



Army Audit Readiness Strategy

Fiscal Year 2011





TABLE OF CONTENTS

1.0 EXECUTIVE SUMMARY1

2.0 OVERVIEW3

 2.1 BACKGROUND3

 2.2 FIAR PLAN AND OUSD(C) PRIORITIES4

 2.3 ARMY ACHIEVEMENTS TO DATE5

 2.4 STATUS OF FUTURE MILESTONES6

 2.5 SBR ACCOMPLISHMENTS6

 2.6 E&C ACCOMPLISHMENTS.....7

3.0 ARMY AUDIT READINESS FRAMEWORK.....9

 3.1 ARMY AUDIT READINESS PROJECT MANAGEMENT OFFICE (PMO)..... 11

 3.2 ARMY SBR AUDIT READINESS 11

 3.2.1 Appropriations Received..... 12

 3.2.2 GFEBS SBR Audit Readiness Approach 12

 3.3 EXISTENCE AND COMPLETENESS OF MISSION CRITICAL ASSETS 15

 3.3.1 E&C Regulations and Policies..... 15

 3.3.2 Army E&C Quick Wins 16

 3.3.3 E&C Execution 17

 3.3.4 E&C Assertion 18

 3.4 FUND BALANCE WITH TREASURY 18

 3.4.1 Conduct Manual Test Reconciliation..... 18

 3.4.2 Develop an Audit Readiness Plan for GF FBWT..... 19

 3.4.3 Implement an Automated FBWT Reconciliation Solution..... 20

 3.5 FULL FINANCIAL STATEMENT ASSERTION..... 21

 3.6 AUDIT READINESS SYSTEMS ASSESSMENTS 22

4.0 GOVERNANCE23

 4.1 ARMY FIP IN-PROCESS REVIEW MEETINGS..... 24

 4.2 ARMY AUDIT COMMITTEE MEETINGS 24

 4.4 ARMY AUDIT DOCUMENT REPOSITORY (AADR) 26

5.0 SUSTAINMENT27

 5.1 COMMUNICATION MANAGEMENT..... 27

 5.1.1 Annual Army FIP Conference / Workshop..... 27

 5.1.2 Quarterly FIP Newsletter..... 27

 5.2 PERSONNEL DEVELOPMENT 28

 5.2.1 Audit Readiness Online Training 28

 5.2.2 Army Command Meetings 28

 5.2.3 Installation Property Accountability Meetings 28

 5.2.4 Audit Readiness Preparation Meetings..... 28

 5.3 GOVERNANCE, RISK & CONTROLS METHODOLOGY IMPLEMENTATION 29

 5.4 ICOFR PROGRAM..... 29

6.0 CONCLUSION.....31



1.0 Executive Summary

The Army faces the unprecedented challenge of transforming a 235 year-old mission-focused organization to meet financial and managerial requirements established the last 20 years to include the Chief Financial Officers Act of 1990. This is no easy task as commanders and business leaders embrace this transformation while engaged in the long war. Congressional interest over the Army's stewardship responsibilities adds to the importance of the Army financial transformation. Beginning in FY 2011 the Army has the three major components for a successful transformation program – leadership focus, resources, and a robust plan – are in place to successfully meet these requirements. These three equally important elements will allow the Army to demonstrate proof of efficient business processes, effective internal controls, and appropriate stewardship over financial resources to Congress, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and the American taxpayers.

In recent years, improving financial operations and achieving auditability have become strategic objectives of the Department of Defense as a whole. The Under Secretary of Defense (Comptroller) (USD(C)) memorandum dated 11 August 2009 directs the DoD components to focus on improving the financial information most useful to leadership and achieving financial statement audit readiness. Specifically, the memorandum prioritizes improving budgetary information as contained in the Statement of Budgetary Resources (SBR) and verifying the existence and completeness (E&C) of mission critical assets. In addition, the National Defense Authorization Act (NDAA) of Fiscal Year (FY) 2010, signed 28 October 2009, codified the USD(C) priorities into public law 111-84. To meet these requirements, the Under Secretary of the Army issued a memorandum on 10 March 2010 assigning responsibility for meeting the USD(C) audit readiness priorities to the Assistant Secretary of the Army (Financial Management & Comptroller) (ASA(FM&C)), and requesting the commitment of all impacted Army organizational elements to support improved accountability over mission critical assets.

To meet the USD(C) and Congressional priorities, the Army is embarking on a number of audit readiness initiatives, including strategy plan development, field level assessments, and systems controls testing, to improve their complex business environment and maximize the investment in enterprise resource planning systems (ERPs), such as the General Fund Enterprise Business System (GFEBs), Global Combat Support System – Army (GCSS-Army), Logistics Modernization Program (LMP), and Integrated Personnel and Pay System – Army (IPPS-A). The Army's audit readiness strategy conforms to the Office of the USD(C) (OUSD(C)) Financial Improvement and Audit Readiness (FIAR) Guidance that outlines the Department-wide audit readiness methodology. The successful execution of the Army's strategy will provide measurable progress towards achieving the Army's financial management goals, including achieving and sustaining:

- An audit ready business environment;
- An unqualified assurance on the effectiveness of internal controls; and
- Compliance with the Federal Financial Management Information Act (FFMIA) requirements for financial management systems.



While the initial focus is on budget execution processes and mission critical assets, USD(C) and Congressional requirements mandate the Army achieve full financial statement auditability by FY 2017, which includes accounts receivable, inventory, accounts payable, environmental liabilities, and net costs of operations, among other areas. The ERP systems implementations, while important to the Army's audit readiness, do not ensure audit readiness. One important audit readiness concept that the Army must understand is that the auditors will be looking for evidence or proof of how the Army conducts business to include obligations recorded are supported by sufficient documentation assets recorded in the Army's property systems depict a complete and accurate picture of the Army's physical inventory.

