. This requires a significant level of discovery efforts to:

- Understand the data flow from feeder systems to general ledger system to the financial statement
- Develop data extracts from the general ledger systems and feeder systems to build a transaction universe
- Create the logic to perform data reconciliations

As a result of working with six different general ledger systems, a significant level of effort will be placed on data governance. The Navy Working Capital Fund team has to map general ledger and feeder systems to a standardized set of data element nomenclature, definitions, and data element attributes. To mitigate this risk, the Navy is looking at realigning or increasing resources to support data-related activities.

The Navy Working Capital Fund must assert four financial statements in less time than it took the General Fund to assert the SBA. To ensure the September 2017 deadline is met, the Navy Working Capital Fund strategy is to use a risk-based approach that focuses on material line items and perform data mining to determine synergies to test numerous lines with one sample. This risk-based approach allows the DON to maximize assurance levels, given time and resource constraints.

Balance Sheet Liabilities

The DON established critical testing areas based on an analysis of the contribution of each line item to the total financial statement.

Critical Liabilities Line Item

The Navy is working one critical Balance Sheet liability line:

- Environmental and Disposal Liabilities

Noncritical Liabilities Line Items

The Navy is working one noncritical Balance Sheet liability line:

- Accounts Payable

A tri-chart is provided for each of the above Balance Sheet lines identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Risks and Challenges

Discovery efforts have not begun for the liability line items on the Balance Sheet. However, the risks and challenges listed above in the Working Capital Fund Asset section are also program risks and challenges to the Working Capital Fund Liabilities line items.

Figure III-8 provides the Navy audit readiness plans for the Working Capital Fund Balance Sheet. As shown, the Navy Working Capital Fund Balance Sheet will be audited in FY 2018 as part of the full financial statements audit.

Figure III-8. Navy Working Capital Fund Balance Sheet Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																					
General Equipment																					
Real Property Phase 1																					
Real Property Phase 2																					
Inventory																					
Internal Use Software																					
Accounts Receivable																					
Liabilities																					
Environmental and Disposal Liabilities																					
Accounts Payable																					

General Equipment (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans and confirm that business processes timely produce accurate, complete records for all general equipment.
- Finalize and safeguard supporting documentation to ensure availability of audit evidence for an auditor.
- Complete valuation on all Navy General Equipment, establishing beginning balances and accumulated depreciation per DON policy.
- Wave 4 actions to be included in DON's line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2015
Discovery	✓
Corrective Actions	06/2015
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2016
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MAXIMO (NAVAIR))	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Real Property Phase 1 (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Phase 1 includes Acquisition, Inventory, and Disposal processes.
- Complete corrective action plans from Discovery test findings.
- Address updates to Plan of Actions and Milestones to timely assert Wave 3 (confirmation processes are producing complete, accurate, reliable, and timely results).
- Build assertion package, including Phase 1 results, and move into sustainment.
- Wave 4 actions to be included in DON's line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Real Property Phase 2 (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Complete corrective action plans from Discovery test findings.
- Address updates to Plan of Actions and Milestones to timely assert Wave 3 (confirmation processes are producing complete, accurate, reliable, and timely results).
- Build Phase 2 assertion package, including Phase 1 test results, and move into sustainment.
- Wave 4 actions to be included in DON’s line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	12/2015
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (FIS, INFADS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Inventory (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Wave 4 actions to be included in DON's line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	✓
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP, DPAS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2015
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Internal Use Software (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define Internal Use Software lifecycle and asset list.
- Complete Discovery testing.
- Conduct valuation Discovery.
- Address document retention to support testing and audit readiness validation.
- Include Wave 4 actions in DON’s line item valuation approach.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2016
Discovery	09/2016
Corrective Actions	09/2016
Valuation	03/2017
Valuation Methodology Approval	09/2015
Baseline Valuation	09/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Accounts Receivable (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	10/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Environmental and Disposal Liabilities (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Asserted Environmental and Disposal Liabilities in FY 2009.
- Complete Discovery and the gathering of information needed to document the end-to-end business process.
- Develop corrective action plans to mitigate failures and deficiencies.

Challenges

- Determine whether a defined, uniform methodology exists for calculating Environmental and Disposal Liabilities.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	11/2015
Discovery	11/2015
Corrective Actions	11/2015
Processes, Controls, and Systems Corrected and Tested for New Liabilities	11/2015
Cost/Valuation Estimation	04/2015
Cost/Valuation Methodology Approval	✓
Baseline Cost/Valuation	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (Navy ERP)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Accounts Payable (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	05/2016
Test Plans	07/2016
Controls and Supporting Documentation Testing	10/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

STATEMENT OF NET COST (WAVE 4)

Audit Readiness work has not begun directly on the Statement of Net Cost. The Navy will prioritize line items based on risk assessment activities and detailed data mining.

Detailed data mining efforts will be performed to leverage the relationships between accounts on the financial statements to design a testing and sampling strategy that economizes testing activities to support assertion of all four statements. The purpose of this testing is to use a single transaction to support testing lines from more than one statement based on their relationships in the accounting entries (e.g., FBWT on the Balance Sheet, Outlays on the SBR). The DON is gathering data to support this analysis.

Working Capital Fund Statement of Net Cost

The Statement of Net Cost provides the Navy’s net cost of operations for the period. The net cost of operations is the gross cost incurred by the Navy less any exchange revenue earned.

Navy FIAR activity is addressing the following Statement of Net Cost line items. Charts for each line item follow this subsection.

- Revenue
- Gross Costs

A tri-chart is provided for Revenue and Gross Costs, identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Figure III-9 Provides the Navy audit readiness plans for the Working Capital Statement of Net Cost. As shown, Discovery started in FY 2015 and the Statement of Net Cost will be audited in FY 2018 as part of the full financial statements audit.

Figure III-9. Navy Working Capital Fund Statement of Net Cost Audit Readiness Plans

Navy	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Earned Revenue																					Discovery Corrective Action/Assert Internal Reviews Financial Statement Audits
Operations, Readiness, and Support																					

Earned Revenue (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	04/2016
Controls and Supporting Documentation Testing	10/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Operations, Readiness, and Support (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and related supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2016
Process Documentation	01/2016
Test Plans	03/2016
Controls and Supporting Documentation Testing	10/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Other Financing Sources (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	03/2016
Test Plans	05/2016
Controls and Supporting Documentation Testing	12/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

Appropriations Received (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Define internal controls and supporting documentation.
- Develop test procedures and workbooks.
- Execute dual purpose testing.
- Develop corrective action plans to mitigate failures and deficiencies found during testing.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	03/2016
Test Plans	05/2016
Controls and Supporting Documentation Testing	12/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	03/2017

Note: The Navy will conduct concurrent internal reviews of audit readiness work products to validate audit readiness.

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (IMPS, MSC-FMS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	03/2017

NAVY AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure III-11 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure III-11. ERP costs are reported in Section VII. Costs associated with Marine Corps audit readiness are in Figure III-16.

Figure III-11. Navy Audit Readiness Resources (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	87	97	82	78	86	87
Financial Systems	20	20	20	20	10	10
Total Resources	107	117	102	98	96	97

U.S. Marine Corps Audit Readiness

The U.S. Marine Corps (USMC) is engaged in significant efforts across the organization to achieve an audit of the FY 2017 full financial statements. The USMC must be able to produce fully reconciled financial statements and disclosures that are free from material error and presented fairly. Additionally, the USMC must be able to support the information contained in the statements and disclosures with adequate supporting documentation.

To achieve these objectives, the USMC is establishing and will sustain strong business processes and internal controls to ensure business events are accurately reflected in the detailed records and can reliably be transferred into the financial reporting records. The



A U.S. Marine Corps MV-22 Osprey tiltrotor aircraft takes off from the flight deck of the amphibious assault ship USS Bonhomme Richard (LHD 6) in the East China Sea April 7, 2015. (U.S Navy photo by Mass Communication Specialist 3rd Class Cameron McCulloch/Released)

USMC is investing considerable resources and leadership focus to achieve full financial statement audit. Upon completion, the USMC will have an auditable, controlled, and monitored financial environment that will better support operations.

Leadership and stakeholders from across the organization are committed to success and are fully engaged in the audit readiness program. This is evidenced by the USMC's ability to frequently discuss emerging issues and impediments with process owners at the field Commands, service providers, and the Department of the Navy.

Progress Highlights Since the November 2014 FIAR Report

Since the November 2014 FIAR report, the DoD OIG rescinded its audit opinion on the FY 2012 USMC SBA due to newly discovered findings pertaining to the use of suspense accounts managed by the Defense Finance and Accounting Services (DFAS). The findings provided enough uncertainty that additional audit work is required.

The USMC continued Balance Sheet audit readiness. Marine Corps Commands are required to assert the audit readiness of Real Property and General Property assets to USMC Headquarters. These assertions provide the baseline for holding all Marine commanders accountable for auditability of their assets. The USMC will expand the scope of Command-level assertions until full Marine Corps auditability is achieved.

Balance Sheet work focused on identifying the universe of data and obtaining a full accounting of all USMC owned assets, reconciled to accounting records. In addition, efforts for alternate valuation have started, but developing and validating estimation methodologies will take a lot of effort. Finally, the USMC has been proactive in identifying and working with its service providers and systems owner's data universes in areas such as Real Property with Naval Facilities Engineering Command (NAVFAC). Closely working with the service providers will be a key component of overall success.

Challenges to Audit Readiness by September 30, 2017

Functioning in the DoD operating environment presents significant financial reporting challenges and risks. However, the USMC developed a risk management and identification strategy. The strategy prioritizes corrective actions and investments to drive measurable results and focuses on long-standing impediments, such as information systems and valuation deficiencies. Some of these risks and challenges are further detailed below.

USMC Entity Challenges

As the USMC is a reporting entity of the DON, this relationship adds some risk to the audit process. The USMC is working closely with the DON to determine the assets that are in scope according to federal accounting standards. Likewise, obtaining asset populations from multiple APSRs that reconcile to the Balance Sheet has been difficult across all financial statement balances. The USMC continues to work with system owners and service providers to develop a clean, consistent, and reconciled process of financial statement compilation. Finally, the USMC has external dependencies on service organizations, such as NAVFAC and DLA. The USMC is working with both organizations to identify and agree on audit support levels through a Memorandum of Agreement (MOA). The MOAs are being negotiated and will be endorsed by the leadership of both organizations.

General Property, Plant, and Equipment Challenges

The USMC, like most DoD entities, has equipment dispersed to remote locations worldwide. Identifying the full population of assets will be a key component of this effort. Additionally, obtaining source documentation for legacy assets has proven to be a challenge, and the USMC is in the process of identifying assets that have supporting documentation and those that do not. The implementation of existing corrective action plans for physical inventory, data plate consistency, document retention, and valuation will be a key milestone in achieving audit readiness, and the USMC continues to complete tasks that support this milestone.

Additional but similar challenges exist for real property. The USMC worked closely with NAVFAC to obtain a universe of assets that reconciles to the Balance Sheet. While the project is not complete, the USMC is working with NAVFAC to validate and refine the dataset. Similar to equipment, fully supporting legacy real property assets, some of which have been in use for more than 30 years, increases the likelihood that alternate valuation methodologies will be necessary as supporting documentation is not available.

Operating Materials and Supplies Challenges

Due to system and process limitations that are a component of the legacy environment, the USMC does not use the consumption method of accounting for all OM&S items. The USMC is working to implement the consumption method of accounting, and this will be an important component of future Global Combat Support System – Marine Corps (GCSS-MC) requirements and upgrades. In the interim, the USMC is exploring using the Standard Accounting, Budgeting, and Reporting System (SABRS) to implement the consumption method until the GCSS-MC is ready. In addition, the valuation of OM&S remains a challenge. The USMC is in the process of evaluating valuation methodologies, such as the Latest Acquisition Cost (LAC) using allowance accounts, to bring OM&S balances in compliance with federal accounting standards.

Information Technology Challenges

One of the difficult challenges to USMC audit readiness is system limitations and the volume of system changes required. Actions taken to remedy this issue include working with system owners and functional personnel to identify systems that should be FISCAM compliant prior to audit, working with OUSD(AT&L) to implement system changes to DPAS that will improve reporting capabilities for audit, and determining interface requirements and functional support to accurately report assets that were not in an APSR. Finally, the USMC is working to validate and improve GCSS-MC transaction processing and functionality for audit.

USMC AUDIT READINESS PLANS

The USMC audit readiness approach follows the FIAR Guidance for incrementally achieving audit readiness. The USMC does not produce Working Capital Fund financial statements. USMC Working Capital Fund activities are reported in the DON Working Capital Fund financial statements. The following briefly describes the status and plans depicted in Figure III-12.

General Fund Financial Statements

Statement of Budgetary Resources (SBR) (Waves 1 & 2) The SBA has been under audit since FY 2010. The USMC received a clean audit opinion on the FY 2012 SBA. However, the DoD OIG rescinded the opinion on March 23, 2015, after learning of USMC transactions in U.S. Treasury suspense accounts that had not been previously reported and included in the audit.

There will not be an SBA audit in FY 2015. The USMC will transition to an expanded scope audit during FY 2016 while it resolves the findings identified during the FY 2014 SBA audit. Additionally, the DoD OIG initiated a separate audit of suspense accounts to assess remediation activities.

The USMC recognizes that SBR beginning balances will be a significant component of the SBR audits and is working to validate and update open prior year transactions. The USMC is positioned for

a successful SBR audit applying the lessons learned from the SBA audits.

Existence and Completeness of Mission-Critical Assets (Wave 3)

The USMC expects to complete corrective actions for mission-critical assets by September 30, 2015. Existence and completeness audit readiness will be validated during the Balance Sheet examination planned for FY 2016. The focus on existence and completeness will help the USMC validate the accuracy of its mission-critical asset information recorded in its APSRs. Mission-critical assets will be separated into groups of assets where valid and accurate source documents exist and groups of assets where alternate valuation methods will be necessary. Using this approach, the USMC is well on its way to audit success in FY 2017.

Full Financial Statements (Wave 4)

The Balance Sheet presents the Assets, Liabilities, and Net Position of the USMC. The Balance Sheet accounts do not close annually and are cumulative in nature. The USMC must not only remediate the ongoing controls and business processes related to PP&E, but also must remediate the historical balances in the Balance Sheet accounts. The USMC plans to complete corrective actions for all financial statements by the end of FY 2016, followed by an audit of the FY 2017 full financial statements.

Figure III-12. USMC Audit Readiness Plans

Marine Corps	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Statement of Budgetary Resources (Waves 1 & 2)																					<ul style="list-style-type: none"> Discovery Corrective Actions/Assert SBA Audits Validation Financial Statement Audits
Existence and Completeness (Wave 3)																					
Full Financial Statements (Wave 4)																					

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 & 2)

The USMC has led the Department in preparing for an SBR audit and initiated the SBA approach to achieving SBR audit readiness. In order to support an auditable SBR, the USMC engaged in multiple SBA audits covering more recent fiscal years to identify corrective actions, mitigate risks, and improve controls prior to an audit of the SBR.

FY 2010 – FY 2012 Statement of Budgetary Resources Audits

The USMC first went under SBR audit on its FY 2010 statement. Due to difficulties supporting beginning balances during the FY 2010 SBR audit, the USMC developed the SBA in coordination with DoD OIG and an IPA to maintain audit momentum, while building to a full SBR. This approach to SBR audit readiness was adopted by the Department as the model for DoD-wide SBR audit readiness. The USMC received a clean opinion on the FY 2012 SBA, but in March 2015, the DoD OIG rescinded the opinion due to previously unknown and unreported suspense accounts at the Treasury Department. The USMC applied lessons learned and corrective actions to future years and is working toward a full SBR audit in FY 2016.

FY 2013 – FY 2014 Schedule of Budgetary Activity Audits

The USMC continued to undergo an SBA audit during FY 2013 and FY 2014 and has responded to all audit samples and auditor questions.

FY 2015 - SBR Beginning Balances, FBWT Reconciliation, and Journal Vouchers

The USMC is in the process of remediating beginning balances to achieve that goal. FBWT reconciliation is under audit as part of the

SBA audit. However, the USMC is working to continue to improve that reconciliation for future audits.

USMC journal vouchers have been under audit, and currently, all JVs are supported and auditable. The USMC will continue working with DFAS to improve the journal voucher control environment to remediate auditor control findings.

These efforts will position the USMC to transition from SBA audit to SBR audit. Additionally, the USMC is increasing its efforts to remediate internal controls to transition from substantive audit testing to the auditor relying on the control environment. This will reduce the level of effort required both by the auditors and the USMC and will move the USMC toward meeting the annual November 15 deadline for audit opinions.

Finally, the USMC will examine financial data and business processes audited in the SBA to accelerate Balance Sheet efforts. For example, work completed for delivered orders-unpaid and reimbursable work orders impact Balance Sheet accounts, such as Accounts Payable and Accounts Receivable. Therefore, remediation efforts in these areas will help improve financial reporting on both the SBR and the Balance Sheet.

BALANCE SHEET (WAVES 3 & 4)

Several critical Balance Sheet line items will be positively affected by SBR remediation efforts, as they are closely related to budgetary accounts and processes, including FBWT, Accounts Receivable, and Accounts Payable. These areas will still, however, require additional work to achieve auditability.

OM&S and PP&E readiness efforts are well underway. In addition to remediating the transactions that make up the underlying USSGL accounts related to Balance Sheet line items. The USMC will also address the compilation and reporting process that generate the Balance Sheet. These efforts will focus on reconciliations of feeder systems and data populations, properly supporting JVs, and clearly defining the scope of the USMC entity as it relates to the DON.

Balance Sheet Assets

The USMC has ongoing existence and completeness efforts for PP&E and OM&S and plans to complete all existence and completeness activities by the end of FY 2015. The existence and completeness phase includes reviewing supporting valuation documentation to determine which assets are supported and which require the use of valuation estimates. Identifying assets with unsupported values will quantify the universe of assets requiring the use of a valuation estimation method. The USMC is planning to complete the valuation work by June 2016.

Critical Asset Line Items

Work is underway for the following critical Balance Sheet asset lines:

- General Equipment – Book to floor complete, floor to book ongoing. Valuation work started for Military Equipment.
- Real Property – Existence and completeness efforts are ongoing for USMC installations. Valuation work will begin after a valuation estimation method is provided by the OUSD(C).
- Internal Use Software – Process owners are engaged and leading Discovery efforts.
- Operating Materials and Supplies – Existence and completeness efforts are ongoing, service providers are engaged, and valuation strategies are being reviewed.
- Government Furnished Property – Efforts to identify all Government Furnished Property are ongoing.

Noncritical Asset Line Items

The USMC identified two asset line items that fall outside of the critical asset category. This includes:

- Accounts Receivable
- Other Assets

The USMC made this determination by reviewing the financial statement impact and overall risk for each area. Based on this review and the fact that SBA and SBR efforts have helped improve Accounts Receivable balances, the USMC has placed lesser priority on these areas.

A tri-chart is provided for each of the above Balance Sheet lines identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Risks and Challenges

The USMC's most significant risks and challenges are limitations in the systems environment that prevent the timely recording of some transactions. The USMC is simultaneously developing short-term solutions, such as accruals to estimate unrecorded transactions and long-term system changes to mitigate the risks. This approach will provide the USMC with auditable financial statements in the interim as improvements continue to address the underlying business process and controls.

Balance Sheet Liabilities

The USMC's liabilities will apply the SBR efforts that have been performed to date. For example, Accounts Payable has received extensive coverage and corrective actions are ongoing. In addition, the full implementation of corrective actions, such as proper receipt and acceptance, will provide a more accurate Accounts Payable balance. Additionally, the USMC is working closely with its service providers and system owners to improve processes to capture critical data more timely.

Critical Balance Sheet Line Items

Environmental Liabilities efforts will require significant coordination with NAVFAC and USMC property managers. In addition, DERP and Base Realignment and Closure (BRAC) are currently funded, executed, and reported by the DON. The USMC will work with the DON to identify the best approach to produce the USMC universe of

FIAR Plan Status Report

sites and facilitate proper financial reporting of DERP and BRAC liabilities.

The Other Accrued Liabilities Program (OEL) is currently funded by the USMC and reported on the USMC Balance Sheet. However, financial data, model assumptions, and internal controls will need to undergo rigorous testing prior to an audit in FY 2017.

In addition to DERP, BRAC, and OEL, the USMC currently does not report environmental liabilities for weapons systems and other general equipment. Once the existence and completeness phase is finished for each of the areas, the USMC will work with process owners to identify where and if environmental liabilities are present.

Noncritical Balance Sheet Line Items

Most liabilities of the USMC are included in the SBA and SBR audit. In order to transition from SBR to Balance Sheet, the USMC is working to improve all the payable accruals needed to timely record liabilities and working to identify and record all non-budgetary liabilities. This includes the Military Retirement Fund and all federal employment benefits. Other non-critical Balance Sheet line items include:

- Accounts Payable
- Military Retirement and Other Federal Employment Benefits
- Other Liabilities

The USMC conducted a rigorous quantitative and qualitative risk analysis and determined these areas are not a priority. However, as audit readiness progresses on the larger line items, these areas will receive additional attention.

Risks and Challenges

Risks and challenges related to environmental liabilities are discussed below, followed by a brief discussion on the noncritical liabilities.

DERP and BRAC Environmental Liabilities

Current USMC financial statements confirm that environmental liabilities related to DERP or BRAC are not reported by the USMC. Upon review of the applicable accounting standards, the USMC should be reporting environmental liabilities related to General PP&E for both DERP and BRAC. The USMC is working with the DON to develop reporting requirements to properly report DERP and BRAC liabilities.

Weapon System Environmental Liabilities

Based on a review of the USMC operating environment, additional work is required to determine whether the USMC should report an environmental liability for military equipment and general equipment. The USMC is initiating a discovery effort that will be partially dependent on obtaining a validated universe of assets from other ongoing efforts.

Non-USMC Systems

Based on preliminary discussions with the DON and NAVFAC, the FISCAM review of the iNFADs OEL module may not be included in the scope of the FISCAM review. While the general controls over the Internet Naval Facilities Assets Data store (iNFADs) system, including the OEL module, may be addressed, the USMC does not know if the FISCAM will cover the application controls required to help validate the data. Additionally, the NORM database and its estimation methodologies may require FISCAM and general audit readiness testing. NORM will be a key component of USMC audit readiness as it provides the estimates for both DERP and BRAC environmental liabilities.

While the following risks and challenges are a lower priority than Environmental Liabilities, they require mitigation and remediation.

FIAR Plan Status Report

Accounts Payable Accruals

Accruals are accounting estimates that require a high-degree of precision and support for audit. The USMC developed accrual methodologies in support of the SBA audit, but additional work is needed to improve the process and accuracy and precision of the estimated amounts. As part of this analysis, the USMC is identifying accrual methods of other federal agencies that have passed audit that can be used by the USMC.

Military Retirement Fund and Other Federal Benefits

Accurately recording and reporting Military Retirement Fund and other federal employee benefits requires extensive coordination with other federal agencies. The USMC is beginning coordination with these agencies to obtain the needed values and support.

Figure III-13 provides the USMC audit readiness plans for the General Fund Balance Sheet. It also shows when existence completeness was completed or planned to be completed.

Figure III-13. USMC Balance Sheet Audit Readiness Plans

Marine Corps	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																					
General Equipment								▲													<ul style="list-style-type: none"> ▲ Existence and Completeness Audit Ready Discovery Corrective Action/Assert Validation Financial Statement Audits
General Equipment (Military Equipment)								▲													
Real Property								▲													
Internal Use Software								▲													
Operating Materials and Supplies								▲													
Government Furnished Property								▲													
Accounts Receivable																					
Other Assets																					
Liabilities																					
Environmental and Disposal Liabilities																					
Accounts Payable																					
Military Retirement and Other Fed Employment Liabilities																					
Other Liabilities																					

General Equipment (General Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for physical inventory, data consistency, document retention, and valuation.
- Develop the valuation baseline (beginning balance) based on a valuation method determination from the OUSD(C) General Equipment working group.
- Update assertion work products based on existence and completeness testing conducted in FY 2015 to validate corrective action remediation.
- Identify whether DPAS will produce financial accounting transactions in the Warehouse Management System Module and whether GCSS-MC will interface with DPAS for financial reporting of Military Equipment.
- Submit work products to OUSD(C) for review to complete discovery activities.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (GCSS-MC, DPAS, SCS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

General Equipment (Military Equipment) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plans for physical inventory, data consistency, document retention, and valuation.
- Develop the valuation baseline (beginning balance) based on a valuation method determination from the OUSD(C) General Equipment working group.
- Update assertion work products based on existence and completeness testing conducted in FY 2015 to validate corrective actions remediation.
- Identify if DPAS will produce financial accounting transactions in the WMS Module and if GCSS-MC will interface with DPAS for financial reporting of Military Equipment.
- Submit work products to OUSD(C) for review to complete discovery activities.

Completion Dates (✓ = Completed)

Completion	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (GCSS-MC, DPAS, SCS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Real Property (General Fund)

Remaining Audit Readiness Actions and Challenges

- USMC strategy is an iterative approach at the installation-level for corrective actions.
- Corrective actions for real property/Class 1 centrally managed by Headquarters, USMC underway.
- Corrective action plans are being monitored, but may present a moderate risk if installations cannot fully resource the requirements for corrective actions. Risks will be further defined and quantified as corrective action plans are developed at the installation level.
- Reconciliation of the APSR to general ledger balances to be implemented quarterly.
- Conducting service-wide training of installation-level procedures and controls.
- Develop the valuation baseline (beginning balance) based on a valuation method determination from the OUSD(C) Real Property working group.

Completion Dates (✓ = Completed)

Completion	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	03/2016
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile APSR(s) to the General Ledger(s).	06/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (INFADS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Internal Use Software (General Fund)

Remaining Audit Readiness Actions and Challenges

- Developed high-level, Internal Use Software lifecycle management process flows.
- Developed an Internal Use Software FIAR assertion strategy and schedule.
- The FIAR schedule aligns with ongoing initiatives within the DON CIO to establish accountability processes and controls for systems and applications, and will be reviewed with stakeholders.
- Develop the valuation baseline (beginning balance) based on a valuation method determination from the OUSD(C) Internal use Software working group.
- Analyzed the first application data pulls from DADMS.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	09/2015
Corrective Actions	09/2015
Valuation	09/2015
Valuation Methodology Approval	06/2015
Baseline Valuation	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	09/2015
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile APSR(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (DPAS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Operating Materials and Supplies (General Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective action plan for document retention, valuation, and financial reporting.
- Develop the valuation baseline (beginning balance) based a valuation method determination from the OUSD(C) Inventory and OM&S working group.
- Continue development of a centralized financial reporting capability for consumable and reparable OM&S sub-assessable units for FY 2015.
- Complete assertion work products based on existence and completeness testing conducted in FY 2015 to validate corrective actions remediation.
- Submit work products to OUSD(C) for review to complete discovery activities.

Completion Dates (✓ = Completed)

Deal-Breakers	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Valuation	03/2016
Valuation Methodology Approval	06/2015
Baseline Valuation	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(GCSS-MC, DAAS, DoD EMALL, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Government Furnished Property (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete baseline for property and material in the possession of a third party.
- Implement business processes to ensure contract clauses are included in contracts that provide Government Furnished Property and Government Furnished Material.
- Ensure existing MOAs with service providers (DLA, DCMA) promote USMC audit readiness initiatives and identify the roles and responsibilities of the service providers during a financial audit.
- Establish the accounting treatment for Government Furnished Material (consumption vs purchase method).

Completion Dates (✓ = Completed)

Completion	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	09/2015
Corrective Actions	09/2015
Valuation	03/2016
Valuation Methodology Approval	✓
Baseline Valuation	09/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	03/2016
Reconcile APSR(s) to the General Ledger(s).	✓
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(GCSS-MC, DPAS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Accounts Receivable (General Fund)

Remaining Audit Readiness Actions and Challenges

- Determine whether accruals will be necessary to record Accounts Receivable balances timely and develop and implement accruals process, if needed.
- Assess the total value of non-federal receivables.
- Ensure there are standard policies and procedures for entering receivables and that they are being followed.
- Review related notes and disclosures and update if necessary.
- Apply SBA and SBR audit results to streamline corrective actions.

Completion Dates (✓ = Completed)

Discovery	Completion
Discovery	09/2015
Process Documentation	06/2015
Test Plans	06/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile APSR(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(SABRS, iPAC, DDMS, MCTFS, DCPS, MOCAS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Other Assets (General Fund)

Remaining Audit Readiness Actions and Challenges

- Assess current business processes to determine whether documentation currently being stored is uniform, complete and accurate.
- Create and implement a policy and procedure for addressing asset impairment.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	06/2015
Test Plans	06/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile APSR(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (GCSS-MC, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Coordinate with DON and NAVFAC to identify the applicable USMC DERP and BRAC sites.
- Determine if unaccrued and unreported environmental liabilities exist for both Military and General Equipment.
- Determine what environmental cleanup requirements are done “above and beyond” normal maintenance.
- Obtain financial reporting data from the DON to accurately report DERP and BRAC on the USMC Balance Sheet.
- Obtain evidence of system validation and review for the OEL iNFADS module and NORM.

Completion Dates (✓ = Completed)

Completion Dates	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	✓
Corrective Actions	09/2015
Processes, Controls, and Systems Corrected and Tested for New Liabilities	09/2015
Cost/Valuation Estimation	12/2015
Cost/Valuation Methodology Approval	09/2015
Baseline Cost/Valuation	12/2015
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	✓
Reconcile APSR(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (iNFADS, SABRS, GCSS-MC)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Accounts Payable (General Fund)

Remaining Audit Readiness Actions and Challenges

- Develop an intragovernmental accrual to accurately reflect delivered orders and Accounts Payable.
- Assess all business processes that impact Accounts Payable to identify process weaknesses.
- Apply SBA and SBR audit procedures and reports to identify and implement corrective actions.
- Determine if a systematic solution exists for weaknesses, particularly for the Wide Area Workflow to SABRS interface.
- Continue to refine and assess accrual methodologies.

Completion Dates (✓ = Completed)

Discovery	Completion
Discovery	09/2015
Process Documentation	09/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile APSR(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (SABRS, WAWF, MCPDT, MCTFS, DTS, DCPS, MOCAS, GCSS-MC)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Military Retirement and Other Federal Employment Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Assess the Military Retirement Fund accounting process to determine what additional recording or disclosure is required under the accounting standards.
- Reliance on third party service providers requires significant coordination, which is in the early stages, and additional discovery is necessary.
- MOAs may be required with organizations outside of the DoD to produce both the data and support for audit requests and extending the time necessary to bring the reported amounts into alignment with accounting standards.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	09/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile APSR(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems.(SABRS, MCTFS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Other Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Determine what documentation is available to value and support Other Liabilities in alignment with accounting standards.
- Reliance on third party service providers will require significant coordination, which is in the early stages, and additional discovery is necessary.
- MOAs may be required with organizations outside of the DoD to produce both the data and support for audit requests, extending the time necessary to bring the reported amounts into alignment with accounting standards.
- Perform discovery to determine whether other liabilities exist.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	09/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile APSR(s) to the General Ledger(s).	09/2015
Complete FISCAM IT general and application-level general control objectives discovery and corrective actions for material systems. (SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

STATEMENT OF NET COST (WAVE 4)

The Statement of Net Cost provides the USMC net cost of operations for the period. The net cost of operations is the gross cost incurred by the USMC less any exchange revenue earned. The primary audit readiness focus for the Statement of Net Cost is implementing and regularly performing tie point analysis. The Statement of Net Cost will be tied to the SBR in a budgetary to proprietary reconciliation that demonstrates the audited SBR is reflected on the Statement of Net Cost.

To prepare the Statement of Net Cost for audit, the USMC is going to begin with a budgetary to proprietary tie out that demonstrates that the audited SBR transactions are accurately presented on the Statement of Net Cost. Then, the USMC will identify, record, and support all incurred non-budgetary expenses including Military Retirement Fund and imputed financing benefits and costs.

USMC FIAR activity is addressing the following Statement of Net Cost line items.

- Revenue
- Gross Costs

A tri-chart is provided for each of the above lines identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Figure III-14 provides the USMC audit readiness plans for the Statement of Net Cost.

Figure III-14. USMC Statement of Net Cost Audit Readiness Plans

Marine Corps	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Revenue																					Discovery Corrective Action/Assert Vallidation Financial Statement Audits
Gross Costs																					

Revenue (General Fund)

Remaining Audit Readiness Actions and Challenges

- A complete review of the business processes and underlying systems that generate revenue transactions will be time consuming and resource intensive.
- The core mission of the USMC is not revenue generation, making discovery and corrective actions more difficult to get buy in from functional personnel and implement.
- Review revenue producing business processes to determine whether accruals are necessary.
- Create corrective actions for developing required accruals in place.

Completion Dates (✓ = Completed)

Discovery	Completion
Discovery	03/2016
Process Documentation	06/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (SABRS, iPAC)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	09/2015

Gross Costs (General Fund)

Remaining Audit Readiness Actions and Challenges

- Incurred but not reported represents an accounting estimate that increases risk to audit success.
- Assess all key business processes to determine whether incurred but not reported should be recorded.
- Cost tracking methodologies will need to be identified, documented, and reviewed across the USMC.
- Cost accounting requirements definition and implementation may require system changes and enhancements, increasing the time needed to complete FIAR activity.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	06/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (GCSS-MC, SABRS, iPAC, WAWF, SPS, MOCAS, DCAS, ADS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	09/2015

STATEMENT OF CHANGES IN NET POSITION (WAVE 4)

The Statement of Changes in Net Position provides the difference between the assets and liabilities reported on the USMC Balance Sheet. The Statement of Changes in Net Position presents a reconciliation of cumulative results of operations and unexpended appropriations from the beginning to the end of the reporting period.

The primary audit readiness activity for the Statement of Changes in Net Position will be performing a comprehensive tie point analysis between all of the financial statements. This will mimic the procedure auditors will use to gain confidence over the Statement of Changes in Net Position.

USMC FIAR activity is addressing the following Statement of Changes in Net Position line items.

- Appropriations Used
- Other Financing Sources

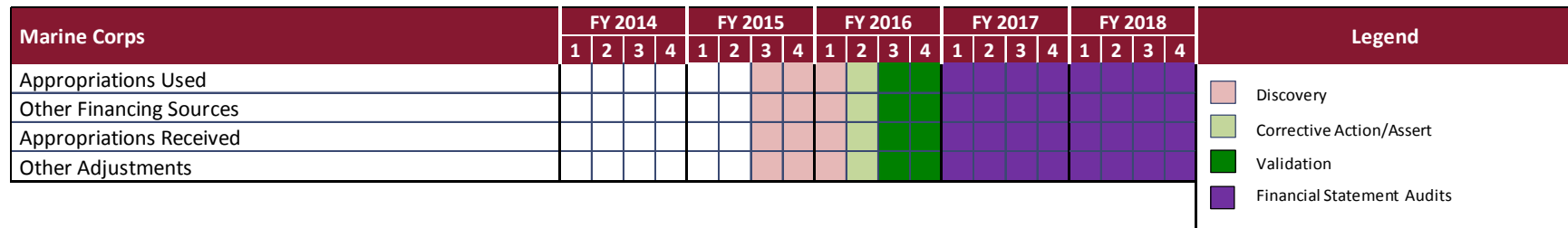
- Appropriations Received
- Other Adjustments

The Statement of Changes in Net Position are the “results” of budgetary and asset activity during the period. Therefore, efforts to bring these statements in line with the Balance Sheet and SBR will be integrated with the corrective actions. A separate approach is not necessary as the balances are derived and dependent on reliable and timely SBR and Balance Sheet data.

A tri-chart is provided for each of the above lines identifying the timeline for asserting readiness, remaining work and challenges, and the dates when deal-breakers will be completed.

Figure III-15 provides the USMC audit readiness plans for the Statement of Changes in Net Position. As shown, Discovery started in FY 2015.

Figure III-15. USMC Statement of Changes in Net Position Audit Readiness Plans (Wave 4)



Appropriations Used (General Fund)

Remaining Audit Readiness Actions and Challenges

- Statement level tie point reconciliation will be performed to validate the Statement of Changes in Net Position balances.
- The USMC will apply SBA and SBR data and remediation activities to work toward a more accurate reporting of appropriations used.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	06/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (PBIS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	09/2015

Other Financing Sources (General Fund)

Remaining Audit Readiness Actions and Challenges

- Statement level tie point reconciliation will be performed to validate the Statement of Changes in Net Position balances.
- Identification of USMC imputed financing sources must be performed.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	06/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	09/2015

Appropriations Received (General Fund)

Remaining Audit Readiness Actions and Challenges

- Statement level tie point reconciliation will be performed to validate the Statement of Changes in Net Position balances.
- An auditable SBA and SBR will be used to meet the reporting requirements for the Statement of Changes in Net Position.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	06/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (PBIS, SABRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	09/2015

Other Adjustments (General Fund)

Remaining Audit Readiness Actions and Challenges

- Statement level tie point reconciliation will be performed to validate the Statement of Changes in Net Position balances.
- Large adjustments will be identified, validated, and tested where required to improve the accuracy of financial reports.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	06/2015
Test Plans	09/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2016
Audit Readiness Assertion	03/2016
Audit Readiness Validation	09/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions.	09/2015
Reconcile feeder system(s) to the General Ledger(s).	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (SABRS, DDRS)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	09/2015

MARINE CORPS AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure III-16 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Figure III-16. Marine Corps Audit Readiness Resources (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	6	6	4	4	4	4
Total Resources	6	6	4	4	4	4

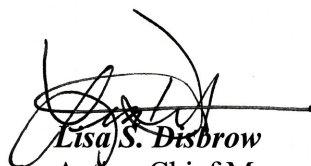
Message from the Department of the Air Force Chief Management Officer

The Department of the Air Force is actively supporting the independent public accounting firm performing the General Fund Schedule of Budgetary Activity (SBA) audit on our fiscal year 2015 appropriations. We also continue audit readiness activities for our remaining financial statements.

Preparatory work to achieve full financial statement audit readiness is an enterprise-wide effort. Airmen from our comptroller, acquisition, personnel, logistics, civil engineering and communications functional areas are aggressively identifying deficiencies and associated corrective actions to balance cost-effective investments in systems with process re-engineering and workforce development. Our most significant ongoing corrective action is the continued deployment of a new accounting system, the Defense Enterprise Accounting and Management System (DEAMS). Since our last status report, we completed DEAMS deployments to Air Education and Training Command and Air Combat Command. DEAMS users now represent every stateside major command with over half of our active duty bases and associated tenants operating in DEAMS.



The Financial Improvement and Audit Readiness (FIAR) Plan Status Report identifies the planned activities necessary to audit the remaining financial statements. Our plan is based on leveraging lessons learned from the SBA audit and focusing resources on the most material line items. We will continue to work with the Department of Defense Office of the Inspector General and the independent public accounting firm to achieve our 2017 audit readiness goals for all financial statements.



Lisa S. Disbrow
Acting Chief Management Officer
Department of the Air Force

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IV. Air Force Audit Readiness

The Air Force's financial management community is constantly rethinking and deploying complex strategies to improve financial operations and achieve audit readiness by September 30, 2017. With just over two years remaining to the audit readiness deadline, the Air Force must make prudent choices. Since the inception of the audit readiness effort, the Air Force has identified a number of best practices—these best practices are employed every day to demonstrate improvements in Air Force's mission, programs, and financial operations.

Air Force senior leadership continues to support audit readiness goals and are committed to meeting the September 30, 2017, audit readiness deadline. Senior leaders actively engage in FIAR updates and status and hold staff accountable, ensuring required actions are completed timely and accurately. Air Staff functional leads report progress biweekly to the Air Force Deputy Chief Management Officer. In addition, Major Command (MAJCOMs) best practices are shared across the Air Force, and the MAJCOMs have established FIAR governance processes to review progress. Extensive FIAR activities, along with the largest and first-ever audit by an IPA firm, are underway across the Air Force, including extensive testing of controls and documentation.

Progress Highlights Since the November 2014 FIAR Report

The Air Force is demonstrating tremendous progress and improvements in financial operations, and implementing corrective actions to achieve full financial statement audits. Corrective actions resulted in an improved control environment, better availability of supporting documentation, and an improved IT environment, allowing the Air Force to begin an audit of the SBA. Although still in the early stages, the IPA performing the audit is reviewing documentation and obtaining an understanding of Air Force processes, controls, and systems.



A U.S. Air Force F-22 Raptor aircraft flies alongside a KC-135 Stratotanker aircraft, not shown, over Savannah, Ga., Feb. 13, 2015, during a refueling mission as part of Sentry Savannah 15-1. (U.S. Air National Guard photo by Senior Airman Justin Hodge/Released)

During first quarter FY 2015, the DoD OIG started an examination of Air Force munitions to validate existence and completeness. The examination is expected to be completed June 2015. The Air Force is planning other examinations through FY 2017 to demonstrate audit readiness and confirm the Air Force is successfully progressing to full financial statement auditability. Given the limited resources and the time remaining to the audit readiness deadline, the Air Force will review numerous financial statement assessable units. The internal reviews will be based on methodologies used by IPAs to assess and demonstrate the validity of the corrective actions.

In addition, the Air Force applied lessons learned and best practices to develop a comprehensive audit readiness strategy for the remaining tasks. The strategy outlines improvement activities

completed to date and remaining requirements. For the remaining requirements, the Air Force developed a comprehensive listing of tasks and a timeline.

In January 2015, the Air Force established 22 additional assessable units for the remaining audit readiness items (8 for General Fund financial statements and 14 for Working Capital Fund financial statements). Discovery procedures are underway, and the Air Force is accelerating the implementation of corrective actions for weakness related to controls, supporting documentation, and systems. The strategy allows sufficient time to complete Discovery and implement corrective actions by September 30, 2017, both for the General Fund and Working Capital Fund.

The Air Force's Defense Enterprise Accounting Management System (DEAMS) establishes a foundation for sustainable audit readiness beyond FY 2017 and continues its deployment schedule. By the end of FY 2015, approximately 50 percent of Air Force budgetary resources will be recorded in DEAMS.

Challenges to Audit Readiness by September 30, 2017

Weaknesses in legacy processes and the systems environment continue to be a concern. The Air Force must deploy its limited resources to correct beginning balances, minimize financial statement adjustments, develop and retain supporting documentation, and continue to strengthen the control and system environment.

AUDIT READINESS PLANS

The Air Force audit readiness approach follows FIAR Guidance for incrementally achieving audit readiness by September 30, 2017. The following briefly describes the audit readiness status and plans depicted in Figure IV-1.

General Fund Financial Statements

SBR – Appropriations Received (Wave 1) Corrective actions completed in FY 2010 and audit readiness validated by an IPA examination in FY 2011.

SBR – Schedule of Budgetary Activity (Wave 2) FY 2015 budgetary information reported in the SBA is being audited by an IPA.

SBR – Beginning Balances and FBWT Reconciliation (Wave 2) The Air Force is developing auditable SBR beginning balances and is preparing these items for an SBR beginning balance examination by an IPA in FY 2017.

Existence and Completeness of Mission-Critical Assets (Wave 3) The Air Force anticipates the completion of corrective actions for mission-critical assets by June 2016. Existence and completeness audit readiness will be validated during the munitions examination in FY 2015.

Full Financial Statements (Wave 4) The Air Force anticipates the completion of corrective actions for all financial statements by the end of FY 2017. A full scope audit by an IPA will follow in FY 2018. Examination of the valuation of General Equipment – Military Equipment and Real Property at a MAJCOM in FY 2016 and FY 2017 will be conducted to validate the approach.

Working Capital Fund Financial Statements

Full Financial Statements (Wave 4) The Air Force Working Capital Fund strategy is to apply the General Fund assertion work performed on standard Air Force processes to the processes unique to the Working Capital Fund. Audit readiness testing for obligations incurred was performed concurrently with General Fund SBR testing. Mission-critical assets assertions include Working Capital Fund. An examination on Inventory, Contract Authority, and Revenue and Spending Authority (Flying Hours) is planned for FY 2016. An examination on Revenue (Depot Maintenance) is planned for FY 2017, and an examination on SBR beginning

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balances is planned for FY 2017 concurrent with the General Fund SBR beginning balances examination.

The remainder of the Air Force section of the report provides the Air Force's audit readiness plans for the General Fund Financial

Statements followed by the Working Capital Fund Financial Statements.

Figure IV-1. Air Force Audit Readiness Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
General Fund Financial Statements																					
SBR - Appropriations Received (Wave 1)																					Discovery
SBR - Statement of Budgetary Resources (Wave 2)																					Corrective Actions/Assert
SBR - Beginning Balances & FBWT (Wave 2)																					Validation
Existence and Completeness (Wave 3)																					Sustainment
Full Financial Statements (Wave 4)																					SBA Audits
Working Capital Fund Financial Statements																					
Full Financial Statements (Wave 4)																					Financial Statement Audits

General Fund Financial Statements

The Air Force asserted audit readiness for the Schedule of Budgetary Activity. The Air Force focused its resources on remediating critical deficiencies identified during discovery efforts and contracted with an IPA to conduct an audit of the FY 2015 SBA.

STATEMENT OF BUDGETARY RESOURCES (WAVES 1 & 2)

Figure IV-2 lists the assertions, examinations, and audits planned for Waves 1 and 2. The Air Force is on target to achieve the completion dates and has made progress in translating work completed for the SBA to the SBR and beginning balances.

Figure IV-2. FIAR Strategy for the General Fund SBR

	Completion	Status / Description
Appropriations Received (Wave 1)		
Appropriations Received	FY 2011	IPA examination validated audit readiness
Statement of Budgetary Resources (Wave 2)		
FBWT Reconciliation	FY 2011	IPA examination validated audit readiness
SBA Assertion	FY 2014	Asserted in 06/2014
SBA IPA Audits	FY 2015 – FY 2017	IPA audit started in 12/2014
SBR Beginning Balances	FY 2017	Corrective actions to be completed by 06/2016
SBR Beginning Balances Examination	FY 2017	IPA examination of SBR beginning balances
SBR Audit	FY 2018	

FY 2011 – Appropriations Received

Following the direction and priority established by the OUSD(C) in August 2009, the Air Force completed corrective actions of the processes, controls, and systems used for funds appropriated by Congress and received by the Air Force. In FY 2011, an IPA performed an examination and an unqualified opinion was issued.

FY 2014 – Schedule of Budgetary Activity Assertion

The Under Secretary of the Air Force/Chief Management Officer asserted audit readiness of the SBA in June 2014. Audit readiness work continued after June 2014 to ensure the SBA, reporting current year budgetary activities, was ready for audit. The scope of the assertion includes all Air Force processes, controls, and systems related to receipt and execution of FY 2015 General Fund appropriations presented in the SBA and related footnotes.

FY 2015 – Schedule of Budgetary Activity Audit

The Air Force has maintained auditability of FBWT since October 2011, when it received an unqualified opinion. Remediation efforts are now focused on key capabilities required audit, including completeness of population, journal voucher support, service provider integration, audit infrastructure, and root cause analysis during internal reviews.

The Air Force FY 2015 SBA audit kicked off in December 2014. Since then, the Air Force responded to over 300 documentation requests from the IPA in the audit planning phase and continues to facilitate conversations between the auditors and stakeholders. Initial planning meetings have been successful in providing the IPA an overview of the Air Force financial reporting environment and universe of transactions under audit.

Risks to a Successful SBA Audit

The Air Force identified potential challenges and risks to achieving a successful SBA audit. Reconciling transaction details to the source

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systems is a critical capability. The Air Force legacy system environment was not designed to provide an audit trail, and the Air Force is implementing numerous manual controls to reconcile transactions.

The Air Force dedicated personnel to support the SBA audit. However, due to the anticipated high volume of documentation requested by the auditors, there is a risk that the documentation may not be provided timely due to resource constraints.

The Air Force is focusing efforts on remediating the most critical deficiencies and mitigating risks. The Air Force developed long-term strategies and corrective actions for strengthening the IT control environment and eliminating the need for less sustainable, compensating manual controls. The Air Force also established an audit infrastructure to facilitate the SBA audit, as well as for supporting future full financial statement audits.

SBR Beginning Balances, FBWT Reconciliation, and Journal Vouchers

The Air Force identified the SBR balances in scope for a SBR beginning balance examination in FY 2017. The Air Force is establishing processes to age SBR beginning balances, assessing the availability of supporting documentation, and developing corrective actions. Remediation efforts will be targeted based on balances and transactions critical to the full financial statement audit opinion in FY 2018. The Air Force is applying lessons from the SBA effort to anticipate the types of documentation required to support SBR beginning balances. The Air Force is also assessing supporting

documents to ensure validity and availability for SBR beginning balances.

The Air Force will continue its long-term strategy to improve processes related to journal vouchers and financial reconciliations throughout the FY 2015 SBA audit cycle. During the SBA audit, the Air Force will immediately begin aggressive corrective actions on issues identified by the IPA. The Air Force expects additional issues to be identified from the SBA audit. The early identification of these issues will provide the time to correct the NFRs.

The Air Force underwent an examination of its FBWT reconciliation processes and obtained an unqualified opinion. The Air Force continues to sustain audit ready environment related to FBWT reconciliations.

The SBA audit conducted in FY 2015 is laying the foundation for identifying the corrections to current business processes. In addition, the FY 2017 SBR beginning balance examination will identify deficiencies in evidential support for beginning balances. The feedback from the IPA is essential to developing necessary and timely corrective actions to the current environment to facilitate future audits.

Figure IV-3 details the Air Force General Fund SBR audit readiness plans. As shown in Figure IV-3, the SBR will be audited as part of the full financial statements audit in FY 2018. Following Figure IV-3 is a tri-chart describing Air Force FIAR activity to develop SBR beginning balances.

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Figure IV-3. Air Force Statement of Budgetary Resources Audit Readiness Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Appropriations Received	Discovery	Discovery	Discovery	Discovery	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	
Schedule of Budgetary Activity	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBA IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	
Beginning Balances							Discovery	Discovery	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	Corrective Actions/Assert	Valiation	Valiation	Sustainment	Sustainment	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	SBR IPA Audit	

Beginning Balances (General Fund)

Remaining Audit Readiness Actions and Challenges

- Finalize a schedule of SBR beginning balances, based on the age of the underlying transactions, including developing the universe of transactions.
- Develop additional documentation and correct existing documentation to ensure recorded transactions are supported.
- Complete contract closeout actions to reduce stale and invalid balances.

Completion Dates (✓ = Completed)

	Completion
Discovery	07/2015
Process Documentation	07/2015
Test Plans	07/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions	06/2016
Audit Readiness Assertion	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R, DEAMS)	05/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	05/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2017

BALANCE SHEET (WAVES 3 & 4)

The Air Force developed a comprehensive plan for addressing remaining financial reporting objectives for Wave 3 and Wave 4 auditability goals, which includes the Balance Sheet. The goals include an strategy for addressing valuation of PP&E and OM&S, as well as addressing gaps between Waves 2 and 3 to achieve Wave 4 goals. The Air Force is building on the progress to prepare for the full financial statement audit. The Air Force is focusing on material or critical financial statement line items.

Many remediation efforts to establish a sustainable control environment and retain supporting documentation contribute to achieving auditability for the full financial statements. Accomplishments to date include:

- Completing valuation of aircraft, intercontinental ballistic missiles, and satellites
- Establishing corrective actions to address asset valuation where feasible, while working toward achieving existence and completeness
- Developing reconciliations between proprietary and budgetary accounts in the target accounting system to ensure all corrective actions on the budgetary statements are reflected in the account balances presented on the remaining financial statements
- Asserting audit readiness on BRAC-related Environmental Liabilities

Balance Sheet Assets

The Air Force strategy for the Balance Sheet addresses the existence, completeness, and valuation of critical asset lines, as well as remaining noncritical asset lines. Due to the interdependencies across the financial statements, existing documentation will be used to gain efficiencies when executing Wave 4 tasks.

Except for the critical PP&E and OM&S line items, the Air Force will:

- Obtain data and analyze beginning balances for each line item or component by aging the amounts by appropriation year
- Determine the baseline year required for historical transaction support based on materiality

Critical Asset Line Items

Assessable units examined and validated as existence and completeness audit ready by the DoD OIG include:

- Military Equipment – Unqualified Opinion in June 2012
- OM&S (Cruise Missiles) – Unqualified Opinion in June 2012
- OM&S (Aerial Targets/Drones) – Unqualified Opinion in June 2012
- OM&S (Uninstalled Missile Motors) – Unqualified Opinion in January 2013
- OM&S (Spare Engines) – Qualified Opinion in January 2013

The Air Force asserted audit readiness on capitalized medical equipment in March 2014. Because this assessable unit is immaterial to the Balance Sheet, the DoD OIG did not perform an evaluation, and the assessable unit is now in sustainment.

The DoD OIG is currently conducting an examination of the assertion to the existence, completeness, rights, and obligations to munitions assets owned and physically held by the Air Force (approximately \$15 billion or 60 percent of the total stockpile).

The Air Force is focusing on testing supporting documentation for the remaining existence and completeness assessable units and overcoming challenges and risks associated with:

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- Obtaining adequate supporting documentation (e.g., contract data, budget data, DD Form 250s) to support existence and completeness, and valuation
- Coordinating with service providers to understand and document their processes, risks, and internal controls
- Developing a Memorandum of Agreement with each service provider to document roles and responsibilities
- Reconciling the APSR to the General Accounting and Finance System–Rehost (GAFS-R) to ensure the general ledger captures all financial transactions

Corrective actions are underway for the following assessable units:

- Real Property
- General Equipment – IT
- Government Furnished Equipment
- OM&S – Contractor Managed/Possessed

Existence and completeness is being coordinated with Air Force valuation efforts. The Air Force developed three white papers outlining the approach for valuation of General Equipment, Real Property, OM&S, and Inventory. The Air Force designated Military Equipment, a component of General Equipment, as the priority for initial valuation efforts. The Air Force previously performed a baseline valuation of Military Equipment, as of September 2009. Military Equipment is approximately 85 percent of the General Equipment balance. Currently, there are 859 Military Equipment items that have been acquired since October 2009 valued at approximately \$35 billion, including aircraft, MRAPs, RMAs, and satellites. The Air Force is applying previous valuation work and engaging appropriate weapons system program managers to obtain contract information, cost accumulation data, billing information, and other data to validate acquisition costs. The Air Force is developing valuation supporting documentation, recommending

necessary adjustments to asset values, and developing valuation packages to support and sustain beginning balances for the full scope financial statement audit. The valuation teams are in the discovery process, and risks and challenges are being identified during pilot testing and through the collection of supporting documentation.

The Air Force is performing comprehensive physical inventory procedures (e.g., floor to book) to reconcile the balances and data in the APSR for the following critical Balance Sheet line items:

- General Equipment
- Real Property
- Internal Use Software
- OM&S – Munitions
- OM&S – Uninstalled Aircraft Engines
- OM&S – Remainder
- Government Furnished Property

Noncritical Asset Line Items

In addition to the critical asset line items, the Air Force is addressing each of its material, noncritical other asset line items:

- Accounts Receivable
- Other Assets

For Wave 4 execution purposes, the Air Force includes the above line items within two assessable units:

- Accounts Payable and Accounts Receivable
- Other Assets

Air Force FIAR efforts for noncritical assets include Discovery procedures for areas not addressed during Wave 2. The Air Force will apply existing assessable unit testing and expand documentation

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testing for additional attributes, such as the impact on proprietary accounts for gaps identified between Waves 2 and 4.

Risks and Challenges

The Air Force identified several challenges to achieving audit readiness for Balance Sheet assets, including:

- Completeness of Population – Ability to produce a population of transactions that reconciles back to source systems
- Journal Voucher Support – Ability to provide valid, sufficient documentation
- Accruals – End of period estimation for unbilled receivables and earned revenue
- Adequate supporting documentation to support existence and completeness and valuation
- Integration with service providers to document their processes, risks, and internal controls.

The Air Force is developing remediation plans to address these deficiencies by the June 2017 assertion date.

Balance Sheet Liabilities

The Air Force strategy for Balance Sheet liabilities addresses Environmental and Disposal Liabilities, as well as the remaining noncritical liabilities. Due to the interdependencies across the financial statements, existing documentation is being used to execute Wave 4 FIAR requirements.

Critical Liabilities Line Item

The Air Force identified Environmental and Disposal Liabilities as a critical Balance sheet line item. It comprises four reportable areas:

- Accrued Environmental Restoration Liabilities
- BRAC Installations

- Other Accrued Environmental – Non BRAC
- Environmental Disposal for Military Equipment (Weapons Systems)

Discovery procedures are in progress and corrective actions are underway for numerous reportable areas.

Noncritical Liabilities Line Items

The Air Force identified the following noncritical line items:

- Accounts Payable
- Military Retirement and Other Federal Employment Benefits
- Other Liabilities

For Wave 4 purposes, the Air Force includes the above line items within the following three assessable units:

- Accounts Payable and Accounts Receivable
- Other Liabilities
- Contingent Liabilities

Risks and Challenges

The Air Force identified several challenges to achieving audit readiness for its Balance Sheet liabilities, including:

- Completeness of Population – Ability to produce a population of transactions that reconciles back to source systems
- Journal Voucher Support – Ability to support non-SBA related JVs with sufficient documentation
- Accruals – End of period estimation of goods and services received but invoice not yet received
- Completeness of Environmental Liabilities – Reconcile Environmental Liabilities listing to its population of relevant assets

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The Air Force is developing remediation plans to address these deficiencies.

completeness audit readiness was completed or is planned to be completed.

Figure IV-4 provides the Air Force audit readiness plans for the General Fund Balance Sheet. It also shows when existence and

Figure IV-4. Air Force General Fund Balance Sheet Audit Readiness Plans (Waves 3 & 4)

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																					
General Equipment								▲													<ul style="list-style-type: none"> ▲ Existence and Completeness Audit Ready Discovery Corrective Action/Assert Internal Reviews Sustainment Financial Statement Audits
General Equipment (Information Technology)											▲										
General Equipment (Capitalized Medical Equipment)																					
Real Property								▲													
Internal Use Software											▲										
OM&S (Depot)											▲										
OM&S (Base Possessed)											▲										
OM&S (Munitions)																					
OM&S (Spares, Contractor Managed and Possessed)											▲										
Government Furnished Equipment											▲										
Accounts Receivable																					
Other Assets																					
Liabilities																					
Environmental and Disposal Liabilities																					
Accounts Payable																					
Other Liabilities																					
Contingent Liabilities																					

General Equipment (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete discovery for existence and completeness.
- Develop and monitor corrective actions for internal control gaps to ensure financial reporting objectives are met.
- Develop reconciliations with DFAS to confirm transactions and property recorded in the APSR are posted accurately and timely to the general ledger.
- Document the processes surrounding the Air Force Equipment Management System (AFEMS) and strategize how to achieve legacy system audit readiness.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.
- Military Equipment is 85 percent of General Equipment. Planning to assert valuation in 09/2015 and conduct an examination during FY 2016.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	08/2015
Discovery	06/2015
Corrective Actions	08/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S, AFEMS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

General Equipment (Information Technology) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Develop processes and controls for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct physical inventory to validate existence and completeness.
- Document the processes surrounding AFEMS and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions, and ensure property recorded in AFEMS is posted to the GAFS-R.
- Develop and monitor corrective actions for internal control and completeness gaps to ensure reporting objectives are met.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2017

General Equipment (Capitalized Medical Equipment) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Capitalized Medical Equipment was asserted in 03/2014 and approved by OUSD(C).
- Perform annual sustainment assessments.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DMLSS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2017

Real Property (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete discovery for existence and completeness.
- Develop and monitor corrective actions for internal control gaps to ensure objectives are met.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the Automated Civil Engineers System – Real Property (ACES-RP) are posted accurately and timely to GAFS-R.
- Coordinate with service providers to determine the roles and responsibilities for end-to-end processes and develop MOUs to support assertion dates.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.
- MAJCOM (or representative Air Force sample) existence and completeness and valuation assertion planned for 09/2016 and examined during FY 2017.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	07/2015
Corrective Actions	09/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ABSS, ACES, IWIMS, CEFMS, CRIS, FIS, iNFADS, WAWF)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2017

Internal Use Software (General Fund)

Remaining Audit Readiness Actions and Challenges

- Develop processes and controls for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct inventory to validate existence and completeness.
- Document the processes surrounding the AFEMS-AIM and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in AFEMS-AIM are properly posted to GAFS-R.
- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS-AIM)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Operating Materials and Supplies (Depot) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Finalize the Quantitative Drill Down (QDD) and build a repeatable QDD process.
- Develop a universe of transactions and reconcile to the APSR and general ledger.
- Complete valuation documentation and testing.
- Assertion date moved from 12/2015 to 03/2017 to accommodate addition of valuation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	07/2015
Corrective Actions	12/2015
Valuation	03/2017
Valuation Methodology Approval	06/2015
Baseline Valuation	12/2015
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (SCS, DSS, ILS-S)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2017

Operating Materials and Supplies (Base Possessed) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Complete discovery for existence and completeness.
- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Document the processes surrounding the ILS-S and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in ILS-S are properly posted to GAFS-R.
- Implement corrective actions to ensure that Individual Protective Equipment is properly recorded in ILS-S and reported on the Balance Sheet.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	11/2015
Discovery	09/2015
Corrective Actions	11/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Operating Materials and Supplies (Munitions) (General Fund)

Remaining Audit Readiness Actions and Challenges

- Existence and completeness examination underway. Audit opinion due 07/2015.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.
- Develop corrective actions for modernization of the Combat Ammunition System.
- Complete examination of existence and completeness of OM&S Munitions.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	✓
Discovery	✓
Corrective Actions	✓
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (CAS, WAWF)	02/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Operating Materials and Supplies (Spares, Contractor Managed and Contractor Possessed)

Remaining Audit Readiness Actions and Challenges

- Develop an interim solution for accountability and financial reporting.
- Conduct a physical inventory to validate existence and completeness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in contractor APSRs are posted accurately and timely to the general ledger.
- Continue using the Service Development and Delivery process to identify a government APSR.
- Develop and monitor corrective action plans for internal control gaps to ensure objectives are met to include the implementation of an APSR.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems.	09/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Government Furnished Equipment (General Fund)

Remaining Audit Readiness Actions and Challenges

- Determine the universe of contracts and population of assets to record in the APSR.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the APSR are posted accurately and timely to the general ledger.
- Develop and monitor corrective action plans for internal control gaps to ensure objectives are met to establish Government Furnished Equipment baseline.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS, SCS (FIABS), ILS-S)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Accounts Receivable (General Fund)

Remaining Audit Readiness Actions and Challenges

- Identify and document the financial events impacting Accounts receivable proprietary accounts on the Balance Sheet (Accounts Receivable and Allowance for Doubtful Accts).
- Analyze Unfilled Customer Orders beginning balances to further understand the composition and aging (by appropriation and year), and determine the baseline year for transaction.
- Analyze Unpaid Obligations, brought Forward balances by appropriation and year for transaction support and necessary coverage from a materiality standpoint.
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Confirm whether budgetary and proprietary account postings occur simultaneously for transactions.

Completion Dates (✓ = Completed)

	Completion
Discovery	07/2015
Process Documentation	07/2015
Test Plans	07/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions	09/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

Note: Air Force will move from audit readiness assertion into audit. No validation examination will be conducted

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Other Assets (General Fund)

Remaining Audit Readiness Actions and Challenges

- Analyze and age beginning balances for each component of Other Assets disclosed in Note 6 (e.g., Advances and Prepayments, Outstanding Contract Financing Payments).
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Perform walkthroughs and procedures to document processes and controls, and determine the extent to which existing documentation covers financial reporting objectives for Other Assets.
- Identify internal control activities necessary to achieve the financial reporting objectives and test for design and operating effectiveness.
- Select a sample of transactions from each sub-assessable unit and test for completeness and accuracy for supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2015
Process Documentation	08/2015
Test Plans	08/2015
Controls and Supporting Documentation Testing	08/2015
Corrective Actions	03/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems (GAFS-R)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Environmental and Disposal Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Determine how to meet the DoD FMR Volume 4, Chapter 13, reconciliation requirement to align real property records with environmental liabilities cleanup, closure, and disposal projects.
- Continue to develop processes, controls, cost models, and valuation methodologies for other environmental liabilities and environmental disposals of military equipment and weapon systems.
- Identify asbestos sites and assess impact.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	03/2017
Discovery	09/2015
Corrective Actions	03/2017
Processes, Controls and Systems Corrected and Tested for New Liabilities	03/2017
Cost/Valuation Estimation	03/2017
Cost/Valuation Methodology Approval	06/2016
Baseline Cost/Valuation	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (RACER, GAFS-R)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Accounts Payable (General Fund)

Remaining Audit Readiness Actions and Challenges

- Identify and document the financial events impacting Accounts Payable and expense processes and transactions.
- Analyze Unfilled Customer Orders beginning balances to understand the composition and aging (by appropriation and year), and determine the baseline year for transaction support for sufficient coverage from a materiality standpoint.
- Analyze Unpaid Obligations, brought forward balances by appropriation and year.
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Confirm whether budgetary and proprietary account postings occur simultaneously for transactions.

Completion Dates (✓ = Completed)

	Completion
Discovery	07/2015
Process Documentation	07/2015
Test Plans	07/2015
Controls and Supporting Documentation Testing	08/2015
Corrective Actions	06/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Other Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Analyze and age beginning balances for each component of Other Liabilities disclosed in Notes 15 and 16.
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Document processes and controls, and determine the extent to which existing documentation covers financial reporting objectives for Other Liabilities.
- Identify internal control activities necessary to achieve financial reporting objectives and test for design and operating effectiveness.
- Select a sample of transactions from each sub-assessable unit and test for completeness and accuracy relative to supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Discovery	07/2015
Process Documentation	07/2015
Test Plans	07/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions	06/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems.	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Contingent Liabilities (General Fund)

Remaining Audit Readiness Actions and Challenges

- Implement corrective actions allowing for identification of each instance of Contingent Liabilities and ensure completeness of reported balances.
- Implement corrective actions allowing for valuation of Contingent Liabilities consistent with generally accepted accounting principles.
- Developing a tracking tool that serves as a repository of all litigation claims.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions	10/2015
Audit Readiness Assertion	02/2016
Audit Readiness Validation	09/2016

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	10/2015
Reconcile feeder system(s) to the General Ledger(s).	10/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	10/2015
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	10/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	09/2016

STATEMENTS OF NET COST AND CHANGES IN NET POSITION (WAVE 4)

While Wave 4 FIAR requirements address the Statement of Net Cost and Statement of Changes in Net Position, previous Waves 2 and 3 FIAR activities partially addressed risks due to the budgetary and proprietary general ledger account impact for some transactions. Critical line items and risks related to the Statement of Net Cost and Statement of Changes in Net Position will be addressed by Wave 4 FIAR efforts, including:

- Financial Reporting – Compilation process, non-SBA journal vouchers, and A-136 compliance for all financial statements
- Wave 4 Assessable Units – Transactions that impact both the Statement of Net Cost and Statement of Changes in Net Position
- Imputed Costs – Calculations for Imputed Financing Sources (Statement of Changes in Net Position) and Imputed Costs (Statement of Net Cost)
- Cost Accounting – Cost allocation between programs on the Statement of Net Cost

The Air Force General Fund Statement of Net Cost shows its net cost of operations, as a whole, by the major programs related to the major

goals and outputs described in the Air Force strategic plan and performance plan. Some risks related to the Statement of Net Cost are partially addressed through Wave 2 efforts due to the relationship between budgetary and proprietary general ledger accounts for certain transactions. Current Waves 2 and 3 efforts do not directly address Statement of Net Cost transactions and balances. Specifically, the Statement of Changes in Net Position will be covered during assessable unit testing of:

- Imputed Costs
- Financial Reporting

The Statement of Changes in Net Position provides the difference between the assets and liabilities reported on the Air Force Balance Sheet. The Statement of Changes in Net Position presents a reconciliation of cumulative results of operations and unexpended appropriations from the beginning to the end of the reporting period. The Air Force will address the Statement of Changes in Net Position, including material line items, through testing at the assessable unit level, as well as evaluating financial reporting processes during Wave 4.

Figure IV-5 provides the Air Force audit readiness plans for the General Fund Statement of Net Cost.

Figure IV-5. Air Force General Fund Statement of Net Cost Audit Readiness Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Imputed Costs																					Discovery Corrective Action/Assert Internal Reviews Sustainment Financial Statement Audits
Financial Reporting																					

Imputed Costs (General Fund)

Remaining Audit Readiness Actions and Challenges

- Develop a process to identify services received and provided by the Air Force.
- Develop and implement a methodology to value the cost associated with imputed services received and provided.

Completion Dates (✓ = Completed)

	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Controls and Supporting Documentation Testing	✓
Corrective Actions	12/2015
Audit Readiness Assertion	05/2016
Audit Readiness Validation	09/2016

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

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	12/2015
Reconcile feeder system(s) to the General Ledger(s)	12/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	12/2015
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	12/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	09/2016

Financial Reporting (General Fund)

Remaining Audit Readiness Actions and Challenges

- Assess journal vouchers not related to the SBA and eliminate invalid journal vouchers.
- Develop a universe of transactions for all financial statement line items and ensure documentation is readily available to facilitate the financial statement audit.
- Implement corrective actions to improve the overall internal control environment that results in enhanced entity-level controls as well as refined period-end financial reporting.

Completion Dates (✓ = Completed)

	Completion
Discovery	10/2015
Process Documentation	10/2015
Test Plans	10/2015
Controls and Supporting Documentation Testing	10/2015
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R, DEAMS, BEIS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Working Capital Fund Financial Statements (Wave 4)

The Air Force strategy is to apply work performed on standard General Fund processes reviewed and corrected in Wave 2 and focus the Wave 4 Working Capital Fund FIAR activity on unique Working Capital Fund processes.

STATEMENT OF BUDGETARY RESOURCES

Assertion activities covering standard processes for civilian pay, travel pay, vendor pay, and contract pay apply to both the General Fund and the Working Capital Fund. Testing for Working Capital Fund controls was performed in conjunction with General Fund testing.

Testing was completed for Working Capital Fund Contract Authority and a portion of Spending Authority from Offsetting Collections. Remaining work includes documenting and testing the link between standard processes and the Working Capital Fund general ledgers, finalizing testing for Spending Authority, and documenting and testing SBR beginning balances.

In FY 2016, the Air Force plans to conduct an examination of Working Capital Fund Contract Authority and Revenue/Spending Authority (Flying Hours).

The FY 2015 SBA audit is laying the foundation for identifying the corrections to current business processes. In addition, the FY 2017 beginning balance examination will identify deficiencies in evidential support. The IPA feedback examination is essential to developing necessary and timely corrective actions to the current environment for the FY 2017 SBR audit.

The Air Force expects the FY 2015 SBA audit will identify major process NFRs, and that will provide the Air Force with more accurate timelines for completing corrective actions.

Working Capital Fund assessable units include:

- Contract Authority
- Spending Authority (Depot Maintenance)
- Spending Authority (Stock Control System)
- Spending Authority (Integrated Logistics Systems – Supply)
- Statement of Budgetary Resources – Beginning Balances

Figure IV-6 provides the SBR audit readiness plans for the Working Capital Fund SBR.

Figure IV-6. Air Force Working Capital Fund Statement of Budgetary Resources Audit Readiness Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Contract Authority																					Discovery Corrective Actions/Assert Sustainment Validation Internal Reviews SBR IPA Audit
Spending Authority (Depot Maintenance)																					
Spending Authority (Stock Control System)																					
Spending Authority (ILS-S)																					
Beginning Balances																					

Contract Authority (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Finalize process documentation changes.
- Develop test plans for one remaining subprocess and test.
- Develop a universe of transactions and reconcile to the general ledger.
- Examination of Contract Authority and Revenue and Spending Authority (Flying Hours) for the period ending 12/2015.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2015
Process Documentation	04/2015
Test Plans	05/2015
Controls and Supporting Documentation Testing	06/2015
Corrective Actions	09/2015
Audit Readiness Assertion	12/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	12/2015
Reconcile feeder system(s) to the General Ledger(s).	12/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	12/2015
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	12/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2016

Spending Authority (Depot Maintenance) (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Finalize the QDD and build a repeatable QDD process.
- Update process flows for Spending Authority.
- Finalize process documentation.
- Develop test plans and assess internal controls.
- Develop a universe of transactions and reconcile to the general ledger.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	12/2015
Test Plans	06/2016
Controls and Supporting Documentation Testing	06/2016
Corrective Actions	09/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (APO, DIFMS, DFAS-IE, GAFS-BL)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Spending Authority (Stock Control System) (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Conduct initial discovery, including process documentation and QDD.
- Finalize process documentation.
- Develop test plans and assess internal controls.
- Develop a universe of transactions and reconcile to the general ledger.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	04/2016
Test Plans	10/2016
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-BL, SMAS, SCS/FIABS, DTIM, DAAS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Spending Authority (Integrated Logistics Systems – Supply) (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Conduct initial discovery, including process documentation and QDD.
- Finalize process documentation.
- Develop test plans and assess internal controls.
- Develop a universe of transactions and reconcile to the general ledger.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	12/2015
Test Plans	09/2016
Controls and Supporting Documentation Testing	12/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	05/2016
Reconcile feeder system(s) to the General Ledger(s).	05/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-BL, SMAS, ILS-S, DTIM)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Statement of Budgetary Resources – Beginning Balances (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Identify Working Capital Fund corpus and develop an aging and cutoff methodology that addresses complexities associated with aging of no-year transactions without a fiscal year identifier.
- Build the QDD and repeatable QDD process.
- Conduct initial discovery, including process documentation.
- Develop a universe of transactions and reconcile to the general ledger.
- Create test plans and test controls and balances.
- Evaluate test results and build corrective action plans.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	09/2015
Test Plans	12/2015
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	06/2016
Audit Readiness Assertion	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DDRS-AFS, GAFS-R, GAFS-BL, DIFMS, SMAS)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2017

BALANCE SHEET

The two highest value balances reported on the Working Capital Fund Balance Sheet are Inventory and Cumulative Results of Operations. Inventory represents over 86 percent of total assets and Cumulative Results of Operations represents over 96 percent of total liabilities and total net position. The remaining balances are derived from standard Air Force processes referenced in the General Fund section of the report.

Balance Sheet Assets

Three of the five Working Capital Fund business areas hold over 99.9 percent of Inventory assets. The majority is held within the Consolidated Sustainment Activity Group-Supply Division with lesser amounts held at the base-level within either the Supply Management Activity Group-General Support Division or Medical Dental Division.

Critical Asset Line Items

The Air Force received documentation from DLA supporting the Inventory and OM&S (Depot) assertions. Additionally, initial control and balance testing at the Air Logistics complexes was completed. Testing at the base-level and Medical Dental retail locations has also been completed.

The Air Force is working the following critical Balance Sheet asset line items:

- Inventory (Depot)
- Inventory (Base Possessed)
- Inventory (Medical and Dental)

Noncritical Asset Line Items

The Air Force is working the following noncritical Balance Sheet asset line items:

- General Equipment
- General Equipment – IT
- Real Property
- Internal Use Software
- Government Furnished Property
- Accounts Receivable
- Other Assets

A tri-chart is provided for each of the above Balance Sheet line items identifying the timeline for asserting readiness, remaining work and challenges, and dates when deal-breakers will be completed.

Risks and Challenges

In addition to the risks and challenges identified for the standard Air Force processes over General Fund and Working Capital Fund, the Air Force is researching potential gaps between the DLA Distribution Standard System (DSS) and the Air Force Stock Control System impacting Inventory and OM&S (Depot) balances.

The Air Force continues to mitigate an Inventory In-Transit accountability material weakness resulting from legacy material management system deficiencies. System changes have been processed to lessen the impact, but the Air Force may not be able to completely resolve the issue until a modernized material management system is in place.

Balance Sheet Liabilities

Working Capital Fund Liabilities represent 4 percent of total liabilities and total net position. Balances are derived from standard

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Air Force processes referenced in the General Fund section of this report.

Noncritical Liabilities Line Items

The Air Force identified two noncritical line items:

- Accounts Payable
- Other Liabilities

Risks and Challenges

The Air Force identified a risk with the Standard Line of Accounting, Buyer Side Code, which impacts Working Capital Fund intragovernmental eliminations. The Air Force is implementing corrective actions.

Figure IV-7 provides a summary view of the Air Force audit readiness plans for the Working Capital Fund Balance Sheet. Tri-charts follow the figure for Balance Sheet assessable units.

Figure IV-7. Air Force Working Capital Fund Balance Sheet Audit Readiness Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Assets																					
General Equipment								▲													▲ Existence and Completeness Audit Ready ■ Discovery ■ Corrective Action/Assert ■ Internal Reviews ■ Sustainment ■ Financial Statement Audits
General Equipment (Information Technology)											▲										
Real Property								▲													
Internal Use Software											▲										
Government Furnished Equipment											▲										
Inventory (Base Possessed)									▲												
Inventory (Depot)									▲												
Inventory (Medical and Dental)									▲												
Accounts Receivable																					
Other Assets																					

General Equipment (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Complete discovery for existence and completeness.
- Develop and monitor corrective actions for internal control gaps to ensure financial reporting objectives are met.
- Develop reconciliation with DFAS to confirm transactions and property are recorded in the APSR are posted accurately and timely to the general ledger.
- Document the processes surrounding the AFEMS and strategize how to achieve legacy system audit readiness.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	08/2015
Discovery	06/2015
Corrective Actions	08/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S, AFEMS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

General Equipment (Information Technology) (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Develop processes and controls for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct a physical inventory to validate existence and completeness.
- Document the processes surrounding AFEMS and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in AFEMS are properly posted to GAFS-R.
- Develop and monitor corrective actions for internal control and completeness gaps to ensure reporting objectives are met.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2017

Real Property (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Complete discovery for existence and completeness.
- Develop and monitor corrective actions related to internal control gaps to ensure objectives are met.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the ACES-RP are posted accurately and timely to GAFS-R.
- Coordinate with service providers to determine the roles and responsibilities for end-to-end processes and develop MOUs to support assertion dates.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.
- MAJCOM (or representative Air Force sample) existence and completeness and valuation assertion planned for 09/2016 and examination during FY 2017.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	09/2015
Discovery	07/2015
Corrective Actions	09/2015
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ABSS, ACES, IWIMS, CEFMS, CRIS, FIS, iNFADS, WAWF)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls, and systems.	06/2017

Internal Use Software (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Develop processes and controls for accountability and financial reporting.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Test internal controls and conduct a physical inventory to validate existence and completeness.
- Document the processes surrounding the AFEMS and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in AFEMS are properly posted to GAFS-R.
- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Government Furnished Equipment (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Determine the universe of contracts and population of assets to record in the APSR.
- Perform an end-to-end process walkthrough to validate controls and supporting documentation.
- Develop reconciliation with DFAS to confirm transactions and property recorded in the APSR are posted accurately and timely to the general ledger.
- Develop and monitor corrective action plans for internal control gaps to ensure objectives are met to establish Government Furnished Equipment baseline.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	06/2016
Discovery	04/2016
Corrective Actions	06/2016
Valuation	03/2017
Valuation Methodology Approval	✓
Baseline Valuation	03/2017
Processes, Controls and Systems Corrected and Tested for New Acquisition	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (AFEMS, DSS, SCS (FIABS), ILS-S)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Accounts Receivable (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Identify and document the financial events impacting the Accounts Receivable proprietary accounts (Accounts Receivable and Allowance for Doubtful Accounts).
- Analyze Unfilled Customer Orders beginning balances to understand composition and the aging (by appropriation and year) and determine the baseline year for transaction from a materiality standpoint.
- Analyze Unpaid Obligations, brought forward, to identify an aging methodology for no-year appropriation.
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Confirm whether budgetary and proprietary account postings occur simultaneously for transactions.

Completion Dates (✓ = Completed)

	Completion
Discovery	07/2015
Process Documentation	07/2015
Test Plans	07/2015
Controls and Supporting Documentation Testing	07/2015
Corrective Actions	09/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Other Assets (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Analyze and age beginning balances for each component of Other Assets disclosed in Note 6 (e.g., Advances and Prepayments, Outstanding Contract Financing Payments).
- Determine the baseline year for transaction support and necessary coverage from a materiality standpoint.
- Document processes and controls, and determine the extent to which existing documentation covers financial reporting objectives for Other Assets.
- Identify internal control activities necessary to achieve financial reporting objectives and test for design and operating effectiveness.
- Select a sample of transactions from each subassessable unit and test for completeness and accuracy relative to supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Discovery	08/2015
Process Documentation	08/2015
Test Plans	08/2015
Controls and Supporting Documentation Testing	08/2015
Corrective Actions	03/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	03/2017
Reconcile feeder system(s) to the General Ledger(s).	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R)	03/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	03/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	06/2017

Inventory (Base Possessed) (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Complete discovery for existence and completeness.
- Develop and monitor corrective actions for internal control gaps to ensure reporting objectives are met.
- Document the processes surrounding the ILS-S and strategize how to achieve legacy system audit readiness.
- Develop reconciliation with DFAS to confirm transactions and property recorded in ILS-S are properly posted to GAFS-R.
- Complete valuation discovery for each major asset class. Prioritize asset subclasses. Value assets, and develop and retain supporting documentation.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	11/2015
Discovery	09/2015
Corrective Actions	11/2015
Valuation	06/2016
Valuation Methodology Approval	✓
Baseline Valuation	12/2015
Processes, Controls and Systems Corrected and Tested for New Acquisition	06/2016
Audit Readiness Assertion	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (ILS-S)	✓
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2017

Inventory (Depot)

Remaining Audit Readiness Actions and Challenges

- Finalize the QDD and build a repeatable QDD process. Inventory In-Transit was merged into the Inventory assessable unit.
- Develop a universe of transactions and reconcile to the APSR and general ledger.
- Complete valuation documentation and testing.
- Implement system changes to reduce deficiencies related to Inventory In-Transit.
- Assertion date moved from 12/2015 to 03/2017 to accommodate addition of valuation activity.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	07/2015
Corrective Actions	12/2015
Valuation	06/2016
Valuation Methodology Approval	06/2015
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	06/2016
Audit Readiness Assertion	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (SCS, DSS, ILS-S)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	12/2016

Inventory (Medical and Dental)

Remaining Audit Readiness Actions and Challenges

- Build a repeatable QDD process.
- Develop a universe of transactions and reconcile to the APSR and general ledger.
- Obtain documentation from the Defense Health Agency to cover FISCAM IT controls and asset valuation controls.

Completion Dates (✓ = Completed)

	Completion
Existence, Completeness, Rights, and Obligations	12/2015
Discovery	07/2015
Corrective Actions	12/2015
Valuation	06/2016
Valuation Methodology Approval	06/2015
Baseline Valuation	12/2015
Processes, Controls, and Systems Corrected and Tested for New Acquisition	06/2016
Audit Readiness Assertion	06/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

	Completion
Produce a universe of accounting transactions.	06/2016
Reconcile feeder system(s) to the General Ledger(s).	06/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (SMAS, DMLSS)	06/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved, and supported by documentation.	06/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems.	03/2017

STATEMENT OF NET COST

Air Force Working Capital Fund FIAR activity covers the following Statement of Net Cost line items.

- Revenue and Spending Authority (Flying Hours)
- Revenue and Spending Authority (Medical/Dental)
- Expenses (Medical and Dental)
- Revenue (Depot Maintenance)

- Expenses (Depot Maintenance)
- Revenue (Stock Control System)
- Revenue (Integrated Logistics System – Supply)
- Expenses (Supply)

Figure IV-8 provides a summary view of the Air Force audit readiness plans for the Statement of Net Cost. Tri-charts for each line item follow this subsection.

Figure IV-8. Air Force Working Capital Fund Statement of Net Cost Audit Readiness Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Revenue and Spending Authority (Flying Hours)																					Discovery
Revenue and Spending Authority (Medical and Dental)																					Corrective Action/Assert
Expenses (Medical and Dental)																					Validation
Revenue (Depot Maintenance)																					Internal Reviews
Expenses (Depot Maintenance)																					Sustainment
Revenue (Stock Fund System)																					Financial Statement Audits
Revenue (Integrated Logistics System - Supply)																					
Expenses (Supply)																					

Revenue and Spending Authority (Flying Hours)

Remaining Audit Readiness Actions and Challenges

- Finalize the QDD and build a repeatable QDD process.
- Develop a universe of transactions.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2015
Process Documentation	✓
Test Plans	05/2015
Controls and Supporting Documentation Testing	09/2015
Corrective Actions	12/2015
Audit Readiness Assertion	12/2015
Audit Readiness Validation	06/2016

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	12/2015
Reconcile feeder system(s) to the General Ledger(s)	12/2015
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-BL)	12/2015
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	12/2015
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2016

Revenue and Spending Authority (Medical and Dental)

Remaining Audit Readiness Actions and Challenges

- Finalize the QDD and build a repeatable QDD process.
- Develop a universe of transactions and reconcile to the general ledger.
- Finalize process documentation.
- Develop test plans and test internal controls.
- Obtain documentation from the Defense Health Agency to cover FISCAM IT controls.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	05/2015
Test Plans	08/2015
Controls and Supporting Documentation Testing	06/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	03/2017
Reconcile feeder system(s) to the General Ledger(s)	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R, DMLSS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2017

Expenses (Medical and Dental)

Remaining Audit Readiness Actions and Challenges

- Finalize the QDD and build a repeatable QDD process.
- Conduct initial discovery, including process documentation.
- Develop a universe of transactions and reconcile to the general ledger.
- Create test plans and test internal controls and supporting documentation.
- Air Force Audit Agency (AFAA) audit of Medical and Dental expenses and cost of goods sold in progress.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2016
Process Documentation	03/2016
Test Plans	06/2016
Controls and Supporting Documentation Testing	09/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	03/2017
Reconcile feeder system(s) to the General Ledger(s)	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R, DMLSS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2017

Revenue (Depot Maintenance)

Remaining Audit Readiness Actions and Challenges

- Conduct initial discovery, including process documentation and QDD.
- Finalize process documentation.
- Develop test plans and internal controls.
- Develop a universe of transactions and reconcile to the general ledger.
- AFAA audit of Depot Maintenance Revenue recognition in progress.
- Examination of Revenue (Depot Maintenance) for the year ending 09/2016.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2015
Process Documentation	12/2015
Test Plans	12/2015
Controls and Supporting Documentation Testing	12/2015
Corrective Actions	03/2016
Audit Readiness Assertion	09/2016
Audit Readiness Validation	03/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	09/2016
Reconcile feeder system(s) to the General Ledger(s)	09/2016
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DIFMS, GAFS-R, DFAS-IE)	09/2016
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	09/2016
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	03/2017

Expenses (Depot Maintenance)

Remaining Audit Readiness Actions and Challenges

- Conduct initial discovery, including process documentation and QDD.
- Finalize process documentation.
- Develop test plans and internal controls.
- Develop a universe of transactions and reconcile to the general ledger.

Completion Dates (✓ = Completed)

	Completion
Discovery	06/2016
Process Documentation	09/2015
Test Plans	06/2016
Controls and Supporting Documentation Testing	06/2016
Corrective Actions	09/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	03/2017
Reconcile feeder system(s) to the General Ledger(s)	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (TAA, DIFMS, NIMMS, ILS-S, SCS(FIABS), DSS, DFAS-IE, GAFS-R)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2017

Revenue (Stock Control System)

Remaining Audit Readiness Actions and Challenges

- Conduct initial discovery, including process documentation and QDD.
- Finalize process documentation.
- Develop test plans and assess internal controls.
- Develop a universe of transactions and reconcile to the general ledger.
- AFAA audit of Stock Control System revenue methodology in progress.

Completion Dates (✓ = Completed)

	Completion
Discovery	03/2016
Process Documentation	03/2016
Test Plans	10/2016
Controls and Supporting Documentation Testing	03/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	03/2017
Reconcile feeder system(s) to the General Ledger(s)	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-R, SCS(FIABS))	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2017

Revenue (Integrated Logistics System – Supply)

Remaining Audit Readiness Actions and Challenges

- Conduct initial discovery, including process documentation and QDD.
- Finalize process documentation.
- Develop test plans and assess internal controls.
- Develop a universe of transactions and reconcile to the general ledger.
- AFAA audit of Integrated Logistics System – Supply revenue methodology in progress.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	06/2016
Test Plans	12/2016
Controls and Supporting Documentation Testing	12/2016
Corrective Actions	01/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	03/2017
Reconcile feeder system(s) to the General Ledger(s)	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS-BL, ILS-S)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2017

Expenses (Supply)

Remaining Audit Readiness Actions and Challenges

- Conduct initial discovery, including process documentation and QDD.
- Finalize process documentation.
- Develop test plans and assess internal controls.
- Develop a universe of transactions and reconcile to the general ledger.
- AFAA audit of General Support Division overhead expense in progress.

Completion Dates (✓ = Completed)

	Completion
Discovery	12/2016
Process Documentation	12/2015
Test Plans	09/2016
Controls and Supporting Documentation Testing	12/2016
Corrective Actions	09/2016
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

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

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	03/2017
Reconcile feeder system(s) to the General Ledger(s)	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (GAFS, ILS-S)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2017

STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position provides the difference between the assets and liabilities reported on the Air Force Working Capital Fund Balance Sheet. The Statement of Changes in Net Position presents a reconciliation of cumulative results of operations and unexpended revenue from the beginning to the end of the reporting period.

The Air Force will address the Statement of Changes in Net Position including material line items through testing at the assessable unit level, as well as evaluating financial reporting processes during Wave 4.

A tri-chart follows providing the Air Force plans for addressing Statement of Changes in Net Position financial reporting.

Financial Reporting (Working Capital Fund)

Remaining Audit Readiness Actions and Challenges

- Includes appropriations used, other financing sources, and other adjustments.
- Conduct initial discovery, including statement to process analysis and process and system documentation.
- Build a repeatable QDD process.
- Develop a universe of transactions and reconcile to the general ledger.
- Create test plans and test controls and balances.
- Evaluate test results and build corrective action plans.
- Includes material line items not covered in other assessable units.

Completion Dates (✓ = Completed)

	Completion
Discovery	09/2016
Process Documentation	03/2016
Test Plans	06/2016
Controls and Supporting Documentation Testing	09/2016
Corrective Actions	03/2017
Audit Readiness Assertion	03/2017
Audit Readiness Validation	06/2017

Deal-Breakers (✓ = Completed)

Deal-Breakers	Completion
Produce a universe of accounting transactions	03/2017
Reconcile feeder system(s) to the General Ledger(s)	03/2017
Complete FISCAM IT general and application-level controls discovery and corrective actions for material systems. (DDRS-AFS, GAFS-R, SMAS, DIFMS)	03/2017
Identify root causes for JVs, eliminate unnecessary JVs, and ensure remaining JVs are reviewed, approved and supported by documentation	03/2017
Validate that corrective actions have been effectively implemented for critical processes, controls and systems	06/2017

AIR FORCE AUDIT READINESS RESOURCES

Despite challenging budget times, substantial resources have been programmed to support achieving auditable financial statements. The FIAR activities funded by the amounts in Figure IV-9 include:

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the commands and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure IV-9. ERP costs are reported in Section VII.

Figure IV-9. Air Force Audit Readiness Resources (Dollars in Millions)

DoD Component	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	124	169	183	218	220	221
Financial Systems	18	22	22	15	15	15
Total Resources	142	191	205	233	235	236

V. Other Defense Organizations Audit Readiness

Six ODOs have received audit opinions on their FY 2014 financial statements. These ODOs, shown in Figure V-1, are working to sustain the unmodified opinions, or correct deficiencies and strengthen controls with the goal of receiving an unmodified opinion.

Figure V-1. FY 2014 Financial Statement Audit Opinions

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

For purposes of the FIAR Plan, the ODOs include:

- U.S. Special Operations Command (USSOCOM)
- Defense Agencies
- Intelligence Community Defense Agencies
- Field Activities
- Chemical Biological Defense Program (CBDP)
- Medicare-Eligible Retiree Health Care Fund (MERHCF)
- Military Retirement Fund (MRF)
- Military Department Working Capital Funds (TI-97)

- Other organizations and accounts that receive Defense-wide appropriated funds

The Defense intelligence agencies are on an accelerated schedule to meet the congressionally-mandated deadline of achieving an unmodified audit opinion on their full financial statements by 2016. The program managers have certified to the Director of National Intelligence and Congress that audit readiness is a priority and dedicated the resources necessary to achieve this objective.

The National Reconnaissance Office has sustained six unmodified opinions. The National Security Agency received a disclaimer of opinion. The National Geospatial-Intelligence Agency also received a disclaimer of opinion, however, they received a modified opinion on the SSAE No. 16 examination of their core financial management system. The Defense Intelligence Agency deferred audit. Although a significant amount of work remains, the Defense intelligence agencies are now better informed and positioned to manage risks, regulate the pace of critical improvements, and align increasingly limited personnel and resources to achieve results.

The Defense intelligence agencies reached another major milestone in FY 2015 with all agencies now undergoing a full-scope financial statement audit. These agencies will focus efforts on resolving higher-priority, auditor-identified deficiencies that adversely affect the audit while working to clear remaining deficiencies. The agencies revised their FY 2015 corrective action plans to reflect the actions necessary to resolve the material weaknesses and deficiencies identified in their 2014 audit and financial reports.

AUDIT READINESS ACCOMPLISHMENTS

In support of ODO audits and examinations, the OUSD(C) established a FIAR SharePoint site and Audit Response Center (ARC) Tool that centralizes auditor requests and helps manage workflow by establishing a process for identifying responsible

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organizations and associated roles and responsibilities. The FIAR SharePoint site contains an interactive discussion board, training portal, FAQs, calendar of events, and the ARC Tool. The ARC Tool provides an effective means for collecting supporting documentation and facilitating a review process. It also uses a status tracker, allowing real time status monitoring.

Since the November 2014 report, the ODOs achieved many audit readiness accomplishments, including:

- CBDP submitted to OUSD(C) its assertion strategies and tasks in January 2015. The tasks address audit readiness deal-breakers and tie to assertions for the SBA and SBR (Wave 2), existence and completeness of mission-critical assets (Wave 3), and full financial statements audit (Wave 4). When completed, the tasks move CBDP to an audit-ready environment.
- DARPA applied for a waiver from the intragovernmental eliminations process. As part of the waiver submission, DARPA tested its general ledger against trading partner disbursements. DFAS recommended the waiver be approved. Final OUSD(C) approval is pending.
- DARPA assessed its triannual review process and is implementing controls and procedures to improve oversight of commitments, obligations, and triannual review documentation.
- DARPA implemented two corrective actions:
 - Implemented an accrual methodology to ensure the value of services received and not yet invoiced are posted to the general ledger at month-end.
 - Documented controls for the timekeeping process by developing a timekeeping and leave administration policy.
- DCMA successfully tested internal controls and supporting documentation for the SBR and Balance Sheet thus ensuring an adequate audit infrastructure is in place and readiness for financial statement examinations has been achieved.
- DHA conducted training for its reporting entities that focused on the audit process and communication protocols. DHA SBA examination began in April 2015 by conducting training sessions to ensure the IPA has sufficient knowledge and understanding of the DHA operating environment.
- DISA is using an IPA to validate its balances, financial statement crosswalks, and Fund Balance with Treasury and Accounts Payable balances for FY 2013 and FY 2014.
- DISA Inspector General is conducting an examination of General Fund and Working Capital Fund Capital assets, validating the accuracy of capital assets reported on the Balance Sheet.
- DLA received an unmodified opinion on Civilian Pay/Benefits, an unmodified opinion on Real Property Hosted sites, and a modified opinion on Environmental Liabilities from an IPA.
- DLA developed an audit readiness and sustainment communication strategy to reach over 27,000 employees and boost awareness and knowledge of audit readiness.
- DLA established an audit infrastructure to support audit readiness testing and audits, ensuring audit readiness efforts can be sustained.
- DoDEA is working to replace its legacy accounting system with the Defense Agencies Initiative (DAI), which supports generating accurate and reliable financial and reporting data that are USSGL and SFIS compliant. Implementation is October 2015.
- DTIC created checklists for time and attendance and Requests for Personnel Action, strengthening civilian pay activities and processes. In addition, DTIC completed systems Complementary User Entity Control (CUEC) test plans.
- DTRA incorporated a FIAR element in the performance plans of all civilian employees.

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- DTRA developed a guide (“One Team Guide to FIAR and MICP”) explaining how each team member contributes to the success of FIAR and the Managers’ Internal Control Program.
- MDA established tiger teams for each functional organization to review all active (488) and inactive (1,117) contracts and Military Interdepartmental Purchase Requests (MIPRs) (8,000) to determine the existence of property not recorded in the MDA APSR. To date, 1,157 assets were discovered from the contract reviews, which is 96 percent complete, and 16 assets from MIPR reviews, which is 94 percent complete.
- USSOCOM established an infrastructure with dedicated audit liaisons and a retention, storage, and retrieval capability for supporting documentation across its geographically disbursed Components. The infrastructure also balances special handling requirements for sensitive activities with IPA requirements.
- WHS completed a FISCAM review in March 2015 of the Enterprise Business Accountability System – Defense (EBAS-D). Resulting corrective actions are being implemented.
- WHS implemented a Governance, Risk, and Compliance Tool using a two-phased effort aligned with audit readiness objectives. Phase 1, deployed during first quarter FY 2015, addresses active monitoring of user/access/Separation of Duties monitoring in EBAS-D. Phase 2, planned for third quarter FY 2015, will include transaction monitoring.

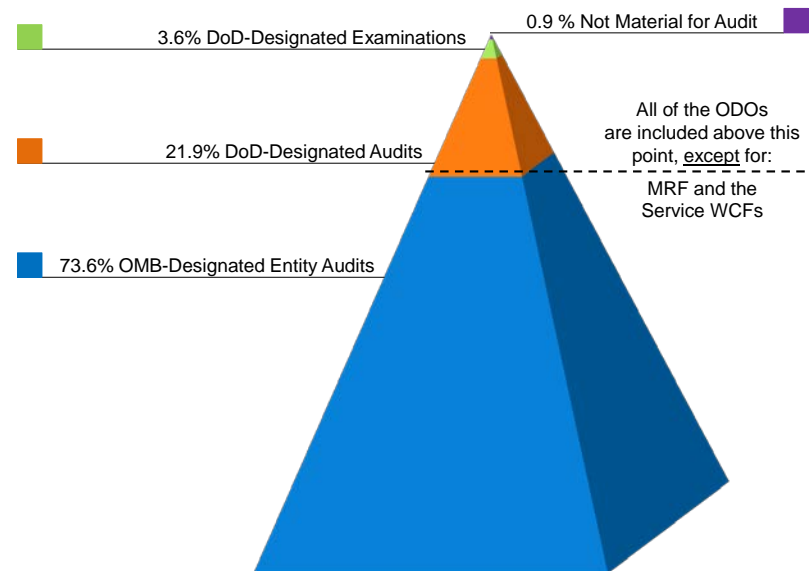
ODO AUDIT STRATEGY

In December 2014, the Deputy Secretary of Defense approved a strategy for auditing the ODOs. The strategy is critical to achieving audit readiness of the DoD Consolidated Financial Statements. Prior to implementing the strategy, it was coordinated across the Department and discussed with the DoD OIG and GAO.

The ODO audit strategy groups the ODOs into categories based on Office of Management and Budget (OMB) reporting requirements, current ODO financial statement audits, and materiality. The strategy also identifies which ODOs will undergo mock audits, IPA examinations, and full financial statement audits, and when they will take place. As prescribed in the audit strategy, ODO audits are grouped into four categories:

- OMB-Designated Audits
- DoD-Designated Audits
- DoD-Designated Examinations
- Defense Agencies and Funds Not Material

Figure V-2. Categories as Percent of Total Budgetary Resources



OMB-Designated Audits

OMB-Designated Audits includes the Military Retirement Fund and the Military Departments. This group accounts for 74 percent of the Department's budgetary resources. Annual financial statements for the Military Retirement Fund are prepared and audited, and are receiving unmodified audit opinions.

DoD-Designated Audits

DoD-Designated Audits includes material ODOs and funds, which account for 22 percent of DoD budgetary resources. ODOs currently under audit will continue undergoing audits of their full financial statements. ODOs not currently under audit will undergo IPA examinations of the SBA beginning in FY 2015 and move progressively toward full financial statements audits that will continue into FY 2018. The ODOs in this category are listed in order of their percent of total budgetary resources:

- Military Retirement Trust Fund Payment
- Defense Logistics Agency
- Defense Health Agency
- DoD Component Level Accounts
- Medicare-Eligible Retiree Health Care Fund
- U.S. Special Operations Command
- U.S. Transportation Command
- Defense Information Systems Agency
- Defense Commissary Agency
- Defense Finance and Accounting Service
- Defense Contract Audit Agency

DoD-Designated Examinations

DoD-Designated Examinations includes other material ODOs and funds, which account for 4 percent of DoD budgetary resources. From FY 2015 – FY 2017, these ODOs will undergo mock audits or examinations of financial statements. Those ODOs under IPA examination will continue financial statement examinations in FY 2018. The ODOs in this category are listed in order of their percent of total budgetary resources:

- Washington Headquarters Services
- Missile Defense Agency
- Other Treasury Index (TI)-97 Funds Provided to the Army by the Office of the Secretary of Defense
- Defense Security Cooperation Agency
- DoD Education Activity
- Defense Advanced Research Projects Agency
- Chemical Biological Defense Program
- Defense Threat Reduction Agency
- Defense Contract Management Agency
- Office of the Chairman of the Joint Chiefs of Staff

Defense Agencies and Funds Not Material

Defense Agencies and Funds Not Material encompass the 26 ODOs not included in the other categories and that together account for less than 1 percent of the Department's budgetary resources. These ODOs will continue audit readiness efforts and strengthen internal controls but will only be audited as part of the FY 2018 DoD Consolidated Financial Statements audit.

This phased approach ensures all ODOs are audit ready when the Department begins the audit of the FY 2018 DoD Consolidated Financial Statements. The strategy also allows for growing an

effective ODO audit support infrastructure as the Department progresses to full financial statements audit readiness.

STAND-ALONE AUDITS AND EXAMINATIONS TIMELINE AS PLANNED

To implement the ODO audit strategy, the Department developed an estimated timeline for full financial statements mock audits and examinations, covering FY 2015 – FY 2018. The audit strategy provides a phased approach to achieving the September 30, 2017, deadline that allows for:

- ODO personnel, both military and civilian, gaining firsthand audit experience
- Growing and expanding the ODO audit support infrastructure
- Testing and improving ODO ability to quickly provide supporting documentation for financial transactions
- Identifying audit deficiencies with adequate time to remediate the deficiencies before September 30, 2017

Since it could take several years beyond FY 2018 for the Department to achieve an unmodified opinion on the DoD Consolidated Financial Statements, the ODOs material to the Department financial statements will undergo either examinations or audits of their financial statements until an unmodified opinion is achieved on the consolidated statements.

Figure V-3 shows the schedule as planned for the five ODOs for annual full financial statement audits. As shown, in FY 2015, three ODOs are under SBA examinations, USTRANSCOM is continuing FIAR activity, and DISA is conducting an internal validation by its Inspector General. In FY 2016, the Department plans for most of these ODOs to begin full financial statement audits..

Figure V-3. Other Defense Organizations Full Financial Statement Audits as Planned

Other Defense Organization	FY 2015	FY 2016	FY 2017	FY 2018
U.S. Special Operations Command (USSOCOM) – GF	SBA Examination	Audit	Audit	Audit
U.S. Transportation Command (USTRANSCOM) – WCF	FIAR Activity	Examination	Audit	Audit
Defense Health Agency – GF	SBA Examination	Audit	Audit	Audit
Defense Information Systems Agency – GF and WCF	Internal Validation	Audit	Audit	Audit
Defense Logistics Agency – GF and WCF	GF SBA Examination	Audit	Audit	Audit

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Figure V-4 provides the planned schedule for the 10 ODOs undergoing annual full financial statement examinations. As shown, five ODOs begin with full financial statements mock audits in FY 2015. The remaining five ODOs are under SBA examinations in FY 2015 and plan to progress to full financial statements examinations in FY 2016.

Figure V-4. Other Defense Organizations Undergoing Full Financial Statement Audits as Planned

Other Defense Organization	FY 2015	FY 2016	FY 2017	FY 2018
Washington Headquarters Services	SBA Examination	Examination	Examination	Examination
Missile Defense Agency	SBA Examination	Examination	Examination	Examination
Other TI-97 Funds Provided to the Army by the Office of the Secretary of Defense	Mock Audit	Examination	Examination	Examination
Defense Security Cooperation Agency	Mock Audit	Examination	Examination	Examination
DoD Education Activity	Mock Audit	Examination	Examination	Examination
Defense Advanced Research Projects Agency	SBA Examination	Examination	Examination	Examination
Chemical Biological Defense Program	SBA Examination	Examination	Examination	Examination
Defense Threat Reduction Agency	SBA Examination	Examination	Examination	Examination
Defense Contract Management Agency	Mock Audit	Examination	Examination	Examination
Office of the Chairman of the Joint Chiefs of Staff	Mock Audit	Examination	Examination	Examination

STATUS OF FY 2015 MOCK AUDITS AND EXAMINATIONS

Five ODOs completed full financial statements mock audits in the first half of FY 2015, and eight ODOs are under SBA examinations.

Mock Audits

Mock audits do not require the auditor to be independent of the reporting entity and were performed by the IPAs supporting the OUSD(C). Mock audits are performed using audit-like procedures and conducted using FIAR Guidance criteria. They were performed on the full financial statements of five ODOs, as shown in Figure V-4, and help the Components understand what independent audits or examinations will entail and identify audit deficiencies. The benefits of mock audits include:

- Preparing the ODOs for upcoming examinations and audits by simulating expected auditor requests for supporting documents and submission timelines
- Determining the level of audit readiness of proprietary financial statements
- Confirming the ODOs are focusing audit readiness efforts in the right areas
- Ensuring deficiencies are remediated before examinations and audits begin
- Assessing the effectiveness of the reporting entity's audit infrastructure

The mock audit auditors were divided into five critical line item teams:

- Team 1: Investments and Fund Balance with Treasury
- Team 2: Obligations, Outlays, and Payables

- Team 3: Reimbursable Work Orders – Acceptor and Financial Reporting
- Team 4: Property, Plant, and Equipment
- Team 5: Information Technology

The mock audits began in November 2014 and concluded in March 2015. Ending in March was important to allow sufficient time for the ODOs to develop corrective action plans and remediate deficiencies before beginning full financial statement examinations in FY 2016. The OUSD(C) is closely monitoring the ODOs' remediation work.

SBA Examinations

An examination is performed by IPAs in accordance with attestation standards issued by the American Institute of Certified Public Accountants. In early FY 2015, the Department began the process to hire IPA firms to perform seven SBA examinations of the ODOs identified in Figures V-3 and V-4.

Contracting with the IPAs is a lengthy and challenging process, and it was not until April 2015 that the contracts were awarded. The examinations began with kick-off meetings between the ODOs and the auditors so the auditors can learn more about the ODO they are auditing and develop audit plans.

ODO AUDIT READINESS RESOURCES

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

Audit Readiness, Validations, and Audits resources provide for:

- Completing evaluation, discovery, and corrective actions of the Components and their service providers (e.g., DFAS)
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions
- Supporting IPA audit readiness validations and financial statement audits

Financial Systems resources provide for:

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

Because ERPs are being deployed to modernize functional as well as financial processes, ERP system deployment costs are not included Figure V-5. ERP costs are reported in Section VII.

Figure V-5. Other Defense Agencies Audit Readiness Resources (Dollars in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Audit Readiness, Validations, and Audits	260	246	198	129	130	129
Financial Systems	11	14	15	15	15	15
Total Resources	271	260	213	144	145	144

VI. Service Providers Audit Readiness

Service providers perform a variety of functions and services for the DoD Components, including:

- Accounting and Finance
- Civilian Personnel Management System Support
- Military and Civilian Pay
- Contract Management
- Real Property Construction
- Asset Acquisition, Storage, and Issuance
- Information Technology System Operations and Hosting Support

As a result, Component audit readiness often relies on service provider audit readiness. To support the Components' audit readiness efforts, service providers are working to achieve audit readiness and obtain reasonable assurance that their controls over operations and systems are designed and operating effectively. In addition, service provider information technology systems must be interoperable and effectively functioning to provide Component systems with the information needed for accounting transactions and supporting documentation.

DoD Service Providers

The DoD service providers include:

- Office of the Under Secretary of Defense for Acquisition, Technology and Logistics
- Department of the Army
- U.S. Army Corps of Engineers

- Department of the Navy
- Defense Civilian Personnel Advisory Service (DCPAS)
- Defense Contract Management Agency (DCMA)
- Defense Finance and Accounting Service (DFAS)
- Defense Information Systems Agency (DISA)
- Defense Logistics Agency (DLA)

FINANCIAL STATEMENT AUDIT STRATEGY AND THE SERVICE PROVIDERS

Between FY 2015 and FY 2017, the Military Services and all material ODOs are undergoing either financial statement mock audits, examinations, or audits. The Components' ability to achieve opinions on these audits and examinations is dependent on the audit readiness of their service providers.

To ensure the service providers are audit ready when their customers are under audit, the OUSD(C):

- Issued specific service provider guidance in the FIAR Guidance
- Directed the service providers to identify material systems and is monitoring system audit readiness activity
- Monitors SSAE No. 16 examinations and tracks Notices of Findings and Recommendations
- Conducts a Service Provider Working Group to track status of service provider activities and address DoD-wide dependencies

SSAE No. 16 Examinations

Upon completing financial improvement work, service providers undergo examinations conducted in accordance with SSAE No. 16, "Reporting on Controls at a Service Organization." To improve Department-wide efficiency, service providers that provide services to three or more Component-customers must obtain an SSAE No. 16

examination on controls. The results of the SSAE No. 16 examinations can then be used by Component customer financial statement auditors, saving time and money.

Service providers not required to produce an SSAE No. 16 examination must work with their Component customers to determine how they will support their audit readiness efforts. Service providers are responsible for executing key tasks and activities in the Discovery and Corrective Action phases of the FIAR Methodology for the processes, controls, and systems that affect a Component's financial reporting objectives. Specifically, service providers must achieve financial reporting objectives by implementing control activities and providing supporting documentation that will be audited as part of a Component's financial statement audits.

SERVICE PROVIDER AUDIT READINESS

Service provider roles, responsibilities, and audit readiness status are described in the sections that follow. Quad-charts, providing additional information, are included for those service providers continuing to perform FIAR activity in support of their customers.

OUSD(AT&L)

The Property and Equipment Policy Office of the OUSD(AT&L) operates the Defense Property Accountability System (DPAS). DPAS is used for acquiring, managing, and reporting various types of personal and real property. DPAS is used by the Army, Navy, Marine Corps, and ODOs.

An SSAE No. 16 is performed annually on DPAS. The OUSD(AT&L) received an unmodified opinion on the examination for the period October 2013 – June 2014, and an SSAE No. 16 covering the period July 2014 – June 2015 is in progress.

Department of the Army

The Army has two service provider roles and responsibilities:

- Acquisition authority for conventional ammunition
- Real property construction and maintenance

Acquisition of Conventional Ammunition

The Army has acquisition authority and custodial accountability for conventional ammunition for the Military Services and serves as the Single Manager for Conventional Ammunition (SMCA) for the procurement and management of ammunition. In support of this role, the Army maintains physical custody over OM&S stock owned by the Army, Navy, Marine Corps, and Air Force and maintains visibility for these assets in the two Accountable Property Systems of Record: LMP and the legacy system SAAS-MOD. To comply with FIAR service provider requirements, the Army:

- Executes a single set of audit readiness activities for the Army and other Military Services
- Performs monthly internal controls testing of business processes to identify deficiencies for mitigation

The Army approaches audit readiness customer support by capitalizing on its existence and completeness audit readiness work of Army-owned ammunition. The Army will rely on the results of substantive (existence and completeness), internal control, and system control testing to support its assertion on the existence, completeness, rights, and obligations, and presentation and disclosure assertions that are central to Army audit readiness.

The Army service provider approach uses the same Army business processes and internal controls for all OM&S assets regardless of ownership. As a result, the Army audit readiness assertions are used for the management of ammunition owned by other Services. However, the Army's assertion cannot be applied to the ammunition assets procured directly by the other Military Departments (non-SMCA).

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To date, the Army completed the following audit readiness activities:

- Asserted to all OM&S (Class V Supply) – December 2014
- Supported the DoD OIG evaluation of the OM&S assertion – DoD OIG report expected in June 2015

The Army is preparing to address FIAR valuation requirements for ammunition as part of the overall strategy valuing other OM&S assets.

Real Property Engineering Services and Construction

USACE delivers public and military engineering services to strengthen the Nation's security, energize the economy, and reduce risks from disasters. Construction and engineering services are provided for the Army, other Military Departments, and the Defense Agencies.

USACE has received clean audit opinions on its Civil Works Financial Statements since FY 2006. Because USACE serves as a construction agent for the Army, its business processes and internal controls are applicable to the Army's real property asset management and audit readiness activities, as well as those of its other service provider customers.

In support of the Army, USACE executes the following audit readiness activities:

- Manages and oversees the military construction program to include construction-in-progress reporting and accounting, and execution of real estate documents, for the acquisition of real property.
- Manages real property that is acquired by lease, easement, license, permit, or similar real estate instruments.
- Manages and oversees the acquisition, improvement, and disposal of land.
- Disposes of excess real estate to include disposals mandated by the BRAC Commission or public law.

- Performs monthly internal controls testing of business processes to identify deficiencies for mitigation.

Department of the Navy

NAVFAC builds and maintains facilities, delivers utilities and services, and provides capabilities to Navy expeditionary combat forces. NAVFAC also supports the Air Force, USMC, and Defense Agencies.

NAVFAC uses the same financial system, Facilities Information System with its associated controls, to manage military construction funds, regardless of the source (e.g., customer provided funds).

NAVFAC implemented non-Navy military construction transfer and acceptance processes in coordination with the Air Force and DLA. The processes address identification of real property unique identifiers and completion of draft and final DD Form 1354, Transfer and Acceptance of DoD Real Property.

Defense Civilian Personnel Advisory Service

DCPAS maintains the Defense Civilian Personnel Data System (DCPDS), the Department's civilian personnel system used to initiate, approve, and process personnel actions for civilian employees. Additionally, and for most Components other than the Military Services, DCPAS hosts the personnel system at a DCPAS-managed data center. The Components rely on DCPDS (including relevant system controls) to ensure the completeness, accuracy, validity, and restricted access to civilian personnel actions.

DCPAS received a modified opinion on the SSAE No. 16 examination for the period October 2013 – June 2014. An SSAE No. 16 examination for the period October 2014 – June 2015 is being conducted.

Defense Contract Management Agency

DCMA, in coordination with DFAS, maintains the Mechanization of Contract Administration Services (MOCAS) system, the system used

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to manage the largest contracts from obligation to closeout. The Components rely on MOCAS, including relevant system controls, to ensure the completeness, accuracy, and validity of contract information and to restrict access to and prevent unauthorized recording of information on contract management activity. In addition to maintaining Department systems, DCMA monitors contractor performance and business systems to ensure cost, product performance, and delivery schedules comply with the terms and conditions of the contracts.

DCMA received a modified opinion on the FY 2014 SSAE No. 16 examination, covering the period February 2014 – October 2014. The auditor's report included six deficiencies, recorded as Notice of Recommendations and Findings. DCMA is implementing corrective actions and developed compensating controls.

DCMA is assisting its customers' SBA audits by providing controls and process documentation for Contract Pay and the FY 2014 SSAE No. 16 audit report.

DCMA is now preparing for the FY 2015 SSAE No. 16 examination for Contract Pay. The examination will cover the period February 2015 – July 2015. The audit start is expected in September 2015.

Defense Finance and Accounting Service

DFAS provides accounting and finance services for the Department of Defense. It is one of the Department's largest service providers undergoing five annual SSAE No. 16 examinations on its major functions. DFAS is responsible for civilian pay, military pay, vendor pay, retired and annuitant pay, general ledger maintenance, and financial statement preparation for the Military Services and other Defense organizations.

In FY 2014, DFAS disbursed \$572 billion and processed 150.2 million pay transactions for 6.3 million military and civilian employees, including retirees and annuitants, 11.5 million invoices, and 5.8 million travel payments. DFAS maintained 1,270 active

appropriations and managed \$772 billion in military retirement and health care fund investments.

SBA Audit Support

DFAS calculates and disburses civilian pay and military pay using information obtained from the Components. DFAS is also responsible for the entitlement and disbursement of contract payments; processing disbursements; and cross-walking, reconciling, validating, and adjusting trial balances in the financial reporting process. Results of DFAS SSAE No. 16 examinations include:

- Civilian Pay – Unmodified opinion for the period 10/2013 – 06/2014
- Military Pay – Unmodified opinion for the period 10/2013 – 06/2014
- Standard Disbursing – Unmodified opinion for the period 10/2013 – 06/2014
- Contract Pay – Unmodified opinion for the period 11/2013 – 04/2014
- Financial Reporting – Modified opinion with adverse language for the period 03/2014 – 11/2014.

DFAS is planning to perform two additional SSAE No. 16 examinations:

- Defense Cash Accountability System (DCAS) – Transaction Distribution Processes
- Defense Reconciliation and Reporting Tool (DRRT) (FBWT) – TI-97 FBWT Tool and processes

In addition to SSAE No. 16 examinations, DFAS is conducting self-reviews to address DFAS processes and systems not part of an SSAE No. 16 examination scope. Additional critical areas of focus include:

- Universe of transactions and supporting documentation

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- Reconciliations of feeder systems to financial systems
- Journal vouchers
- Information technology systems

Full Financial Statements Audit Support

In addition to supporting customer SBA and SBR audits, DFAS is collaborating with its customers during preparation for full financial statement audits. DFAS support includes:

- Developing and implementing a strategy to support beginning balances
- Capturing and producing the universe of transactions needed for full financial statement audits
- Reducing or eliminating the need for Journal Vouchers
- Ensuring DFAS-owned systems are ready for audit through a risk based approach
- Remediating deficiencies discovered through the SBA audits
- Reconciling accounting detail to Treasury at the transaction level via the Department 97 Reporting and Reconciliation Tool

Defense Information Systems Agency

DISA provides application hosting services for the Department's service providers and the Components. As a result, DISA is responsible for most of the Information Technology General Controls over the computing environment in which many financial, personnel, and logistics applications reside. In order for the service providers and Components to rely on the automated controls and documentation within these applications, it is essential that controls be appropriately designed and operating effectively. DISA and the Components have entered into agreements to support audits. The agreements ensure services are documented and describe any non-standard controls or functions.

For the third consecutive year, DISA received an unmodified opinion on its SSAE No. 16 examination for the period October 2013 – June 2014. In FY 2015, DISA will expand the scope of its SSAE No. 16 examination to include additional sites. Also, DISA will have an SSAE No. 16 examination on the Automated Time and Attendance and Production System.

Defense Logistics Agency

Military Service-Owned Items in DLA Custody

DLA is a service provider to the Military Services for the Military Service-owned items in DLA custody. DLA stores and manages items at its facilities and, as directed, issues and distributes items to the Military Services. While DLA uses a DLA system, DSS, to record receipt and issuance activity at its facilities, the Military Services maintain the accountable property systems of record.

DLA, in its service provider role, established Audit Support Requirements Memorandums of Understanding (MOUs) with each Military Service. The MOUs define the support to the Military Services' audit readiness efforts and address financial reporting controls.

Information Systems

DLA maintains many information technology systems used by the Components for business and financial operations including contract pay, disbursing, and financial reporting. DLA completed discovery and corrective actions and strengthened controls for the systems maintained in support of customer audit readiness.

DLA SSAE No. 16 examination results include:

- Defense Automatic Addressing System (DAAS) – Modified opinion issued in April 2014
- Defense Agencies Initiative (DAI) – Modified opinion issued in August 2014

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- Invoices Receipt Acceptance and Property Transfer (iRAPT) (formally known as Wide Area Workflow) – Modified opinion issued in November 2014

DLA is currently undergoing annual self-compliance FISCAM reviews of DAAS, DAI, iRAPT, and DTS.

In FY 2015, SSAE No. 16 examinations are planned for DAAS, DAI, iRAPT, and the Defense Travel System (DTS). Additionally,

Department of the Army – Operating Materials and Supplies (Ammunition)

Overview

- Army has acquisition authority and custodial accountability for conventional ammunition for the Military Services, and as such:
 - Executes a single set of audit readiness activities for the Army and other Military Services.
 - Performs monthly internal controls testing of business processes to identify deficiencies for mitigation.
 - Uses the Army’s existence and completeness assertion of Army-owned OM&S as support the assertion on other Department OM&S balances.

Remaining Audit Readiness Actions and Challenges

- Conduct FISCAM assessment of LMP and implement corrective actions.
- Provide process documentation and test results to customers (other Military Services) for use when asserting audit readiness on their OM&S assets.
- Provide internal control catalogs and supporting documentation to customers that enable their auditors to assess the inherent and control risk related to OM&S business processes.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	✓
Reporting Entity Assertion Support	✓
Assertion	✓

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All transactions are recorded (physical inventory reconciles to APSR records) and properly classified (individual item identifier, where applicable, asset type, controlling organization) within the APSR.	✓
Physical inventories are conducted to validate the existence (APSR records reconcile to physical inventory).	✓
Physical inventories are conducted to validate transactions recorded in the APSR pertain to the Component (identification number where applicable, asset marked with Components name).	✓
All transactions are consistently categorized by type in APSR, summarized, or reported from period to period.	✓
All transactions are recorded (physical inventory reconciles to APSR records) and properly classified (individual item identifier where applicable, asset type, controlling organization) within the APSR.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	12/2015

U.S. Army Corps of Engineers – Real Property

Overview

- Army Civil Works Fund, managed by USACE, has received an unmodified financial statement audit opinion since FY 2008.
- USACE uses the same financial system, CEFMS with its associated controls, to manage military construction funds regardless of source (e.g., customer provided funds).
- With minor enhancements, USACE customers can rely on the Civil Works audit opinion as the basis for asserting SBR audit readiness, real property existence and completeness, and Construction in Progress reporting.
- Army tests internal controls monthly for real property business processes and will be incorporating USACE processes into its monthly testing approach.

Remaining Audit Readiness Actions and Challenges

- In preparation for the full Real Property assertion, the Army will continue efforts with the USACE to review and validate Construction in Progress balances.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	✓
Reporting Entity Assertion Support	✓
Assertion	09/2016

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All project related transactions are recorded.	✓
Recorded projects exist at a given date and are supported by appropriate detailed records that are accurately summarized and reconciled.	✓
All construction in progress transactions are consistently and accurately categorized, summarized or reported from period to period.	09/2016
Appropriate construction in progress amounts are transferred to the DoD Component in a timely manner upon completion of the project.	09/2016
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Navy Facilities Engineering Command – Real Property

Overview

- NAVFAC uses the same financial system, Facilities Information System with its associated controls, to manage military construction funds, regardless of source (i.e., customer provided funds).
- Implemented non-Navy military construction transfer and acceptance processes in coordination with Air Force and DLA. The processes address identification of real property unique identifiers and completion of draft and final DD Form 1354, Transfer and Acceptance of DoD Real Property.

Remaining Audit Readiness Actions and Challenges

- Continue work with Services and Defense Agencies to complete service provider MOUs.
- Begin an SSAE No. 16 examination in 10/2016 to support customer assertions.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	01/2016
Reporting Entity Assertion Support	06/2016
Assertion	09/2016

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	06/2016
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	9/2016

Defense Contract Management Agency

Overview

- DCMA received a modified opinion with 6 NFRs on the FY 2014 SSAE No. 16 for Contract Pay.
- Three NFRs have been corrected:
 - Review of Policies and Procedures
 - Segregation of Duties
 - Review of Third Party Agreements
- DCMA created corrective action plans to address the audit deficiencies. The plans have varying dates of completion based on the complexity or workload required to remediate the deficiency.
- DCMA documented the Agency’s Complimentary User Entity Controls (CUECs) for FY 2015 and briefed them to its reporting entity customers.

Remaining Audit Readiness Actions and Challenges

- Continue remediating 3 NFRs:
 - Aging analysis for processing transactions
 - Inconsistent completion of monthly supervisory reviews over contract input transactions
 - Inconsistent completion of monthly supervisory reviews over invoice and contract closeout transactions
- Perform testing of DCMA controls over Contract Pay.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
02/2014 – 10/2014	Modified	3 3	✓ 09/2017
02/2015 – 07/2015	08/2015		
10/2015 – 06/2016	08/2016		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	09/2017
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Finance and Accounting Service – Financial Reporting

Overview

- Financial Reporting is the process by which DFAS organizes financial data and produces DoD financial statements.
- The scope of the SSAE No. 16 includes trial balance preparation, validation, eliminations, and adjustments performed through DDRS.
- DDRS is the reporting system that produces SFIS-compliant financial statements and budgetary reports for the Military Services and Defense Agencies.
- DFAS underwent an SSAE No. 16 in FY 2014. The SSAE No. 16 report was delivered in 01/2015 and resulted in a modified opinion with adverse explanatory language.

Remaining Audit Readiness Actions and Challenges

- DFAS received 12 NFRs with the FY 2014 SSAE No. 16 examination report. NFRs included findings in the areas of business process and system controls.
- Implement remediation plans for 10 of 12 NFRs in FY 2015. Estimated completion date for remaining NFRs (Unsupported Journal Vouchers and Trading Partner Eliminations) is FY 2017.
- Expand scope for FY 2015 examination to include budgetary reporting processes for all Defense Agencies. FY 2014 scope did not include all Defense Agencies due to the use of non-DDRS micro-apps. All Defense Agencies are now migrated to DDRS and will be included.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2014 – 11/2014	Modified	10 2	09/2015 09/2017
12/2014 – 07/2015	09/2015		
10/2015 – 07/2016	09/2016		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	09/2017
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	09/2015

Defense Finance and Accounting Service – Defense Cash Accountability System

Overview

- DCAS is integral to the DFAS audit readiness strategy for Fund Balance with Treasury.
- DCAS captures, consolidates, and distributes payment and collection information received from DoD accounting and disbursing systems for use in cash reporting and reconciliation.
- DCAS receives files from disbursing and other systems, and uses an extensive process of edits, validations, and derivations to route transactions to the correct DFAS network and customer accounting system.
- The initial focus of this assertion is the DCAS Transaction Distribution, which includes cross disbursing and interface file distribution.

Remaining Audit Readiness Actions and Challenges

- Define the scope for the DCAS Transaction Distribution assertion.
- Document and test all relevant processes and FISCAM controls, and identify and implement corrective actions, as needed.
- Identify and document CUECs.
- Prepare the documentation for a Management’s Description for an SSAE No. 16 examination of the DCAS transaction distribution process. OUSD FIAR to review and approve the FBWT DCAS assertion package for IPA examination.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	06/2015
Controls Documented	08/2015
Controls Tested	10/2015
Corrective Actions	11/2015
Reporting Entity Assertion Support	12/2015
Assertion	12/2015

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	11/2015
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	11/2015

Defense Finance and Accounting Service – Defense Reconciliation and Reporting Tool

Overview

- DRRT reconciles Department's TI-97 Funds between the Department's various accounting systems (e.g., DAI, eBIZ, DBMS) and the Treasury Government-wide Accounting system for each fund symbol on a monthly basis.
- The Cash Management Report provides summary cash position for the TI-97 reporting entities and bridges the gap between Treasury at the appropriation level to the Defense organizations at the four position limit level. The report computes the FBWT at the appropriation, fiscal year, basic symbol and limit level.

Remaining Audit Readiness Actions and Challenges

- Define scope for the FBWT DRRT assertion.
- Document and test all relevant processes and FISCAM controls, identify and implement corrective actions, as needed.
- Identify and document CUECs.
- Prepare Management's Description of the DFAS DRRT process.
- OUSD(C) to review and approve the FBWT DRRT assertion package for IPA examination.

Completion Dates for Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	06/2015
Controls Documented	08/2015
Controls Tested	10/2015
Corrective Actions	11/2015
Reporting Entity Assertion Support	12/2015
Assertion	12/2015

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	11/2015
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	11/2015

Defense Logistics Agency – Defense Automatic Addressing System

Overview

- DAAS is operated by the DAAS Center for maintaining the DoD Activity Address file.
- Conducting an SSAE No. 16 examination for the period 10/2014 – 06/2015.
- Received a modified opinion with four NFRs on the SSAE No. 16 examination for the reporting period 09/2013 – 02/2014.
- Ensure corrective actions or recommendations from the FY 2014 SSAE No. 16 examination are implemented.
- Held customer CUECs discussions to ensure understanding.
- Provide SSAE No. 16 examination report describing the system and opinion on control design and operating effectiveness to support customer assertions.

Remaining Audit Readiness Actions and Challenges

- Continue to implement enterprise-wide control policies and procedures.
- Complete FY 2015 IT general control documentation, testing, and any subsequent corrective actions.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
09/2013 – 02/2014	Modified	4	✓
10/2014 – 06/2015	09/2015		
10/2015 – 07/2016	08/2016		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Logistics Agency – Defense Agencies Initiative

Overview

- DAI is an ERP being deployed to most Defense organizations other than the Military Departments.
- Conducting an SSAE No. 16 examination for the period 10/2014 – 06/2015.
- Received a modified opinion with three NFRs on the SSAE No. 16 examination for the reporting period 01/2014 – 06/2014.
- Ensure corrective actions or recommendations from the FY 2014 SSAE No. 16 examination are implemented.
- Held customer CUECs discussions to ensure understanding.
- Provide SSAE No. 16 examination report describing the system and opinion on control design and operating effectiveness to support customer assertions.

Remaining Audit Readiness Actions and Challenges

- Complete FY 2015 IT general control documentation, testing, and any corrective actions.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
01/2014 – 06/2014	Modified	3	✓
10/2014 – 06/2015	09/2015		
10/2015 – 06/2016	08/2016		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Logistics Agency – Military Service-Owned Items in DLA Custody

Overview

- DLA stores Military Service-owned items and, as directed, issues and distributes the items to the Military Services. DLA uses DSS to record receipt and issuance activity at its facilities. The Military Services maintain the APSRs for the items in DLA custody.
- DLA uses the same receipt/storage/issuance processes and policies for Military Service-owned items as is used for DLA-owned inventory items.
- DLA support affects Military Service financial reporting for the items in DLA custody and established MOUs with each Military Service. The MOUs define DLA support of Military Service audits and address the controls relevant to financial reporting.

Remaining Audit Readiness Actions and Challenges

- Work with the Military Services to assess the full scope of assurances needed from DLA to support their financial statement audits..
- Complete corrective actions to ensure transactions recorded in DSS pertain to the identified owning Military Service and to address DSS process and systems controls deficiencies.
- Engage an IPA to perform an SSAE No. 16 examination and other audit procedures.
- Implement enterprise-wide control policies and procedures.
- Complete FY 2015 IT general control documentation, testing, and any corrective actions.

SSAE No. 16 Milestones (✓ = Completed)

FIAR Phases	Completion
Scope and Timeline Defined and Communicated	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	09/2015*
DoD Component Assertion Support	✓
Assertion	✓*

* Asserted 09/2014 with additional corrective actions to be completed by 09/2015.

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	09/2015
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	09/2015

Defense Logistics Agency – Invoices Receipt Acceptance and Property Transfer

Overview

- iRAPT is used for contractor invoicing and receipt and acceptance of goods and services.
- Conducting an SSAE No. 16 examination for the period 10/2014 – 06/2015.
- Received a modified opinion with 10 NFRs on the SSAE No. 16 examination for the reporting period 03/2014 – 08/2014.
- Ensure corrective actions or recommendations from the FY 2014 SSAE No. 16 examination are implemented.
- Held customer CUECs discussions to ensure understanding.
- Provide SSAE No. 16 examination report describing the system and opinion on control design and operating effectiveness to support customer assertions

Remaining Audit Readiness Actions and Challenges

- Complete FY 2015 Information Technology General Control documentation, testing, and corrective actions.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
03/2014 – 08/2014	Modified	10	✓
10/2014 – 06/2015	09/2015		
10/2015 – 06/2016	08/2016		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

Defense Logistics Agency – Defense Travel System

Overview

- DTS is used across the Department for managing travel and reimbursing travel claims.
- Conducting an SSAE No. 16 examination for the period 10/2014 – 06/2015.
- Holding customer CUECs discussions to ensure understanding.
- Provide SSAE No. 16 examination report describing the system and opinion on control design and operating effectiveness to support customer assertions.

Remaining Audit Readiness Actions and Challenges

- Implement Enterprise Wide Control policies and procedures. Complete corrective action plans for:
 - 2256 Contingency Planning
 - 2263 Enterprise Configuration Management
- Complete FY 2015 IT general control documentation, testing, and corrective actions.

SSAE No. 16 Examinations (✓ = Completed)

Examination Period	Opinion	NFRs	NFR Completion
10/2014 – 06/2015	09/2015		
10/2015 – 06/2016	08/2016		

Completion Dates for Outcomes (✓ = Completed)

Audit Readiness Outcomes	Completion
All in-scope business processes and subprocesses have controls in place to achieve the relevant control objectives.	✓
All material systems achieve the relevant FISCAM IT general and application-level general control objectives.	✓

VII. Information Technology Systems Critical to Audit Readiness

The Department's IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and nine Enterprise Resource Planning (ERP) systems. Most of the business legacy systems were designed to support functional purposes, such as human resource management, property management, and logistics management, and not originally for auditable financial statement reporting. Similarly, most of the financial legacy systems were designed for budgetary accounting and not proprietary accounting.

The Department is moving toward a target systems environment that significantly reduces the number of legacy systems. However, many of the legacy systems scheduled to be replaced will not be replaced by the audit readiness deadline of September 30, 2017. The Department will undergo audit in FY 2018 using both legacy systems and systems that will be part of the Department's target systems environment, including ERPs.

Types of Systems

An ERP is a system of integrated applications for managing an end-to-end business process. ERPs reduce the possibility of human error and are critical to the Department's audit strategy. The Military Departments are deploying a total of nine ERPs to address essential business processes that span their enterprise. For example, the Integrated Personnel Pay System – Army (IPPS-A) integrates human resources capabilities for all Army Components, replacing more than 40 stove-piped systems that do not share information.

Core enterprise systems, also known as target systems, are systems that are central to a particular business or financial process. For example, the Mechanization of Contract Administrative system

(MOCAS) is an integrated entitlement and disbursing system supporting post-award contract administration and is a core system to the Contract Pay, a FIAR assessable unit in most Components' financial improvement plans. Core systems are of varying age and technology, are not planned to be replaced, and will be part of the target environment.

Controls

The FIAR Guidance requires Components to identify systems material to their Statement of Budgetary Resources and other financial statements, and to document, test, and strengthen internal controls. Control testing is based on the GAO FISCAM requirements. The GAO FISCAM comprises three sections for internal controls relevant to financial information systems:

- Entity-Level Information Technology General Controls
- Application-Level General Controls
- Automated Application Controls

The IT General Controls consist of Security Management, Access Controls, Configuration Management, Segregation of Duties, and Contingency Planning. Application-Level IT General Controls cover the same basic controls but focus solely on the business or financial system and any feeder systems. Automated Application Controls use a different set of control categories (Application Security, Business Process Controls, Interface and Conversion Controls, and Data Management System Controls) and focus on a specific application (e.g., GFEBs, Navy ERP, DCPDS, and MOCAS).

Where the Components have identified, documented the design, and tested the operating effectiveness of internal controls during DoD Information Assurance Certification and Accreditation Process (DIACAP), DoD Risk Management Framework (RMF), or other certification and accreditation efforts (Federal Financial Management Improvement Act), the work may be used to complete the FISCAM steps relevant for financial reporting. The extent to which the results of the prior work can be leveraged is determined by

the degree to which it meets FIAR controls documentation and testing requirements.

The OUSD(C) identified the FISCAM control activities and techniques needed to address controls over financial reporting risk areas most likely to be present based on the Department's experience. A summary analysis of those FISCAM control activities and techniques that have the highest relevance to addressing risk areas for financial reporting and other FISCAM control activities and techniques that should be considered by the Components in their audit readiness efforts can be found in the FIAR Guidance at http://comptroller.defense.gov/Portals/45/documents/fiar/fiar_guidance.pdf.

Status of Critical Systems

Achieving an audit ready systems environment requires extensive, challenging discovery and corrective activities. Activities include identifying systems that affect internal controls over financial reporting and financial statement audit readiness, developing systems documentation, testing controls and supporting documentation transactions, and remediating deficiencies and weaknesses. For many legacy and core systems, audit readiness may also require modifications to the systems. This is a costly and time consuming undertaking for the Components and in many cases requires coordinating with and relying on third party system owners and hosting organizations (service providers).

Figures VII-1, VII-2, VII-3, VII-4, and VII-5 summarize the number of audit relevant systems owned by the Components, systems owned by service providers on which an SSAE No. 16 examination will be obtained, and service provider owned systems for which an SSAE No. 16 examination is not currently planned. The tables also summarize the audit readiness status of these systems and whether a DIACAP (or RMF) certification and accreditation has been completed. The certification and accreditation information is relevant because it indicates a level of testing has been performed that was

sufficient to place the system into operation, even if all FIAR Guidance testing requirements have not yet been completed.

Tables are provided for systems that affect the General Fund audits and Working Capital Fund audits, and are broken out by Statement of Budgetary Resources and other financial statements. Note that 87 percent of the systems that are relevant to the Working Capital Fund Statement of Budgetary Resources and 75 percent of the systems that are relevant to the remaining Working Capital Fund financial statements are also relevant to the General Fund financial statements. As audit readiness is completed for these General Fund systems, a significant portion of the audit readiness requirements will be concurrently addressed for the Working Capital Fund.

Figure VII-1 provides a consolidated summary of the audit readiness status for all systems identified during FIAR discovery efforts, including systems owned by:

- Reporting entities including the Military Departments and ODOs
- Service provider owned systems for which an SSAE No. 16 examination has or will be performed
- Service Provider owned systems for which an SSAE No. 16 examination is not currently planned but audit readiness is being performed.

The table also provides summary information identifying the percentage of audit relevant systems that have been certified and accredited for operation and summary information identifying the percentage of systems that are hosted by DISA. The information for systems hosted by DISA is provided because DISA Enterprise Information Services received an unqualified SSAE No. 16 examination report. This report provides supplemental information regarding the audit readiness status for the computing platform upon which the systems reside.

While additional work needs to be performed to complete audit readiness for the entire population of systems, over 95 percent of service provider owned SSAE No. 16 examination systems and over

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80 percent of service provider owned systems for which an SSAE No. 16 examination is not currently planned have been identified as audit ready. Furthermore, over 70 percent of the service provider SSAE No. 16 examination systems and over 65 percent of the

service provider SSAE No. 16 examination systems are hosted on a platform (DISA Enterprise Information Services) for which an unmodified opinion on an SSAE No. 16 examination has been obtained.

Figure VII-1. System Audit Readiness Consolidated Summary

System Owner	Number of Audit Relevant Systems and Applications	Percent Audit Relevant Systems and Applications Audit Ready				Percent IA Certified and Accredited	Percent DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Statement of Budgetary Resources – General Funds							
Component Reporting Entities	88	31	47	22	1	91	17
Service Provider SSAE 16	25	96	4	0	0	92	76
Service Provider Non-SSAE 16	30	83	3	13	0	93	63
Total	143	53	30	16	1	92	37
Other Financial Statements – General Fund							
Component Reporting Entities	58	24	19	52	5	95	24
Service Provider SSAE 16	24	96	4	0	0	92	79
Service Provider Non-SSAE 16	30	83	3	13	0	93	63
Total	112	55	12	30	3	94	46
Statement of Budgetary Resources – Working Capital Fund							
Component Reporting Entities	40	38	30	33	0	95	30
Service Provider SSAE 16	20	95	0	5	0	90	70
Service Provider Non-SSAE 16	25	80	4	16	0	92	68
Total	85	64	15	21	0	93	51
Other Financial Statements – Working Capital Fund							
Component Reporting Entities	36	28	19	53	0	100	19
Service Provider SSAE 16	19	95	0	5	0	89	74
Service Provider Non-SSAE 16	25	80	4	16	0	92	68
Total	80	60%	10%	30%	0%	95%	48%

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Figures VII-2, VII-3, VII-4, and VII-5 breakout the summary information provided in the previous table. Information on audit relevant systems and applications is provided by Component for

General Fund and Working Capital Fund SBR or other financial statements.

Figure VII-2. General Fund Critical Systems – Statement of Budgetary Resources

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	21	2	14	5	0	15	1
Navy	20	0	19	1	0	20	0
Marine Corps	6	0	4	2	0	6	3
Air Force	21	15	3	3	0	21	6
Other Defense Organizations	20	10	1	8	1	18	5
Subtotals	88	27	41	19	1	80	15
Service Provider Owned Systems (SSAE No. 16)							
DFAS	16	15	1	0	0	15	14
DLA	4	4	0	0	0	4	2
DCMA	2	2	0	0	0	1	1
DCPAS	1	1	0	0	0	1	0
OUSD(AT&L)	1	1	0	0	0	1	1
DISA	1	1	0	0	0	1	1
Subtotals	25	24	1	0	0	23	19
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	30	25	1	4	0	28	19
Subtotals	30	25	1	4	0	28	19
Totals	143	76	43	23	1	131	53

FIAR Plan Status Report

Figure VII-3. General Fund Critical Systems – Other Financial Statements

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	10	3	1	4	2	8	0
Navy	12	0	8	4	0	12	2
Marine Corps	1	0	0	1	0	1	0
Air Force	19	5	1	13	0	19	10
Other Defense Organizations	16	6	1	8	1	15	2
Subtotals	58	14	11	30	3	55	14
Service Provider Owned Systems (SSAE No. 16)							
DFAS	16	15	1	0	0	15	14
DLA	3	3	0	0	0	3	2
DCMA	2	2	0	0	0	1	1
DCPAS	1	1	0	0	0	1	0
OUSD(AT&L)	1	1	0	0	0	1	1
DISA	1	1	0	0	0	1	1
Subtotals	24	23	1	0	0	22	19
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	30	25	1	4	0	28	19
Subtotals	30	25	1	4	0	28	19
Totals	112	62	13	34	3	105	52

Figure VII-4. Working Capital Fund Critical Systems – Statement of Budgetary Resources

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	5	0	3	2	0	3	1
Navy	7	0	6	1	0	7	0
Marine Corps	1	0	0	1	0	1	0
Air Force	10	6	2	2	0	10	3
Other Defense Organizations	17	9	1	7	0	17	8
Subtotals	40	15	12	13	0	31	12
Service Provider Owned Systems (SSAE No. 16)							
DFAS	12	11	0	1	0	11	10
DLA	3	3	0	0	0	3	1
DCMA	2	2	0	0	0	1	1
DCPAS	1	1	0	0	0	1	0
OUSD(AT&L)	1	1	0	0	0	1	1
DISA	1	1	0	0	0	1	1
Subtotals	20	19	0	1	0	18	14
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	25	20	1	4	0	23	17
Subtotals	25	20	1	4	0	23	17
Totals	85	54	13	18	0	79	43

Figure VII-5. Working Capital Fund Critical Systems – Other Financial Statements

System Owner	Number of Audit Relevant Systems and Applications	Audit Relevant Systems and Applications Audit Readiness Status				Number of IA Certified and Accredited	Number of DISA Hosted
		Audit Ready	Not Audit Ready	Discovery Incomplete	Audit Impact TBD		
Reporting Entity Owner Systems							
Army	16	3	4	9	0	16	0
Navy	2	0	1	1	0	2	0
Marine Corps	1	0	0	1	0	1	0
Air Force	3	1	1	1	0	3	2
Other Defense Organizations	14	6	1	7	0	14	5
Subtotals	36	10	7	19	0	36	7
Service Provider Owned Systems (SSAE No. 16)							
DFAS	12	11	0	1	0	11	10
DLA	2	2	0	0	0	2	1
DCMA	2	2	0	0	0	1	1
DCPAS	1	1	0	0	0	1	0
OUSD(AT&L)	1	1	0	0	0	1	1
DISA	1	1	0	0	0	1	1
Subtotals	19	18	0	1	0	17	14
Service Provider Owned Systems (Non-SSAE No. 16)							
DFAS	25	20	1	4	0	23	17
Subtotals	25	20	1	4	0	23	17
Totals	80	48	8	24	0	76	38

Enterprise Resource Planning Systems

To demonstrate the critical linkage between the ERP deployments, elimination of material weaknesses, and auditability, the Department is tracking the deployment status of each ERP. Detail is provided on the cost, controls, milestones, and financial reporting objectives for each of the nine ERPs.

DEPARTMENT OF THE ARMY

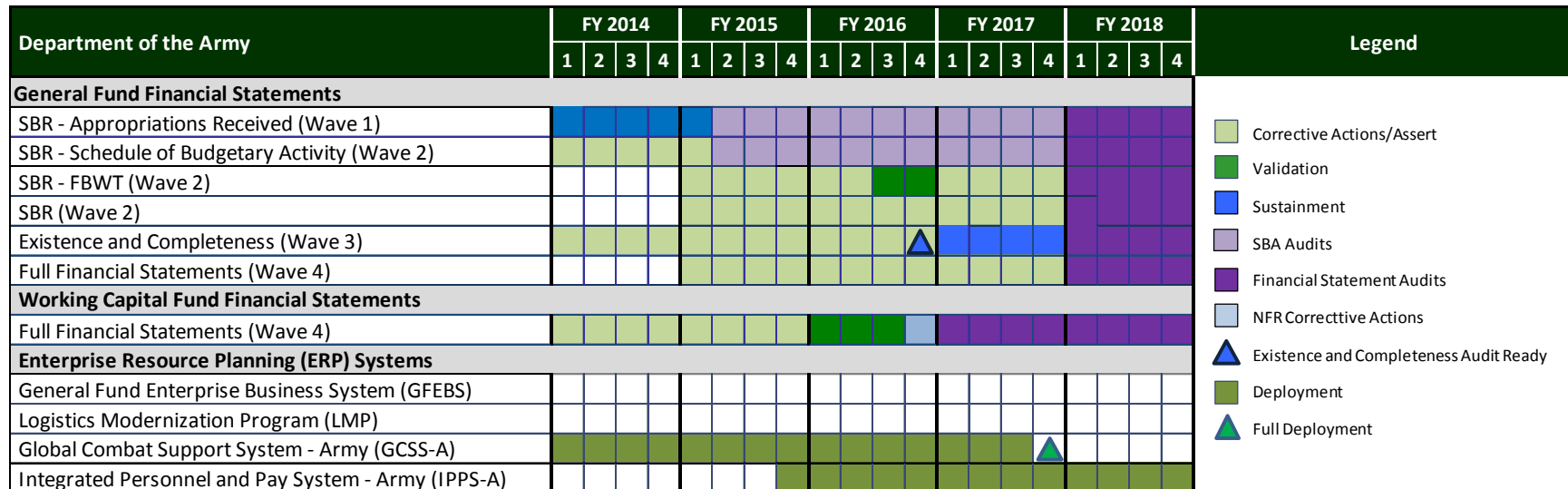
Figure VII-6 shows the Army audit readiness plans as compared to its ERPs deployment schedule. The Army ERPs are:

- General Fund Enterprise Business System (GFEBS) is the General Fund accounting, asset management, and financial

system used to standardize, streamline, and share data across the active Army, Army National Guard, and Army Reserve.

- Logistics Modernization Program (LMP) is one of the world's largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. Its mission is to sustain, monitor, measure, and improve modernized, national-level logistics support solution.
- Global Combat Support System - Army (GCSS-A) provides enterprise-wide visibility into various logistics areas and is a key enabler for the Army in achieving auditability.
- Integrated Personnel Pay System - Army (IPPS-A) is an integrated solution using ERP software and agile development to deliver integrated personnel and pay capabilities

Figure VII-6. Army Audit Readiness and ERP Plans



Note: GFEBS and LMP fully deployed. IPPS-A - FDD planned for Quarter 3 of FY 2019.

General Fund Enterprise Business System (GFEBS)

Overview

- GFEBS is the Army’s General Fund web-enabled accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS serves as the source for consolidated Army General Fund financial reporting.
- The deployment schedule for GFEBS included eight waves to thousands of financial users across the globe. Releases were deployed by functionality.
- In 07/2012, the Army completed GFEBS deployment. More than 53,000 users have been trained on GFEBS, and there are now more than 35,000 active users at 227 locations in 71 countries. Internal assessments are addressing GFEBS ability to meet audit readiness requirements.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$379.8	\$379.8
Procurement	\$243.1	\$284.6
Operations and Maintenance	\$280.6	\$849.4

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	46
Legacy Systems Scheduled for Sunset	47
Legacy Systems Interfaced to Date	17
Total Number of Systems with Functionality Fully or Partially Subsumed by GFEBS	110

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

GFEBs Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	0
Milestone B		✓	20
Release/Wave 1	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management	✓	Captured in Milestone B
Milestone C	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	29
Release/Wave 2	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management	✓	Captured in Milestone C
Release/Wave 3	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	Captured in Milestone C
Full Deployment Decision	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	51
Full Deployment	General Ledger Module, Budget Resource Management, Pay Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	61

GFEBs Financial Reporting Impact

GFEBs serves as a key source for consolidated Army General Fund financial reporting.

FIAR Plan Status Report

GFEB Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	23	12	✓	✓
Supplies (MILSTRIP)	23	12	✓	✓
Reimbursable Work Order – Grantor	23	12	✓	✓
Vendor Pay	23	12	✓	✓
Fund Balance with Treasury	28	7	✓	✓
Appropriations Received	13	2	✓	✓
Military Pay	18	6	✓	✓
Civilian Pay	11	4	✓	✓
Reimbursable Work Order – Acceptor	7	4	✓	✓
Other Budgetary Activity	8	0	✓	✓
Financial Reporting	4	1	✓	✓
Mission-Critical Assets Existence and Completeness				
General Equipment	10	TBD	TBD	TBD
Real Property	10	TBD	TBD	TBD
OM&S	10	TBD	TBD	TBD
Inventory	10	N/A	N/A	N/A

Logistics Modernization Program (LMP)

Overview

- LMP is one of the world’s largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. It is designed to sustain, monitor, measure, improve, and modernize the logistics support solution.
- LMP handles 2 million transactions daily and \$22 billion in inventory. It is deployed to 21,000 users in more than 50 locations around the world. LMP interfaces with more than 70 DoD systems and exceeds industry standards with a system response time of less than 2 seconds per transaction in 97 percent of cases.
- LMP Increment 2 will add 9,000 new users, give 5,000 users additional functionality, and will provide new and expanded capabilities that address business transformation for the Army and the DoD Directive 8320.04 for IUID.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
AWCF – CIP	\$1,035.2	\$1,361.7
AWCF – OPS	\$793.1	\$2,508.5
OMA	\$100.6	\$184.5
BRAC	\$3.1	\$3.1

Note: To Date is as of August 20, 2014 – Program Cost is for Increments 1 and 2. Completion cost (total lifecycle cost) as reflected in Milestone B Army Cost Position.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	2 (8 CCSS, 42 SDS) ¹
Legacy Systems Scheduled for Sunset	16
Legacy Systems Interfaced to Date	72
Legacy Systems to Be Interfaced	5

¹ 8 CCSS and 42 SDS refer to the number of instances of these legacy systems.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓*
Access	✓	12/2015*
Configuration Management	✓	✓*
Segregation of Duties	✓	12/2015*
Contingency Planning	✓	✓*
Completeness	✓	12/2015*
Accuracy	✓	12/2015*
Validity	✓	12/2015*
Confidentiality	✓	12/2015
Availability	✓	12/2015

* Status only reflects LMP Increment 1. Additional application control testing is required upon implementation of LMP Increment 2, Wave 3.

FIAR Plan Status Report

LMP Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
CECOM Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
AMCOM Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
FFMIA Compliance (Blue Book ver 6.0)	Demonstration of LMP FFMIA Compliance with the Army Audit Agency – LMP determined to be “Substantially Compliant”	✓	N/A
SAP Upgrade from 4.6c to ECC 6.0	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
TACOM/JM&L/ASC Go-Live	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	N/A
BEA Compliance (ver 8.0)	Program Compliance	✓	N/A
03/2011 Functional Release	SFIS 8.0 Historical Financial Records Update	✓	N/A
12/2011 Functional Release	GFEB Interfaces , SFIS Compliance Capability, OSD Functional Financial Requirements, Constructive Receipts, improved Fed/Non Fed determination	✓	N/A
SFIS Compliance (ver 8.0)	Demonstrate compliance with remaining SFIS 8.0 Business Rules with ODCMO	✓	N/A
SFIS Compliance (ver 9.0)	Demonstrate compliance with remaining SFIS 9.0 Business Rules with ODCMO	✓	N/A
BEA Compliance (ver 10.0)	Program Compliance	✓	N/A
FFMIA Compliance (Blue Book ver Jan 2011)	Demonstrate LMP FFMIA Compliance with the Army Audit Agency	✓	N/A
Implement Governance, Risk, and Compliance capability	Enhanced Access Controls and Segregation of Duties Management	✓	N/A
BEA Compliance (ver 10.0)	Program Compliance with FY 2015 OEP cycle	✓	N/A
11/2014 Functional Release	Auditability SCR Implementation	✓	N/A
GTAS Compliance	Implement the functional changes to support GTAS reporting	✓	N/A
SFIS Compliance (ver 10.0)	LMP configured with SFIS 10.0 data elements to support SFIS reporting	✓ ¹	N/A
SLOA Capability	LMP configured to accept, store, and transmit all SLOA data elements	✓ ¹	N/A
BEA Compliance	Program Compliance with FY 2016 OEP cycle	04/2015 ²	N/A

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
05/2015 Functional Release	Auditability SCR Implementation	✓	N/A
FFMIA Compliance	Abide by ASA(FM&C)'s holistic Army FFMIA compliance process	06/2015	N/A
AWCF Audit Readiness Corrective Action Plans	Complete FISCAM Corrective Actions Plan to enable ASA(FM&C) FO to assert audit readiness	09/2015 ¹	N/A
AWCF Inventory Existence and Completeness Validation	Validation of Management Assertion of Internal Controls Design and Effectiveness	09/2015	N/A
AWCF Audit Readiness Assertion	Complete validation of FISCAM controls for ASA(FM&C) FO to assert audit readiness	09/2015 ²	N/A
11/2015 Functional Release	Auditability SCR Implementation	11/2015 ³	N/A
05/2016 Functional Release	Auditability SCR Implementation	05/2016	N/A

¹ LMP is coordinating with the Office of the Assistant Secretary of the Army Financial Management and Comptroller and Joint Interoperability Test Command to demonstrate SFIS and SLOA configuration and business rules compliance by 12/2015.

² Awaiting guidance from the HQDA on tool to submit BEA compliance as the Architectural Compliance and Requirements Traceability (ACART) is retired.

³ Conducting final analysis on candidate audit readiness related SCRs for a November 2015 Targeted Regression Test functional release.

LMP Financial Reporting Impact

System compliance reviews are an important step toward relying on controls within LMP. Integration between LMP and GFEBS consists of budget execution and obligation transactions that are reported on the SBR. Additionally, LMP is an APSR for a portion of Army

OM&S. Given the volume of assets and transactions, future Army audit readiness assertions must rely on system controls. Army is on track for reviewing Governance, Risk and Compliance, SFIS, and FFMIA compliance for LMP.

FIAR Plan Status Report

LMP Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	22	21	✓	12/2015
Supplies (MILSTRIP)	22	21	✓	12/2015
Vendor Pay	22	21	✓	12/2015
Reimbursable Work Order – Grantor	22	21	✓	12/2015
Fund Balance with Treasury	29	2	✓	12/2015
Appropriations Received	13	0	✓	N/A
Military Pay	N/A	N/A	N/A	N/A
Civilian Pay	11	7	✓	12/2015
Reimbursable Work Order – Acceptor	7	7	✓	12/2015
Other Budgetary Activity	8	0	✓	N/A
Financial Reporting	4	4	✓	12/2015
Government Purchase Card	22	21	✓	12/2015
Temporary Duty Travel	22	TBD	TBD	TBD
Mission-Critical Assets Existence and Completeness				
General Equipment	10	1	✓	12/2015
Real Property	10	1	✓	12/2015
OM&S	10	9	✓	12/2015
Inventory	10	9	✓	12/2015

Global Combat Support System – Army (GCSS-A)

Overview

- GCSS-A provides enterprise-wide supply chain logistics capability at the tactical and installation levels and enables the Army to achieve full audit readiness.
- GCSS-A is being deployed in two waves. Wave 1 will provide Army-wide supply and financial capabilities at the tactical unit and installation warehouse levels, and Wave 2 will deploy maintenance, property book accountability, and additional financial capabilities to every tactical and installation level unit in the Army.
- GCSS-A completed Initial Operational Test and Evaluation with 2nd Brigade, 1st Armored Division, in Quarter 1 of FY 2012, and received a Full Deployment Decision in Quarter 1 of FY 2013. As of 03/2015, the GCSS-A fielding effort for Wave 1 was approximately 64 percent complete. It was fielded to 25 Fielding Groups, including 202 Units (out of a projected 315), and 7,450 users. Wave 2 has begun with limited deployment to the initial units.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset	7
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	2

Note: GCSS-A will sunset SARSS-1 and SARSS-2AC/B with its Wave 1 deployment completion in FY 2015. With the completion of Wave 2 Deployment, GCSS-A will sunset PBUSE, SAMS-E, SAMS-IE, FCM, and STANFINS (Partial) in Quarter 4 of FY 2017. Wave 2 will also include interfaces for two legacy systems: SAAS-Mod and ULLS-AE.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$1,015.0	\$1,062.9
Procurement	\$455.0	\$891.1
Operations and Maintenance	\$269.0	\$1,977.7

Note: To Date is as of September 2014. Total Cost (Total Lifecycle Costs) as reflected in Full Deployment Decision Army Cost Position.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	12/2015
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

GCSS-A Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A/B		✓	10
Milestone C		✓	22
Full Deployment Decision	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	✓	31
Initial Deployment/Initial Operating Capability	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	✓	32
Wave 1	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	03/2016	48
Wave 2	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	09/2017	65
Full Deployment	Budget Resource Management, Cost Management, Fund Balance with Treasury Management, General Ledger Management, Payment Management, Receivables Management	09/2017	65

GCSS-A Financial Reporting Impact

GCSS-A Wave 1 enables an initial capability in achieving financial audit readiness for supply transactions at the tactical unit and installation levels. When Wave 2 is complete, financial audit

readiness also will include maintenance and property book accountability financial transactions at these same levels.

FIAR Plan Status Report

GCSS-A Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Fund Balance with Treasury	29	7	TBD	
Supplies (MILSTRIP)	22	21	TBD	
Financial Reporting	4	4	TBD	
Other Budgetary Activity	18	TBD	TBD	
Appropriations Received	13	2	TBD	
Reimbursable Work Order – Grantor	22	12	TBD	
Reimbursable Work Order – Acceptor	7	4	TBD	
Mission-Critical Assets Existence and Completeness				
General Equipment	10	9	10/2016	
OM&S	10	9	10/2016	
Inventory	10	9	10/2016	

Integrated Personnel and Pay System – Army (IPPS-A) – Increment I

Overview

- IPPS-A is the Army's Web-based Human Resources (HR) solution for integrating HR capabilities across Army Components. IPPS-A will alleviate the Army's reliance on more than 40 stove-piped HR systems that do not efficiently share information. IPPS-A will provide a centralized resource to soldiers, leaders, and HR professionals for managing personnel and pay information.
- Provides standardized reports with conditional displays by grade (Enlisted, Officer, Warrant Officer) and Component.
- Establishes a total Army relational database that standardizes data as it is loaded from the 15 current legacy systems.
- Supports data accuracy by providing reports that allow soldiers to review and correct erroneous information in legacy systems.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$186.9	\$190.9
Procurement	\$0.5	\$0.5
Operations and Maintenance	\$9.7	\$177.5

Note: To Date as of March 19, 2015. Completion cost (total lifecycle cost) as reflected in Milestone C Army Cost Position.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset*	0
Legacy Systems Interfaced to Date (Increment I)	15
Legacy Systems to Be Interfaced (Increments I and II)	71

* The 43 systems previously reported will be sunset after deployment of IPPS-A, Increment II.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

IPPS-A Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Material Development Decision	Provided strategic direction for the program and detailed acquisition requirements; Increment I entered the DoD acquisition lifecycle in the Engineering and Manufacturing Development Phase (post-Milestone B).	✓	TBD
Contract Award	IPPS-A Increment I System Integrator awarded; development underway.	✓	TBD
Release 1.0 Milestone C	Authorizes IPPS-A to enter the Production and Deployment Phase of the Acquisition Lifecycle; prepare for Full Deployment Decision.	✓	TBD
Release 1.0 Full Deployment Decision	Authorizes IPPS-A Increment I to enter Operations and Support Phase of the Acquisition Lifecycle and proceed to Full Deployment of the trusted database to the Army National Guard, Active Army and United States Army Reserve. Increment I provides the foundational database for additional functionality provided in future releases.	✓	TBD
Increment II Milestone B	Authorizes the Army to begin the Engineering Development Phase for IPPS-A Increment II in accordance with the Interim Department of Defense Instruction (DoDI) 5000.02 signed by the USD(AT&L) on November 26, 2013.	✓	0

IPPS-A Financial Reporting Impact

IPPS-A will meet the requirements of the FIAR program as it is deployed. The PeopleSoft ERP was selected for the Army's integrated personnel and pay system in part because of the ability to configure existing capabilities to meet FIAR standards. IPPS-A will ultimately feed SFIS-compliant data to GFEBS for the Military Personnel Appropriation payroll and funded orders. IPPS-A will replace over 40 legacy personnel systems and stop using 5 DoD pay systems. Although IPPS-A is required to meet auditability standards and will be audit ready at each release, it will not be deployed in time to support Army's FY 2015 audit readiness assertion for the SBA or

for the full financial statement audit readiness assertion for FY 2018. Lessons learned from the FY 2015. SBA audit will help ascertain if the design and development of IPPS-A is in line with the requirements for a full financial statement audit assertion. IPPS-A is being designed and developed to be compliant with FISCAM, FFMIA, SFIS, and BEA standards and will eliminate or assist in eliminating a number of the Army's material weaknesses. Current Army systems will continue to provide information for audit readiness until IPPS-A is ready to deploy.

FIAR Plan Status Report

IPSS-A Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	22	0		
Supplies (MILSTRIP)	22	0		
Vendor Pay	22	0		
Reimbursable Work Order – Grantor	22	0		
Fund Balance with Treasury	29	0		
Appropriations Received	13	0		
Military Pay	18	TBD	TBD	TBD
Civilian Pay	11	0		
Reimbursable Work Order – Acceptor	7	0		
Other Budgetary Activity	18	0		
Financial Reporting	4	0		
Mission-Critical Assets Existence and Completeness				
General Equipment	10	0		
Real Property	10	0		
OM&S	10	0		
Inventory	10	0		

DEPARTMENT OF THE NAVY

The DON has two ERPs impacting audit readiness:

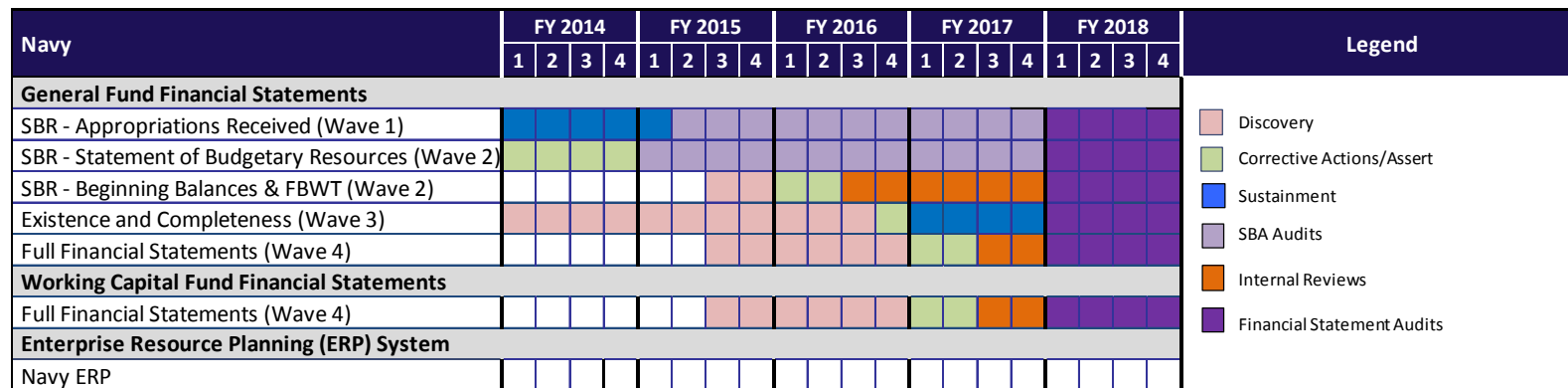
- Navy ERP
- Global Combat Support System - Marine Corps (GCSS-MC)

Figures VII-7 and VII-8 compare the Navy and Marine Corps audit readiness plans with their respective ERP plans.

As shown in Figure VII-6, the Navy ERP is fully deployed. Navy ERP is the Navy’s financial system of record and has streamlined the Navy’s financial and supply chain management operations.

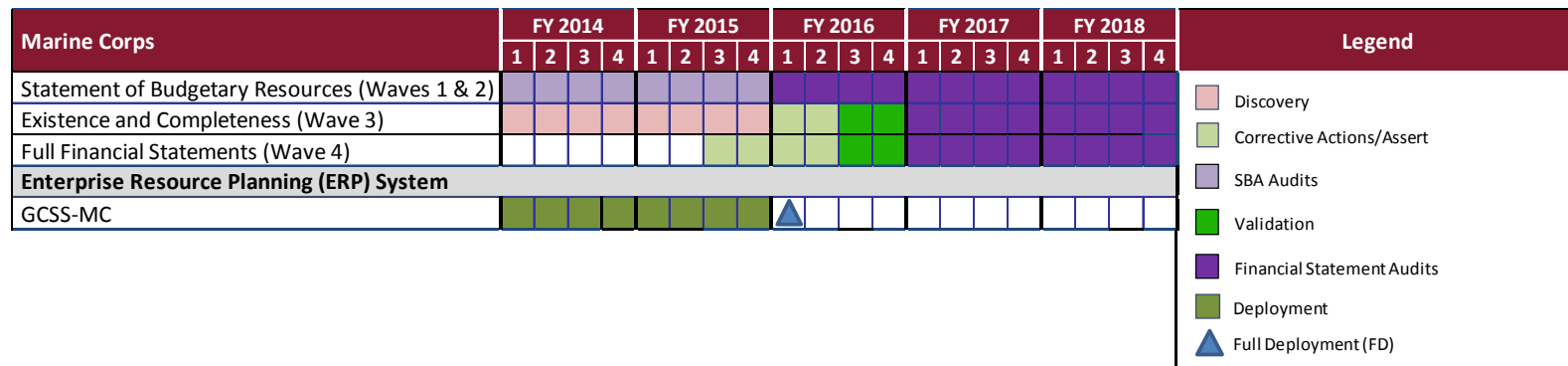
Figure VII-7 compares the Marine Corps audit readiness plans with the GCSS-MC deployment plans. GCSS-MC is the core of a modern, web-enabled, centrally managed, ERP software system.

Figure VII-7. Navy Audit Readiness and ERP Plans



Note: Navy ERP is fully deployed.

Figure VII-8. Marine Corps Audit Readiness and ERP Plans



Navy ERP

Overview

- Navy ERP was deployed in a single increment with two capability releases: 1) Financial and Acquisition Management, and 2) Wholesale and Retail Supply. As of 10/2012, deployments were complete, and the system is now in the Operations and Support phase of the Acquisition Lifecycle. To date, there are approximately 72,000 Navy ERP users.
- Navy ERP implemented a change management strategy including user training, communications, and on-site user support. Additionally, data-conversion risks were mitigated through legacy data cleansing, data conversions, and use of advanced data conversion tools.
- Navy ERP FISCAM Assessment Phase 1 was completed 12/2012. Assessment Phase 2 was completed 02/2014. Assessment Phase 3 was completed in 02/2015. Phase 4 started in 02/2015 and is still in progress. Corrective actions are being completed for IT control deficiencies from Phase 1-3 assessments.
- Current challenges include skilled workforce capacity and program budget constraints.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date ¹	85
Legacy Systems Scheduled for Sunset ²	3
Legacy Systems Interfaced to Date	62
Legacy Systems to Be Interfaced ³	3

¹ As of 02/2015.

² Remaining FY 2014 – FY 2016 planned system requirements.

³ New interfaces required to support ONR reporting, SCES, and the universe of transactions.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$316.3	\$316.3
Procurement	\$73.1	\$73.1
Operations and Maintenance	\$430.1	\$430.1

Note: Cost includes investment costs only. No additional investment costs after FY 2013.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	09/2016
Access	✓	09/2016
Configuration Management	✓	09/2016
Segregation of Duties	✓	04/2016
Contingency Planning	✓	09/2016
Completeness	02/2016	09/2016
Accuracy	02/2016	09/2016
Validity	02/2016	09/2016
Confidentiality	02/2016	09/2016
Availability	02/2016	09/2016

FIAR Plan Status Report

Navy ERP Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	0
Milestone B		✓	0
Initial Operating Capability /Initial Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management	✓	0
Milestone C	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	0
Full Deployment Decision	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management	✓	47
Full Deployment	General Ledger Management, Budgetary Resource Management, Payment Management, Receivables Management, Cost Management, Fund Balance with Treasury Management, Property Management	✓	50 ¹

¹Navy ERP is the program of record at 6 Commands, representing 50 percent of DON's Total Obligating Authority, and will not be deployed at the remaining Commands.

Navy ERP Financial Reporting Impact

The DON made a strategic decision to not deploy Navy ERP across the entire Navy command structure due to expectations and challenges associated with deployment to its ships and Fleet

activities. As a result, some efficiencies and cost savings in audit readiness and execution may not be achieved, due to managing multiple business processes and disparate financial systems. Regardless, the Navy intends to achieve auditability using multiple financial systems.

FIAR Plan Status Report

Navy ERP Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	# of Financial Reporting Activities Tested for ERP	Tested	Corrected
Statement of Budgetary Resources					
Contract Pay	29	20	20	✓	✓
Supplies (MILSTRIP)	29	20	7	✓	✓
Vendor Pay	29	20	20	✓	✓
Reimbursable Work Order – Grantor	29	29	5	✓	✓
Fund Balance with Treasury	14	12	12	✓	✓
Appropriations Received	5	4	4	✓	✓
Military Pay	13	0 ¹	0 ¹	N/A	N/A
Civilian Pay	13	12	9	✓	✓
Reimbursable Work Order – Acceptor	12	12	8	✓	✓
Other Budgetary Activity	8	0	0	✓	✓
Financial Reporting	10	10	10	✓	✓
Mission-Critical Assets Existence and Completeness					
Real Property	0 ⁴	0 ²	N/A	N/A	N/A
Inventory	10	10	10	✓	✓
OM&S	10	10	10	✓	✓
General Equipment	10	10	10	✓	06/2015

¹ Military Pay transactions are not processed within Navy ERP.

² iNFADS is the Accountable Property System Record for Real Property. NAVFAC does not plan to move Real Property to Navy ERP.

Global Combat Support System – Marine Corps (GCSS-MC)

Overview

- GCSS-MC provides the core of a modern, web-enabled, centrally managed, ERP software system.
- GCSS-MC PMO supports the Global Combat Support Systems – Marine Corps/Logistics Chain Management ACAT IAM (Major Automated Information System (MAIS)) and some Logistics Information Systems (LIS) and is the primary technology enabler for the Marine Corps Logistics Modernization strategy providing the backbone for all logistics information.
- GCSS-MC/LCM strategy includes multiple increments each with its own baseline, with Increment 1 being fielded in two releases. Release 1.1 (Enterprise) has been fielded to the entire Marine Corps, with Release 1.1.1 providing enhanced support to the operational Marines.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$305.1	\$344.7
Procurement	\$80.5	\$99.5
Operations and Maintenance	\$361	\$1,143.6

Note: Increment 1 cost at completion extends through FY 2025.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	4
Legacy Systems Interfaced to Date	13
Legacy Systems to Be Interfaced	0

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

GCSS-MC Implementation Milestones and Audit Readiness Information (✓ = Completed)

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		✓	6
Milestone B		✓	16
Milestone C	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1 – Limited Fielding Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1 – Continued Fielding Release 1.1	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Rel 1.1.1 – Limited Release for FOT&E	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	0
Full Deployment Decision	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	✓	30
Full Deployment	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	12/2015	0
Sustainment (FY 2025)	General Ledger Management, Budgetary Resources Management, Payment Management, Receivables Management	FY 2025	49

Note: GCSS-MC is not fully fielded and is not audit ready as of the date of this report.

GCSS-MC Financial Reporting Impact

GCSS-MC/LCM Increment 1 Release 1.1 has been fully fielded. The remaining Release 1.1.1 enhancement was completed in December 2014 and received a full deployment decision in Quarter 2 of FY 2015. This completed Increment 1. The system is refreshing to the Oracle 12.2 e-Business Suite in 2015. The USMC uses DPAS for military equipment valuation and reporting of military equipment capitalized assets in USMC financial statements.

Inventory balance and valuation of OM&S is transferred from GCSS-MC/LCM to the Marine Corps financial system of record, SABRS, via the General Ledger Journal Funds Check interface. It is envisioned that the GCSS-MC/LCM in a future increment will be the

Logistics System accounting for inventory and will feed the Marine Corps’ financial system for OM&S reporting.

DPAS accounts for General Property, Plant, and Equipment, and GCSS-MC/LCM will report military equipment capitalized assets. This capability will be satisfied with the development of Inventory Valuation for fixed assets. The GCSS MC/LCM enterprise-wide visibility of data allows logistics planners and operators to make decisions about the logistics chain based on reliable, timely information. The PMO seeks to address several challenges enabling enterprise-wide standard processes, and enterprise equipment and inventory accountability and auditability.

Root causes of these challenges include business process reengineering and an aging portfolio of stove-piped IT assets.

FIAR Plan Status Report

Symptoms of these causes can be seen in USMC's capability gap analyses, lessons learned from Operation Iraqi Freedom, Operation Enduring Freedom, and on-going field operations.

The GCSS-MC/LCM Increment 1 represents a significant step forward, both in terms of its capability to address the spectrum of

logistics chain functionality and its organizational impact across the Marine Air Ground Task Forces and USMC supporting establishment.

FIAR Plan Status Report

GCSS-MC Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	29	0		
Supplies (MILSTRIP)	29	19	✓	09/2015
Vendor Pay	29	0		
Reimbursable Work Order – Grantor	29	0		
Fund Balance with Treasury	14	0		
Appropriations Received	17	0		
Military Pay	13	0		
Civilian Pay	13	0		
Reimbursable Work Order – Acceptor	12	0		
Other Budgetary Activity	8	0		
Financial Reporting	10	0		
Mission-Critical Assets Existence and Completeness				
Military Equipment	10	N/A	N/A	N/A
Real Property	10	N/A	N/A	N/A
Inventory	10	N/A	N/A	N/A
OM&S	10	10	08/2015	03/2016
General Equipment	10	N/A	N/A	N/A

Note: The Corrective Action Plans and associated Plan of Action and Milestones for deficiencies have been developed for OM&S and FISCAM. GCSS-MC PMO is updating I&L on the remediation efforts for MILSTRIP on a bi-weekly basis.

DEPARTMENT OF THE AIR FORCE

Figure VII-9 shows the Air Force audit readiness plans by FIAR Strategy wave as compared to its ERPs deployment schedule. The Air Force ERPs are:

- The Defense Enterprise Accounting and Management System (DEAMS) is an automated accounting and financial management execution system for the Air Force General Funds and U.S. Transportation Command. DEAMS is scheduled to achieve initial operating capability in Quarter 2 of FY 2015 and deploy to all Air Force Major Commands by Quarter 1 of FY 2017.

- Air Force Integrated Personnel and Pay System (AF-IPPS) is a comprehensive, global, 24/7, self-service, web-based solution integrating personnel and pay capabilities serving as the platform to enable Total Force Integration within Human Resource Management by maintaining an authoritative member record throughout an airman's career. An FFMIA-compliant system, AF-IPPS functionality will support audit readiness general and application controls; however, full deployment is not projected until Quarter 4 of FY 2018.

Figure VII-9. Air Force Audit Readiness and ERP Plans

Department of the Air Force	FY 2014				FY 2015				FY 2016				FY 2017				FY 2018				Legend																																																																																																																																																																																																																					
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4																																																																																																																																																																																																																						
FIAR Strategy Waves																						<ul style="list-style-type: none"> Discovery Corrective Actions/Assert Validation Sustainment SBA Audits Financial Statement Audits Deployment Full Deployment Decision (FDD) 	SBR - Appropriations Received (Wave 1)																					SBR - Statement of Budgetary Resources (Wave 2)																					SBR - Beginning Balances & FBWT (Wave 2)																					Existence and Completeness (Wave 3)																					Full Financial Statements (Wave 4)																					Working Capital Fund Financial Statements																						Full Financial Statements (Wave 4)																					Enterprise Resource Planning (ERP) Systems																						DEAMS																					AF-IPPS																				
SBR - Appropriations Received (Wave 1)																																																																																																																																																																																																																																										
SBR - Statement of Budgetary Resources (Wave 2)																																																																																																																																																																																																																																										
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Defense Enterprise Accounting and Management System (DEAMS)

Overview

- DEAMS is an automated accounting and financial management execution system for the Air Force and USTRANSCOM.
- Compliant with laws, regulations, and policies; permits response to statutory, regulatory, and policy changes; enables audit opinions; supports assurances on internal controls; assists in resolving material weaknesses; and supports analysis of financial events.
- The deployment strategy is phased by Major Command and base location.
- Delivered capability for procure-to-pay; order-to-cash; billing and project accounting including transaction-based general ledger to four Air Force Major Commands and USTRANSCOM as of February 2015.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$408.2	\$582.7
Procurement	\$19.5	\$29.8
Operations and Maintenance	\$49.7	\$89.0
Transportation Working Capital Fund – Capital	\$115.6	\$147.7
Transportation Working Capital Fund – Operating	\$12.7	\$12.7

Note: Program acquisition costs by appropriation for Increment 1. At Completion does not include 10 years of sustainment costs. Based on approved SCP, February 2015.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	6*
Legacy Systems Interfaced to Date	41
Legacy Systems to Be Interfaced	64

Source: Systems Requirements Document version 1.11 (01/2015).

*DEAMS will subsume functionality for Air Force General Funds and Transportation Working Capital Fund transactions. Actual system sunset is dependent on legacy transaction burn-down/conversion and additional enterprise solutions.

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	N/A
Access	✓	✓
Configuration Management	✓	TBD
Segregation of Duties	✓	✓
Contingency Planning	✓	TBD
Completeness	✓	TBD
Accuracy	✓	TBD
Validity	✓	TBD
Confidentiality	✓	TBD
Availability	✓	TBD

Note: TBD dates to be determined after completion of a DISA SSAE No. 16 examination.

DEAMS Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A		04/2005	0
Milestone B	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	01/2012	2
Full Deployment Decision	GLM, BRM, PayM, RecM, FBWT (GF)	08/2015	26
Full Deployment	GLM, BRM, PayM, RecM, FBWT (GF)	10/2016	100 ¹

¹ Represents 100 percent of current year unclassified Air Force General Fund Budget Authority based on the FY 2015 initial distribution.

DEAMS Financial Reporting Impact

DEAMS is a financial management system using standardized, transaction-based, SFIS-compliant data. DEAMS will serve as the core accounting system for the Air Force General Fund and elements of the Transportation Working Capital Fund. It will pass USSGL-compliant trial balance data directly to DDRS for financial reporting.

DEAMS addresses current financial management challenges, including system capability to enable resolving material weaknesses; improving timeliness and accuracy of financial management information; supporting consistent financial reporting to the Department while enabling business process reengineering.

FIAR Plan Status Report

DEAMS Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	30	30	06/2015	TBD
Supplies (MILSTRIP)	29	29	06/2015	TBD
Vendor Pay	30	30	06/2015	TBD
Reimbursable Work Order – Grantor	29	29	06/2015	TBD
Fund Balance with Treasury	22	20	06/2015	TBD
Appropriations Received	17	17	06/2015	TBD
Military Pay	13	0	N/A	N/A
Civilian Pay	13	10	06/2015	TBD
Reimbursable Work Order – Acceptor	12	12	06/2015	TBD
Other Budgetary Activity	8	8	06/2015	TBD
Financial Reporting	10	4	06/2015	TBD
Mission-Critical Assets Existence and Completeness				
General Equipment	0	0	N/A	N/A
Real Property ¹	10	3	09/2016	TBD
Inventory	10	0	N/A	N/A
OM&S	10	0	N/A	N/A
General Equipment ²	10	3	09/2016	TBD

Notes: Military Equipment assessable unit has been replaced by General Equipment assessable unit. TBDs cannot be determined until testing is completed, which may be incorporated in the IPA SBA audit.

¹ Real Property TBDs are dependent on interfaces with new real property IT system (NextGen IT) to be deployed.

² Applies to Transportation Working Capital Fund only.

Air Force – Integrated Personnel and Pay System (AF-IPPS)

Overview

- AFIPPS is an FFMIA compliant system, supporting Military Pay auditability. Functionality will support audit readiness general and application controls, but it will not be deployed in time to support financial statements audit readiness by September 30, 2017. Full Deployment Decision estimated to be in Quarter 2 FY 2019.
- Comprehensive 24/7 self-service, web-based solution enabling transformation of military personnel and pay processing by integrating personnel and pay processes into one COTS, self-service system and maintaining an authoritative member record throughout the persons career.
- Supports AF Human Resource Management Total Force Integration initiative to implement a common personnel management process across all 3 Air Force components.
- Releases: 1) Leave Request Management, 2) Air Reserve Component Active Duty/Inactive Duty Management, 3) Total Force Officer Career Management, 4) Total Force Enlisted Career Management and Cadet Payroll.
- Contract 1 awarded in 08/2013. A protest was received 09/2013; Contractor directed to stop work until protest resolution. GAO denied the protest (111-day period); contract restarted 12/2013. Contractor conducted an Acquisition Program Transition Workshops Acquisition Program Transition Workshops 02/2014, Blueprinting Readiness Review-1 (BRR-1) 03/2014, initiated Release 1 Blueprinting activities 04/2014, and a Release 1 Preliminary Design Review 12/2014. Contractor initiated Release 2 - 4 Blueprinting activities 08/2014.
- Challenges include network and processor monitoring and performance, data management, interfaces, common-infrastructure governance, synchronization between AFIPPS implementation and other Air Force systems modernization.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$121.5	\$517.7
Procurement	--	\$30.8

Note: Completion costs (through FY 2029) based on AF-IPPS Program Office Estimate, dated May 30, 2014.

FIAR Plan Status Report

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	0
Legacy Systems Scheduled for Sunset	23
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	94

Source: Systems Requirements Document version 1.6 (May 3, 2012).

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	TBD	TBD
Access	TBD	TBD
Configuration Management	TBD	TBD
Segregation of Duties	TBD	TBD
Contingency Planning	TBD	TBD
Completeness	TBD	TBD
Accuracy	TBD	TBD
Validity	TBD	TBD
Confidentiality	TBD	TBD
Availability	TBD	TBD

Note: AF-IPPS is an unbaselined MAIS program. Information Technology Controls will be tested post contract award.

AF-IPPS Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone B/Initial Operating Capability	Delivers Blueprinting of the entire AFIPPS system (Releases 1-4); Release 1 Leave Request Management, Release 2 Air Reserve Component Active Duty / Inactive Duty Management, Release 3 Total Force Officer Career Management and Release 4 Total Force Enlisted Career Management / Cadet Payroll.	11/2015	TBD
Milestone C/Full Deployment Decision	<p><u>Deploys the following capability:</u></p> <ul style="list-style-type: none"> • Release 2 – Air Reserve Component Active Duty/Inactive Duty Management: Manage mobilization and volunteers for contingency, call to active duty orders, inactive duty training, retirement point accounting, leave accrual; eligibility and computation of pay, debts, garnishments, allotments and tax withholding. • Release 3 – Total Force Officer Career Management: Accessions, Assignments, Promotions, Retirements/Separations. • Release 4 – Total Force Enlisted Career Management and Cadets Payroll: Accessions, Assignments, Promotions, Re-enlistments/Extensions, Retirements/Separations; Compute pay for ROTC and AF Academy cadets. 	03/2019	TBD

Note: AF-IPPS is an unbaselined MAIS program. Implementation milestones and audit readiness information will be baselined at Milestone B.

AF-IPPS Financial Reporting Impact

AF-IPPS will be a financial feeder system to DEAMS that will produce SFIS-compliant data. AF-IPPS will replace three major legacy systems, DJMS/AC, DJMS/RC and MilPDS, along with 20 other personnel and pay legacy systems. Lessons learned from the

audit of legacy systems will be incorporated into the development of AF-IPPS requirements. AF-IPPS is an Air Force Total Force application and is connected to the overall Air Force FIAR Plan.

FIAR Plan Status Report

AF-IPPS Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	0	0		
Supplies (MILSTRIP)	0	0		
Vendor Pay	0	0		
Reimbursable Work Order – Grantor	0	0		
Fund Balance with Treasury	0	0		
Appropriations Received	0	0		
Military Pay	13	6	TBD	TBD
Civilian Pay	0	0		
Reimbursable Work Order – Acceptor	0	0		
Other Budgetary Activity	0	0		
Financial Reporting	0	0		
Mission-Critical Assets Existence and Completeness				
Military Equipment	0	0		
Real Property	0	0		
Inventory	0	0		
OM&S	0	0		
General Equipment	0	0		

Note: Testing dates will be determined as the AF-IPPS schedule matures.

OTHER DEFENSE ORGANIZATIONS

The Defense Agencies Initiative (DAI) is modernizing the business environment at many of the Defense Agencies and other Defense organizations. The DAI objective is to achieve and sustain an auditable business environment with accurate, timely, authoritative financial data. The primary goal is to deploy a standardized system to improve cost of ownership, financial management capability, and achieve and maintain compliance with the Department's Business Enterprise Architecture and Standard Financial Information Structure.

To date, 12 Defense organizations have implemented DAI:

- Chemical Biological Defense Program (CBDP)
- Defense Applied Research Projects Agency (DARPA)
- Defense Health Agency (DHA)
- Defense Media Activity (DMA)
- Defense Prisoner of War/Missing Personnel Office (DPMO)
- Defense Security Service (DSS)
- Defense Technical Information Center (DTIC)
- Defense Technology Security Administration (DTSA)
- Defense Threat Reduction Agency (DTRA)
- Missile Defense Agency (MDA)
- Office of Economic Adjustment (OEA)
- Uniformed Services University of the Health Sciences (USU)

An additional 10 Defense organizations will deploy DAI:

- FY 2016:
 - Defense Acquisition University (DAU)
 - Defense Contract Management Agency (DCMA)
 - Defense Micro Electronics Agency (DMEA)
 - DoD Educational Activity (DoDEA)
- FY 2017:
 - Defense Human Resources Activity (DHRA)
 - Defense Information Systems Agency (DISA) – General Fund only
 - Defense Security Cooperation Agency (DSCA)
 - DoD Office of the Inspector General (DoD OIG)
- FY 2018:
 - Defense Commissary Agency (DeCA)
 - Defense Contract Audit Agency (DCAA)

Defense Agencies Initiative (DAI)

Overview

- DAI is the primary accounting system used by 11 Defense Agencies, with additional deployment in FY 2016 and FY 2017.
- An end-to-end FFMIA assessment was conducted that included an external auditor assessment of results. DAI is currently 96 percent compliant and will achieve 99 percent compliance with the deployment of Increment 2, Release 1. Full compliance will be achieved with Increment 2, Release 2.
- By full deployment in 2018, DAI's Enterprise Global Model will also include Grants Financial Management, Governance Risk and Compliance tool, Treasury Disbursing, Budget Formulation, Resale Accounting, and Working Capital Fund.
- A qualified opinion on an SSAE No. 16 examination was received for the period 01/2014 – 07/2014. The identified issues did not increase the risk for material misstatement of a financial statement and have been corrected. The SSAE No. 16 examination for the reporting period 10/2014 – 06/2015 is underway.

Impact on Legacy Systems

Legacy Systems Environment	# of Systems
Legacy Systems Sunset to Date	1
Legacy Systems Scheduled for Sunset	3
Legacy Systems Interfaced to Date	21
Legacy Systems to Be Interfaced	TBD

Note: DAI replaces, interfaces with, or subsumes functionality of ODO legacy systems. Complete shutdown of an ODO legacy system is determined by the system owner.

Program Cost

Program Cost by Appropriation	To Date (\$M)	Completion
RDT&E	\$248.8	\$403.7
Procurement	\$1.5	\$1.5
Operations and Maintenance	\$4.3	\$763.4

Note: Program costs include DAI Increment 1 and Increment 2

Information Technology Controls (✓ = Completed)

Controls	Tested	Corrected
Security Management	✓	✓
Access	✓	✓
Configuration Management	✓	✓
Segregation of Duties	✓	✓
Contingency Planning	✓	✓
Completeness	✓	✓
Accuracy	✓	✓
Validity	✓	✓
Confidentiality	✓	✓
Availability	✓	✓

FIAR Plan Status Report

DAI Implementation Milestones and Audit Readiness Information

Milestones	Functions	Completion	Percent of Total Budget Authority
Milestone A ACAT III		✓	N/A ¹
Deployment	Deployed to Business Transformation Agency as a pilot with several capabilities: Procure to Pay, Budget to Report, Cost Accounting, Order to Cash, Acquire to Retire; as well as Time and Labor*	✓	N/A ¹
Deployment	Deployed to Defense Technology Information Center as a pilot with a maturation of these capabilities	✓	N/A ¹
Milestone B ACAT III		✓	N/A ¹
Deployment	Deployed to Missile Defense Agency and Uniformed Services University of the Health Sciences with a further maturation of these capabilities	✓	N/A ¹
Initial Operating Capability	Includes maturation of the pilot Agencies' initial capabilities: Procure to Pay, Budget to Report, Cost Accounting, Order to Cash, Acquire to Retire; Time and Labor	✓	N/A ¹
Deployment	Deploy to four Agencies with maturation of Initial Operating Capabilities and Agency requirements	✓	N/A ¹
Deployment	Deploy to four Agencies with additional maturation of Initial Operating Capabilities and Agency requirements	✓	N/A ¹
Increment 2 Materiel Development Decision / Authorization to Proceed	Designated DAI as an MAIS program comprised of Increments 1 and 2; placed Increment 1 into sustainment and determined Increment 2 would provide at least the following new or enhanced capabilities: working capital fund accounting, budget formulation, grants financial management, resale accounting, time and labor process automation, and procure-to-pay efficiency through contract lifecycle management	✓	N/A ¹
Milestone B	Authorized development of Increment 2, Release 1, the technology upgrade of existing DAI Agencies to Oracle Release 12	✓	N/A ¹
Release 1	Upgrade Oracle Release 11.5.10 to Release 12 to existing Agencies	✓	55 ²
Limited Fielding Decision / Release 2	Deploy to four additional Agencies with the following additional capabilities: grants financial management and governance, risk and compliance automation	10/2015	74 ²

FIAR Plan Status Report

Milestones	Functions	Completion	Percent of Total Budget Authority
Release 3	Deploy to four Agencies with additional capabilities: budget formulation and treasury disbursing	10/2016	97 ²
Release 4	Deploy to two additional Agencies with additional capabilities: resale accounting and defense working capital fund	10/2017	100 ²
Full Deployment Decision	Represents full production readiness of DAI Increment 2 capability to include grants financial management, GRC automation, treasury disbursing, budget formulation, resale accounting and defense working capital fund. Other functional improvements will include expanded integration of time and labor and enterprise funds distribution processes.	10/2017	100 ²
Full Deployment	There are no more capabilities to deploy; DAI Increment 2 will go into sustainment.	09/2018	100 ²

¹ – N/A as Increment 1 will be subsumed when Increment 2, Release 1 deploys in May 2015. Increment 1 was an unbaselined program.

² – Release 1 of Increment 2 is a technology upgrade of existing Increment 1 agencies that support over half the total budget authority for agencies in-scope of the DAI program. Upon completion of Release 4, 100 percent of the total budget authority of the DAI agencies in-scope will be included, which will represent approximately 55 percent of total TI-97 General Funds (except trust funds).

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DAI Status of Financial Reporting Objectives by Assessable Unit (✓ = Completed)

FIAR Assessable Units	# of Financial Reporting Objectives for Assessable Units	# of Financial Reporting Objectives Planned for ERP	Tested	Corrected
Statement of Budgetary Resources				
Contract Pay	29	29	09/2015	TBD
Supplies (MILSTRIP)	29	1	N/A	N/A
Vendor Pay	29	29	09/2015	TBD
Reimbursable Work Order – Grantor	29	29	09/2015	TBD
Fund Balance with Treasury	14	14	09/2015	TBD
Appropriations Received	5	5	09/2015	TBD
Military Pay	13	02	N/A	N/A
Civilian Pay	13	13	09/2015	TBD
Reimbursable Work Order – Acceptor	12	12	09/2015	TBD
Other Budgetary Activity	8	8	09/2015	TBD
Financial Reporting	10	83	09/2015	TBD
Mission-Critical Assets Existence and Completeness				
Military Equipment	10	6	09/2016	TBD
Real Property	10	6	09/2016	TBD
Inventory	10	0		
OM&S	10	0		
General Equipment	10	6	09/2016	TBD

Note: Four Defense agencies currently using DAI are undergoing SBA examinations during FY 2015 and will undergo full scope examinations in FY 2016.

Appendix 1. HASC Panel on Defense Financial Management and Auditability Reform Recommendations

The House Armed Services Committee (HASC) Panel on Defense Financial Management and Auditability Reform concluded its review of the DoD financial management and audit readiness activity on January 24, 2012. The review was initiated to oversee the Department's capacity for providing timely, reliable, and useful information for decision-making and reporting. The six-month HASC Panel review included holding eight hearings that covered a broad range of DoD financial management issues, with representatives from the Defense Department, GAO, and the private sector.

Upon the conclusion of the review, the HASC Panel issued a report summarizing its findings and providing recommendations to the Department. The report and recommendations were divided into four categories:

- Financial Management and Audit Readiness Strategy and Methodology
- Challenges to Achieving Financial Management Reform and Auditability
- Financial Management Workforce
- Enterprise Resource Planning System Implementation Efforts

Figure A1-1 lists the HASC Panel recommendations and the status of DoD actions and plans for each recommendation. Status is described as met, partially met, or not met. GAO defines each as:

- Met – No significant actions need to be taken to further address the recommendation
- Partially Met – Some, but not all, actions necessary to address the recommendation have been taken
- Not Met – Few, if any, actions toward addressing the recommendations have been taken

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Figure A1-1. DoD Actions on HASC Panel on Defense Financial Management and Reform Recommendations

HASC Panel Recommendations	Status	DoD Actions Taken and Planned
FIAR STRATEGY AND METHODOLOGY		
1.1	The Department's FIAR strategy for Wave 4 (Full Audit Except for Legacy Asset Valuation) should include a complete analysis of interdependencies among Waves 1 – 3 and Wave 4.	Partially Met
1.2	The Department should establish a DoD Financial Reporting element, or wave, that includes a process for consolidating the components' financial information into the DoD's agency-wide financial statements. The Department should report this element's audit readiness progress in the FIAR Plan Status Report.	Partially Met
		The Department updated the FIAR Guidance to include additional interdependencies associated with Waves 1-4. Analysis of interdependencies will continue until full audit readiness is achieved.
		In January 2015, independent auditors performed an SSAE No. 16 examination on DDRS, the system used to produce the DoD Components' and the consolidated, agency-wide financial statements. The Department is addressing the SSAE 16 reported findings and implementing corrective actions. The Department will know whether outstanding issues related to financial statement compilation have been resolved when it is examined in a full financial statement audit. The Service Provider section of the semi-annual FIAR report includes a DFAS chart for DDRS and financial reporting that identifies corrective actions and progress.

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HASC Panel Recommendations		Status	DoD Actions Taken and Planned
1.3	The DoD should re-evaluate its position on accepting historical asset costs when the Department nears auditability on its financial statements in light of certain allowances in federal accounting standards. The findings of a re-evaluation may support the development of an audit readiness strategy for valuing legacy asset balances.	Partially Met	The Department re-evaluated its position on accepting historical asset costs, and in January 2015 established five working groups. Each working group is co-chaired by representatives from the OUSD(C), OUSD(AT&L), or DoD CIO and is working to expeditiously address impediments to audit readiness, including the valuation of historical assets. The Department is working closely with Federal Accounting Standards Advisory Board (FASAB) and leveraging valuation methodologies allowed under Statement of Federal Financial Accounting Standards No. 35 to establish a historical cost baseline. The valuation methods for various asset categories are under development and will be briefed to the DoD OIG and GAO. The working groups are meeting every other week to develop solutions for other historical assets.
1.4	The Department should: (1) analyze the causes of FIAR Plan implementation difficulties; (2) develop and implement corrective action plans to address identified weaknesses or deficiencies; and (3) develop a communications plan to circulate any resulting lessons-learned throughout the Department.	Partially Met	The OUSD(C) FIAR Directorate continues to support and monitor Component progress under audit or examinations. This results in the ability to monitor and track Notice of Finding and Recommendations and corresponding corrective actions. The OUSD(C) FIAR Directorate promotes sharing of lessons learned and best business practices. They are communicated during FIAR Governance Board, FIAR Committee, and FIAR Sub-Committee meetings, working groups, and other forums.

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HASC Panel Recommendations		Status	DoD Actions Taken and Planned
1.5	The Under Secretary of Defense (Comptroller) (USD(C)), in consultation with the Deputy Chief Management Officer (DCMO) of the Department of Defense, the secretaries of the military departments, and the heads of the defense agencies and field activities, should incorporate risk mitigation plans to support the meeting of future interim milestones in the FIAR Plan.	Partially Met	<p>The Department is executing a three-pronged approach to address risk management:</p> <p>(1) Identified audit readiness deal-breakers by reviewing past audits, using the experience of IPA firms, and analyzing the results from quality assurance reviews of assertion packages.</p> <p>(2) Defined the critical path to achieving full financial statement auditability for FY 2018. Tasks and milestones have been included in Appendices F and G of the updated FIAR Guidance. The milestones have also been included in the May 2015 FIAR report.</p> <p>(3) Reinforced the importance of internal controls over areas of significant risk by updating the FIAR Guidance with a new chapter dedicated to internal controls and by deploying a Notice of Finding and Recommendation tracking database to monitor corrective actions.</p>
1.6	The FIAR Governance Board should attest to whether the DoD is on track to achieve audit readiness in 2017 in each FIAR Plan Status Report.	Met	<p>The FIAR Governance Board members coordinate on all FIAR Plan Status Reports. Each Board member formally attests to the accuracy and completeness of the report's content and determines whether their Component is on track to achieve audit readiness in 2017.</p> <p>In addition, each Military Department's Chief Management Officer reports on audit readiness progress and challenges in signed messages in the FIAR report and indicates whether their Department is on track to achieve audit readiness by September 30, 2017.</p>

FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
CHALLENGES TO ACHIEVING FINANCIAL MANAGEMENT REFORM AND AUDITABILITY		
2.1	The Department should include objective and measurable criteria regarding FIAR-related goals in its senior personnel performance plans and evaluations. Performance evaluated on the basis of such criteria should be appropriately rewarded or held accountable. Evaluated performances should be documented and tracked to measure progress over time.	Met On April 9, 2013, the Deputy Secretary of Defense issued a memorandum stating, “most, if not all, DoD executives play a role in the Department achieving audit readiness,” and requiring all SES Performance Plans to be updated by April 30, 2013.
2.2	To improve oversight of the FIAR effort, the Department should require each DoD component senior executive committee to review its corresponding component’s audit readiness assertion packages for compliance with the FIAR Guidance prior to submission of those packages to the OUSD(C) for validation.	Met The FIAR Guidance requires audit readiness management assertions to be signed by the responsible management representative of the organization responsible for the subject matter. This level of review and approval is appropriate.
2.3	The Department should develop comprehensive corrective action plans to address existing material weaknesses and those identified during the FIAR effort.	Partially Met Components that undergo examinations or audits are required to develop and implement corrective action plans. The OUSD(C) FIAR will monitor Department-wide initiatives and corrective actions in order to address material weaknesses.

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HASC Panel Recommendations		Status	DoD Actions Taken and Planned
2.4	To reduce improper payments, the Department should re-evaluate its methodology for identifying and reporting improper payments.	Partially Met	The Department continues to review methodologies for sampling all payment types to ensure it can properly estimate improper payment dollars. DFAS enhanced its Commercial Payment statistical sampling methodology for FY 2014 reporting. Also, DHA modified its sampling methodology for identifying military health benefit improper payments starting in FY 2014. The other seven programs that report improper payments in the DoD AFR will review their methodologies, and if warranted, propose changes to their sampling plans. Those seven programs are DFAS - Military Pay, Civilian Pay, Military Retirement, and Travel Pay; USACE - Commercial Pay and Travel Pay; and Navy - ERP commercial payments entitled by the Navy. (Payments entitled by DFAS are reviewed under the DFAS commercial pay program.)
2.5	To reduce Anti-Deficiency Act violations, the Department should: <ul style="list-style-type: none"> • Perform an analysis of the causes for its ADA violations and then develop and implement procedures to address identified causes. • Ensure that key funds control personnel are adequately trained to prevent, detect, and report ADA violations. 	Met	The Department identified the most frequent causes of its Anti-Deficiency Act violations in its Financial Management Regulation (Volume 14, Chapter 2). In August 2013, the Department issued a memorandum providing guidance on tracking and reporting Anti-Deficiency Act violations. The Department requires the Military Departments and Components to review and evaluate training records to ensure personnel certifying and handling funds have financial management and fiscal law training.

FIAR Plan Status Report

HASC Panel Recommendations		Status	DoD Actions Taken and Planned
2.6	To reduce problem disbursements, the Department should address the underlying causes of problem disbursements in its efforts to develop and implement ERPs.	Partially Met	Analyses will be performed on a recurring basis until the Department is able to retire all legacy systems and fully implement ERP capabilities. Such reconciliations assist in identifying root causes of problem disbursements and implementing corrective actions.
2.7	The Department should identify and institutionalize best practices, as applicable, throughout the DoD to reinforce the full engagement of those functional communities outside of the financial management community in audit readiness efforts.	Partially Met	<p>The OUSD(C) understands the impediments and challenges to audit readiness and through the FIAR governance process is aware of Component-identified and -implemented solutions and best practices, including those identified by the functional communities. Best practices are shared among the Components, such as:</p> <ul style="list-style-type: none"> • OUSD(C) solution to be used by the Military Departments for valuing existing real property assets (deflated Plant Replacement Value) • Army use of an Air Force environmental liability cost estimation tool • Navy developed audit response tool being implemented by the Army and Air Force • Air Force developed Fund Balance with Treasury reconciliation tool being implemented by the Navy

FIAR Plan Status Report

HASC Panel Recommendations		Status	DoD Actions Taken and Planned
2.8	The Department should develop a forum in which the military commands can share lessons learned from their respective audit readiness efforts.	Met	Military Departments and Defense Agencies share lessons learned internal within their organization on a regular basis in various forums, such as newsletters, quarterly reviews, and stakeholder meetings. FIAR Subcommittee, FIAR Committee, and FIAR Governance Board meetings are forums that are regularly used to share information external to a Component.
2.9	The DoD Comptroller should include milestones along with the status of DoD financial service provider efforts to achieve effective controls over the major processes that affect DoD customers in the FIAR Plan Status Reports. These milestones should be consistent with the customer organizations' audit readiness milestones.	Partially Met	Milestones related to the support of service providers' customers are reported in the Department's FIAR reports. The OUSD(C) and Components monitor service providers' milestones, progress, and challenges during Service Provider Working Group meetings, as well as during other FIAR oversight meetings, such as FIAR Committee meetings.

FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
FINANCIAL MANAGEMENT WORKFORCE		
<p>3.1 The Department should assess its financial management workforce and that of all other functional areas performing financial management-related functions regarding:</p> <p>(1) critical skills and competencies of the existing civilian employee workforce; (2) critical skills and competencies that may be needed over the next decade; (3) gaps between current requirements and existing workforce competencies; and (4) gaps between projected requirements and existing workforce competencies. The assessment should include federal civilian, military, and contracted personnel performing financial management-related functions.</p>	Partially Met	<p>DoD has made significant progress in assessing the financial management workforce and plans to assess the remaining financial management workforce in phases:</p> <ul style="list-style-type: none"> Phase 1: Assessment of the civilian workforce members in FM mission-critical occupation series. Completed May 2014. Phase 2: Assessment of civilians in non-mission critical occupational series. Completed May 2015. Phase 3: The OUSD(C) Functional Community Manager (OFCM) for Financial Management reviewed the legislative requirement to conduct competency skills gap analysis as provided in the National Defense Authorization Act for Fiscal Year 2012 (Public Law 112-81), Sect 1053 and Sect 1599d. Additionally, the OFCM engaged in discussions with the Deputy Assistant Secretary of Defense for Military Personnel Policy, Office of the Under Secretary of Defense for Personnel and Readiness, and the three Military Department Component Functional Community Managers for financial management. The OFCM concluded that a competency skills gap assessment is not a legislative requirement for the financial management military workforce. Although the assessment is not a legislative requirement, the research revealed that the Military Departments through the normal annual military performance review process have an effective means of assessing the competencies of the military workforce in their given functional specialties. This

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>decision and supporting rationale will be documented in a memorandum for record.</p> <ul style="list-style-type: none"> Phase 4: Research the feasibility of assessing the civilian financial management workforce in other functional areas. <p>Assessing the competencies of contracted personnel performing financial management-related functions is outside the scope of responsibility of the financial management community. Required competencies should be defined in each contract's statement of work. The Contracting Officer's Representative has the responsibility to perform due diligence over the contractor's performance.</p>
3.2	The Department should utilize the expertise of CPAs with financial statement audit experience in its audit readiness efforts as conducted by the federal civilian workforce or contracted personnel, as appropriate.	Met	The FIAR Directorate maintains a contractor staff of CPAs with financial audit experience. These Independent Public Accounting firms provide consulting services, including how to implement best business practices used in the private sector.
3.3	The Department should develop and implement effective financial training programs for personnel serving in functional communities outside of the financial management community.	Met	The Department's functional communities, such as logistics and acquisition, are responsible for training their workforce in the skills required to fulfill the mission. The Department has developed and made available 51 financial management web-based courses. These courses are available to anyone who has a Common Access Card and are accessible on two platforms: the FM Learning Management System, and FM Online/FM my Learn, an electronic catalogue of over 2,200 courses.

FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
<p>3.4 The Department should develop and implement effective ERP training programs for personnel within and outside of the financial management community who utilize, or will be expected to utilize, an ERP system in their day-to-day operations. In developing these training programs, the Department should implement lessons learned from previous training provided to ERP users.</p>	<p>Met</p>	<p>Training exists for all current ERP systems. Training programs are coordinated with the ERP Component's system owner and Component's financial management office.</p> <p>Army Financial Management oversees each of the Army's financial ERP systems and works closely with system integrators to develop online and in-person training materials. As training products evolved from ERP deployment to sustainment modes, including the creation of training products by the Army Financial Management School that will form the core formal curriculum, many documented lessons learned were incorporated.</p> <p>Navy Financial Management Office works with Navy ERP Office to enhance training capabilities for the Navy ERP system. Navy ERP requires several web-based training modules to be completed prior to obtaining access to financial roles, and has enhanced knowledge sharing capabilities through automated tools that offer detailed content. In addition, Command- and field-level Navy ERP business offices provide instructor-led training courses for hands on training of specific job functions, such as Business Financial Manager training courses.</p> <p>Air Force Financial Management ensures training courses for DEAMS are available through the Air Force's financial management learning management system and can be taken by anyone with access at any time. The Air Force Financial Management maintains a library of online training courses that are required as a part of the system access request process. Also, internal to the DEAMS application are user job aids that include video demonstrations of common system functions.</p>

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HASC Panel Recommendation	Status	DoD Actions Taken and Planned
3.5		
	<p>The Department should develop its proposal for an exchange program between the DOD and the private sector. In doing so, the Department should develop specific criteria, regarding the personnel to be exchanged and the organizations that would participate. The Department should then submit its proposal to the congressional committees of jurisdiction for consideration.</p>	<p>DoD submitted its proposal for an exchange program to both committees via the call for legislative proposals April 1, 2014, During an April 2014 briefing with staffers on this topic, SASC members expressed their support for the program; however, the Department has not yet received formal comments from the SASC or HASC.</p>

FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
ERP SYSTEM IMPLEMENTATION EFFORTS		
4.1	<p>The Department should include additional details on ERP programs in the FIAR Plan Status Reports, including full deployment dates, when known, and key milestone dates. These status reports should describe the risks and potential consequences of: (1) failing to satisfy outstanding ERP functionality requirements; or (2) incurring future ERP milestone delays. The status reports should describe the mitigation measures taken by the Department to reduce these risks. The status reports should also explain any actual schedule slippages or cost increases and the actions taken by the DOD to remedy any such development.</p>	<p>Partially Met</p> <p>The OUSD(C)/FIAR and ODCMO agreed that FIAR Plan Status Reports should include more detail regarding the ERP programs to better evaluate progress toward auditability, timely implementation of corrective measures, and increase confidence in the management of these investments. The Department updated the FIAR report to include a separate section on the nine ERPs of Services and DAI in November 2012. The section also provides additional details on ERPs that support audit readiness for the Department.</p> <p>The Department is taking a data-driven approach to managing Defense business systems as portfolios of investments. The goal is to aggregate data from authoritative data sources and tools used by the PPBE, acquisition, and funds certification processes to track and manage the overall performance of systems portfolios including ERPs.</p>
4.2	<p>The ERP program offices should integrate FIAR milestones into their program schedules. ERP program managers should be evaluated on their ability to maintain FIAR milestones as well as program acquisition-related milestones.</p>	<p>Partially Met</p> <p>Each system program office is responsible for including all requirements in their systems including FIAR requirements. The Services have self-reported that they have included FIAR milestones and requirements in their schedules. This only will apply for those ERP systems that are still in the acquisition process (e.g., DAI, DEAMS, IPPS). Programs still in development have been given the requirements to include in the program schedules.</p> <p>The OUSD(C)/FIAR developed a methodology for financial</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>systems to incorporate audit readiness in the Investment Decision Memorandum and Acquisition Decision Memorandum processes.</p> <p>During the Investment Decision Memorandum process, and for all systems that affect financial reporting, the ODCFO will provide input on each investment decision approval. The approval decision for each investment decision will be contingent on the Component demonstrating that audit readiness and related compliance considerations have been incorporated into the work products for each relevant system and associated capability.</p> <p>Acquisition Decision Memoranda represent important checkpoints in the lifecycle of DoD systems and are critical to ensuring the expected outcomes are realized. For those systems that affect financial reporting, the ODCFO provides input for each acquisition decision approval at each business capability lifecycle milestone.</p>
4.3	The Department should develop ERP-related schedule and cost estimates based on best practices for future ERP deployments.	Partially Met	<p>The Department agrees that better methods are needed for estimating ERP implementation costs and scheduling. However, experience with these programs over the past 10 years, along with industry best practices, has helped shape the strategies that are now being used in the management and oversight of ERP Implementations, including:</p> <ul style="list-style-type: none"> • Increasing discipline in requirements management • Reengineering business processes before focusing on material solutions

FIAR Plan Status Report

HASC Panel Recommendation	Status	DoD Actions Taken and Planned
		<ul style="list-style-type: none"> • Reducing customizations to commercial software • Sustaining leadership involvement throughout the lifecycle • Emphasizing organizational change management to ensure end users understand the impact to their jobs • Shifting the Business Enterprise Architecture’s framework to end-to-end processes to better guide and constrain ERP development and interoperability • Expanding government’s role for systems integration • Measuring business performance consistently to assess ERP impacts • Driving improvement through acquisition decisions • Incorporating portfolio management methods to make the right investment decisions <p>The Deputy CFO (DCFO) is involved in the Defense Acquisition Executive System (DAES) process during which the Department assesses the compliance of an ERP program in the acquisition process to financial management standards including the FIAR Guidance. The DCFO provides input on status of programs based on Schedule, Performance, and Test and Evaluation as it relates to achieving the financial management laws, policies, and regulations.</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
4.4	The Department should evaluate changes to ERP requirements as those systems are developed, implemented, and utilized.	Partially Met	<p>The Department agrees that ERP requirements must be managed throughout the development lifecycle, both within the program and through involved oversight (see Recommendation 4.3, above, on applying best practices for requirements management).</p> <p>Each ERP program and “owning” Component has seen project scope creep and user-specific requirements that have driven cost and schedule challenges. The lesson learned has been to strengthen management discipline through change control boards and engaged, knowledgeable senior-leader steering groups. In addition, the Milestone Decision Authority, as part of the major automated information system acquisition and investment review processes, monitors the programs at a macro level for cost, schedule, and performance and takes appropriate actions to address risks.</p>
4.5	The Department should evaluate its requirement process for ERP systems. The Department should assess the decision-making process, regarding ERP requirements, at every level of authority. The Department should then determine what, if any, changes may be needed.	Partially Met	<p>The Department has evaluated and adjusted its requirement processes for Defense Business Systems over the last seven years. In 2010, the Department mandated the implementation of the Business Capability Lifecycle, which streamlines acquisition of Defense Business Systems and requires disciplined delivery of well-scoped capabilities to end users in 18 months. The Business Capability Lifecycle operates within the established governance framework comprising the Investment Review Boards and Defense Business Systems Management Committee, which in turn advise the Milestone Decision Authority for the ERP programs.</p> <p>Working through the Major Acquisition Information System</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>(MAIS) Milestone Decision Authority for systems, the DCFO can ensure requirements are being met. Specifically, during the acquisition milestone decision process and the annual investment review process. The DCFO has stated additional requirements that are included in the acquisition decision memorandum or the investment decision memorandum.</p> <p>The ODCMO and Military Department CMOs will continue to assess current practices for governing requirements and implement changes as necessary.</p>
4.6	<p>The Department should establish risk mitigation plans to address actual and potential weaknesses or deficiencies associated with the development, implementation, or utilization of its ERP systems that could affect the achievement of FIAR goals. At a minimum, each risk mitigation plan should: (1) identify measures for resolving any such weaknesses or deficiencies; (2) assign responsibilities within the Department to implement such measures; (3) specify implementation steps for such measures; (4) provide timeframes for implementing such measures; and (5) identify any alternative arrangements outside of the ERP environment that may be necessary for meeting FIAR objectives.</p>	Partially Met	<p>The Department agrees that thoughtful and thorough risk management (including identification, analysis, and mitigation) is a requirement of effective information technology acquisition. The Department provides ample resources through the Defense Acquisition Guidebook, Program Manager Took Kit, and the Defense Acquisition University that can guide and educate program personnel in effectively managing future uncertainties. The Defense Acquisition Guidebook Best Practices Clearinghouse also offers practices, evidence, and stories, including a large section on risk management.</p> <p>The ERP programs, which follow the Defense Acquisition System for Major Automated Information Systems, are required to use these resources and manage risks appropriately.</p> <p>The FIAR methodology identifies financial programs and associated feeder systems, including ERP systems. All major financial programs incorporate Risk Management Plans and track major risks and associated mitigation plans. Each Service reports on their respective programs at the regularly scheduled</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>FIAR review sessions.</p> <p>In addition, FIAR processes being developed for input to the Investment Decision Memorandum and the Acquisition Decision Memorandum processes should permit a means for ODCFO to monitor progress of ERPs in relation to FIAR readiness and provide input on means for correcting any short comings</p> <p>Each Service has established a risk management approach. The organization should follow the DoD risk management framework to assist them in assessing their ERP system's audit readiness status.</p>
4.7	<p>The Department should evaluate lessons learned from previous data conversion efforts, and it should incorporate these lessons into its ERP data conversion plans. The Department should update its ERP data conversion plans periodically. Updates should include assessments of: the progress made in converting data into the ERP environment; whether that progress supports the satisfaction of existing requirements; and whether additional data conversion requirements would facilitate the achievement of FIAR objectives. The Department should also assess the merits of designating a senior official (such as the CMO or the DCMO) to be responsible for the coordination and managerial oversight of data conversion.</p>	Partially Met	<p>The Department revised its Federal Sector ERP Data Conversion Best Practices Guide in 2009 based on lessons learned since its original publication. The guide and a conversion tracking tool are available through the Defense Acquisition University's EI Tool Kit and is used by ERP program managers and staff in developing conversion strategies.</p> <p>In November 2013, the Under Secretary for Acquisition, Technology, and Logistics rescinded the delegation to DCMO to act as Milestone Decision Authority and the overarching Integrated Product Team lead for business systems, including all ERPs. Recommendations regarding a need for a data-conversion senior official for these systems under development may be more appropriately directed to the Milestone Decision Authority.</p> <p>Data standards do exist in the Business Enterprise Architecture Standard Financial Information Structure/Standard Line of Accounting (SFIS/SLOA), which define the standard data</p>

FIAR Plan Status Report

HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			<p>element to be included in the system, and how data should be implemented in a new system. The Services have learned from past experience as seen in the example of the Air Force who after the initial data conversion into DEAMS at Scott AFB has decided not to convert data for new users.</p>
4.8	<p>The Department should: (1) evaluate the causes of system interface problems; (2) determine whether the number of interfaces can be reduced (e.g., by incorporating activities performed by legacy systems into the ERPs); and (3) determine what improvements can be made to support more effective interfaces between systems.</p>	Partially Met	<p>As required by the FY 2012 NDAA and 10 U.S.C. 2222, the Department updated the Business Process Reengineering (BPR) Assessment Guidance on September 28, 2012.</p> <p>Following the BPR Assessment Guidance, 35 Defense business systems were selected for an assessment validation in FY 2013. Of these, 19 Defense business systems were development or modernization submissions, which are required to address the reduction or elimination of reports, interfaces, conversions, and extensions (RICE) objects (particularly interfaces) as part of their BPR assessment submission.</p> <p>Beginning in FY 2014, the BPR assessment process will be integrated in Organizational Execution Plan reviews to support investment decisions and to validate the need to tailor commercial-off-the-shelf systems for unique requirements and interfaces, ensuring such requirements have been eliminated or reduced to the maximum extent practicable.</p> <p>The Department is increasingly approaching investment decisions with a portfolio view to reduce or eliminate unique requirements and interfaces. The Department has begun to implement process improvements across all systems through the implementation of key strategic initiatives including the use of the global exchange to increase the interoperability and</p>

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HASC Panel Recommendation		Status	DoD Actions Taken and Planned
			exchanging of standardized data between systems. There is also a strategy to reduce the number of existing legacy systems over the next several years, which will reduce the need for a high number of interfaces. These efforts should reduce issues associated with point-to-point interfaces.
4.9	The DoD DCMO, in coordination with the Director for Operation, Test and Evaluation (DOT&E) and Deputy Assistant Secretary of Defense for Development, Test and Evaluation (DASD (DT&E)), should assess information system control testing needs for all ERPs being developed by the DOD and determine whether appropriate workforce levels and corresponding skill sets exist within the Department's developmental and operational test communities. The Department should take actions to address any identified shortfalls.	Partially Met	Currently, DOT&E does not perform testing for all systems, but provides guidance to assist organizations in performing testing. In addition, DCFO with DCMO support have begun a process for conducting independent testing of systems for compliance with key financial management requirements, such as SFIS, SLOA, and USSGL.

Appendix 2. Acronyms

Acronym	Definition
ACART	Architectural Compliance and Requirements Traceability
ACES-RP	Automated Civil Engineers System – Real Property
ADS	Automated Disbursing System
AF	Air Force
AFAA	Air Force Audit Agency
AFEMS	Air Force Equipment Management System
AF-IPPS	Air Force Integrated Personnel Pay System
AMC	Air Mobility Command
AMCOM	Aviation and Missile Command
APO	Automated Project Order Form System
APSR	Accountable Property System of Record
ARC	Audit Response Center
ASC	Army Sustainment Command
ASN	Assistant Secretary of the Navy
AT&L	Acquisition, Technology, and Logistics
AWCF	Army Working Capital Fund

Acronym	Definition
AWCF-CIP	Army Working Capital Fund – Capital Investment Program
AWCF-OPS	Army Working Capital Fund – Operations
BEA	Business Enterprise Architecture
BPR	Business Process Reengineering
BRAC	Base Realignment and Closure
BRM	Budget Resource Management
BRR	Blueprinting Readiness Review
CAPS-W	Computerized Accounts Payable System – Windows
CBDP	Chemical Biological Defense Program
CCSS	Commodity Command Standard System
CECOM	Communications Electronics Command
CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress
CLIN	Contract Line Item Number

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Acronym	Definition
COTS	Commercial Off-the-Shelf
CRIS	Commander's Resource Integration System
CUEC	Complimentary User Entity Controls
DAAS	Defense Automatic Addressing System
DADMS	DON Application and Database Management System
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DCAS	Defense Contract Administration Services
DCMA	Defense Contract Management Agency
DCMO	Deputy Chief Management Officer
DCPAS	Defense Civilian Personnel Advisory Service
DCPDS	Defense Civilian Personnel Data System
DDRS	Defense Departmental Reporting System
DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements
DDRS-B	Defense Departmental Reporting System – Budgetary

Acronym	Definition
DEAMS	Defense Enterprise Accounting and Management System
DECA	Defense Commissary Agency
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHRA	Defense Human Resources Activity
DIA	Defense Intelligence Agency
DIACAP	DoD Information Assurance Certification and Accreditation Process
DISA	Defense Information Systems Agency
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DMA	Defense Media Activity
DMEA	Defense Micro-Electronics Agency
DMLSS	Defense Medical Logistics Standard Support
DNI	Director for National Intelligence
DoD	Department of Defense
DoDEA	Department of Defense Education Activity

FIAR Plan Status Report

Acronym	Definition
DoDI	Department of Defense Instruction
DoD OIG	Department of Defense, Office of the Inspector General
DON	Department of the Navy
DOT&E	Director for Operation, Test, and Evaluation
DPAS	Defense Property Accountability System
DPMO	Defense Prisoner of War/Missing Personnel Office
DRRT	Defense Reconciliation and Reporting Tool
DSCA	Defense Security Cooperation Agency
DSS	Defense Standard System (Also: Distribution Standard System)
DTIC	Defense Technical Information Center
DTIM	DFAS Transaction Interface Module
DTRA	Defense Threat Reduction Agency
DTS	Defense Travel System
DTSA	Defense Technology Security Administration
EBAS-D	Enterprise Business Accountability System – Defense
ECC	Enterprise Central Component
EDA	Electronic Document Access

Acronym	Definition
EFD	Enterprise Funds Distribution
EPA	Environmental Protection Agency
ERP	Enterprise Resource Planning System
ES	Executive Summary
EXMIS	Expeditionary Equipment Management Information System
FAQ	Frequently Asked Question
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FDD	Full Deployment Decision
FFMIA	Federal Financial Management Improvement Act of 1996
FIABS	Financial Inventory Accounting and Billing System
FIAR	Financial Improvement and Audit Readiness
FIP	Financial Improvement Plan
FIS	Facilities Information System
FISCAM	Federal Information System Controls Audit Manual
FISWG	Financial Information Systems Working Group
FM	Financial Management or Managers

FIAR Plan Status Report

Acronym	Definition
FM&C	Financial Management and Comptroller
FMO	Office of Financial Operations
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAFS-BL	General Accounting and Finance System – Base Level
GAFS-R	General Accounting and Finance System – Rehost
GAO	Government Accountability Office
GCSS-A	Global Combat Support System – Army
GCSS-MC	Global Combat Support System – Marine Corps
GF	General Fund
GFE	Government Furnished Equipment
GFEBs	General Fund Enterprise Business System
GFP	Government Furnished Property
GLM	General Ledger Module (Also: General Ledger Management)
GRC	Governance, Risk, and Compliance
GTAS	Government-wide Treasury Account Symbol
HQDA	Headquarters Department of the Army

Acronym	Definition
HR	Human Resources
IGT	Intragovernmental Transactions
ILS-S	Integrated Logistics System – Supply
IMPS	Integrated Management Processing System
INFADS	Internet Naval Facilities Assets Data Store
IPA	Independent Public Accountant (or Accounting Firm)
IPAC	Intragovernmental Payment and Collection
IPPS-A	Integrated Personnel Pay System – Army
iRAPT	Invoices Receipt Acceptance and Property Transfer
IT	Information Technology
IUID	Item Unique Identification
IUS	Internal Use Software
IWIMS	Interim Work Information Management System
JITC	Joint Interoperability Test Command
JM&L	Joint Munitions and Lethality Life Cycle Management Command
JV	Journal Voucher
LIS	Logistics Information Systems

FIAR Plan Status Report

Acronym	Definition
LLC	Limited Liability Corporation
LMP	Logistics Modernization Program
MAJCOM	Major Command
MAIS	Major Automated Information System
MATMF	Material Access Technology - Mission Funded
MCPDT	Marine Corps Permanent Duty Travel
MSC-FMS	Military Sealift Command Financial Management System
MCTFS	Marine Corps Total Force System
MDA	Missile Defense Agency
MDD	Material Development Decision
MERHCF	Medicare-Eligible Retiree Health Care Fund
MILPDS	Military Personnel Data System
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MIPR	Military Interdepartmental Purchase Request
MOA	Memorandum of Agreement
MOCAS	Mechanization Of Contract Administration Services
MOU	Memorandum of Understanding

Acronym	Definition
MV	Multi-Mission Vehicle
N/A	Not Applicable
NAVAIR	Naval Systems Air Command
NAVFAC	Naval Facilities Engineering Command
NFR	Notice of Findings and Recommendations
NGA	National Geospatial-Intelligence Agency
NIMMS	NAVAIR Industrial Material Management System
NSA	National Security Agency
NWCF	Navy Working Capital Fund
ODCMO	Office of the Deputy Chief Management Officer
ODNI	Office of the Director for National Intelligence
ODO	Other Defense Organization
OEA	Office of Economic Adjustment
OEL	Other Accrued Liabilities
OEP	Organization Executive Plan
OIG	Office of the Inspector General
OMA	Operations and Maintenance Army

FIAR Plan Status Report

Acronym	Definition
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
ONR	Office of Naval Research
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PBAS	Program Budget and Accounting System
PBIS	Program Budget Information System
PBUSE	Property Book Unit Supply Enhanced
PMO	Program Management Office
PP&E	Property, Plant, and Equipment
RDT&E	Research, Development, Test, and Evaluation
RMF	Risk Management Framework
ROTC	Reserve Officers' Training Corps
SAAS-Mod	Standard Army Ammunition System – Modernization
SABRS	Standard Accounting, Budgeting and Reporting System

Acronym	Definition
SBA	Schedule of Budgetary Activity
SBR	Statement of Budgetary Resources
SCOA	Standard Chart of Accounts
SCNP	Statement of Changes in Net Position
SCS	Stock Control System
SCR	System Change Request
SDS	Standard Depot System
SEMS-SERMIS	Support Enforcement Management System - Support Equipment Resources Management Information System
SES	Senior Executive Service
SFFAS	Statements of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SMA	Service Medical Activity
SMAS	Standard Material Accounting System
SMCA	Single Manager for Conventional Ammunition
SNC	Statement of Net Costs

FIAR Plan Status Report

Acronym	Definition
SOMARDS	Standard Operation and Maintenance Army Research and Development System
SSAE	Statement on Standards for Attestation Engagements
STANFINS	Standard Financial System
STARS	Standardized Accounting and Reporting System
SWALIS	Special Warfare Automated Logistics Information System
TAA	Time and Attendance
TACOM	Tank-Automotive and Armaments Command
TBD	To Be Determined
TFA	Transportation Financial Auditability
TI	Treasury Index
UH	Utility Helicopter
US	United States
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USARC	United States Army Reserve Command

Acronym	Definition
USD	Under Secretary of Defense
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology, and Logistics)
USD(C)	Under Secretary of Defense (Comptroller)
USMC	United States Marine Corps
USS	United States Ship
USSGL	U.S. Standard General Ledger
USSOCOM	U.S. Special Operations Command
USTRANSCOM	U.S. Transportation Command
USU	Uniformed Services University of the Health Sciences
WARS-NT	Worldwide Ammunition Reporting System – New Technology
WAWF	Wide Area Workflow
WCF	Working Capital Fund
WHS	Washington Headquarters Services
WMS	Warehouse Management System

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FINANCIAL IMPROVEMENT AND AUDIT READINESS

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