For the Army to achieve its financial improvement goals, every person in the Army managing or executing resources must accept responsibility for sustaining an auditable business environment. The ASA(FM&C) stressed this critical mandate during the first Army Financial Improvement Plan Conference / Workshop. Under the ASA(FM&C)'s direction, the Army is dedicating significant resources and has established a robust plan to implement effective controls in its business processes.

To turn this plan into results, the Army is investing in audit readiness efforts over the next four fiscal years, from FY 2011 to FY 2014. The resources funding the Army's audit readiness efforts are in sync with the USD(C)'s goals and Congress' directives set forth in NDAA 2010. In addition, these resources are the enabler for the Army to meet the intent of the CFO Act of 1990, the Government Performance and Results Act of 1993, and the Government Management and Results Act of 1994, as well as components of the Federal Financial Manager's Integrity Act of 1996. These resources will fund the government and supplemental contract staff necessary to oversee and implement the Army FIP.

While the Army's plan for audit readiness may emanate from the OASA(FM&C), the required changes cut across the entire Army and the execution of the Army FIP must be an enterprise wide endeavor. As the ASA(FM&C) Honorable Mary Sally Matiella said at the Army FIP Conference on 28 June 2010, everyone in the Army, from the headquarters to the unit level, must engage themselves fully in executing the necessary improvements to obtain a clean audit opinion. One goal of financial improvements may be obtaining an unqualified financial statement audit opinion, but the opinion by no means marks the end of the road. The audit is simply a tool by which we can measure the strength of our business processes; however, obtaining an unqualified financial statement audit opinion serves as an important piece of the feedback loop that we are conducting business in accordance with our responsibilities to our two most important stakeholders – the Soldiers and American taxpayers. While achieving auditable financial statements will provide creditability for the financial management community, the most important aspect of this accomplishment will be the strengthened business and financial management processes that will provide useful, reliable, and timely information to Army decision makers.

**“Everyone in the Army
must OWN the audit”**

*ASA(FM&C) Hon. Mary
Sally Matiella
Army FIP Conference
28 June 2010*



2.0 Overview

2.1 Background

Over the years Congress has enacted several pieces of legislation that have defined the federal financial management landscape and necessitated the financial improvement efforts undertaken by the Department. Of these the most frequently referenced are the:

- Federal Manager's Financial Integrity Act (FMFIA) of 1982;
- Chief Financial Officers Act of 1990;
- Government Performance and Results Act (GPRA) of 1993;
- Government Management Reform Act (GMRA) of 1994;
- Federal Financial Management Improvement Act (FFMIA) of 1996; and
- OMB Circular A-123 - Management's Responsibility for Internal Control.

FMFIA authorizes the GAO to prescribe standards of internal control. It also requires agency heads to establish a system of internal controls, annually evaluate the effectiveness of those controls, report identified weaknesses, and implement corrective action plans. The CFO Act requires federal agencies to annually prepare auditable financial statements. GMRA extended the requirements of the CFO Act to include agency-wide reports from all major executive branch agencies, their components, and for the government as a whole. GPRA requires agencies to report on and measure progress towards established goals, including financial management goals. FFMIA, along with the Clinger-Cohen Act of 1996, requires that agencies implement information systems capable of producing auditable financial statements by applying relevant accounting standards. OMB Circular A-123 further defined and clarified federal managers' responsibility over the establishment of and ongoing assessment of internal controls. The circular also requires federal managers to provide specific assurance on the effectiveness of internal control over financial reporting.

In addition to these Federal laws and pronouncements, there are several DoD and Army specific directives requiring financial improvement. The most current and relevant of these are the Under Secretary of Defense (Comptroller) (USD(C)) memorandum dated 11 August, 2009 and the National Defense Authorization Act (NDAA) for FY 2010 signed into law 28 October, 2009. The USD(C) memorandum re-focuses the FIAR plan and Department wide financial improvement efforts on improving information and processes most useful in managing the Department. Those processes are the budgetary information process (culminating in the Statement of Budgetary Resources) and the existence and completeness of mission critical assets. The National Defense Authorization Act (NDAA) for FY 2010, requires improving the accuracy and reliability of management information regarding the Department's mission-critical assets (military and general equipment, real property, inventory, and operating materials and supplies), and validating the accuracy of this information through existence and completeness audits. This memorandum and legislation define the priorities and shape DoD's, and Army's, approach to achieving and sustaining auditability.



FY 2011 Army Audit Readiness Strategy

Compliance with these laws and directives requires the cooperation of financial and functional managers in integrating their processes and systems. Federal agencies that have done this are more likely to achieve an unqualified audit opinion. Such an opinion serves as both a report card of how successfully agencies have aligned their financial processes and systems and as a message to management assuring them that they can rely on the financial data for decision-making purposes. Attaining an unqualified opinion is the desired result of an audit but the audit process itself is a useful tool to gauge an organization's operational effectiveness.

2.2 FIAR Plan and OUSD(C) Priorities

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Improvement and Audit Readiness (FIAR) Plan articulates the comprehensive DoD wide strategy and methodology for improving financial management, prioritizing improvement activities, strengthening internal controls, and ultimately achieving auditability. In order to achieve the OUSD(C) FIAR Plan objectives, the Army is deploying resources and has developed an infrastructure to perform financial improvement activities throughout the organization. This infrastructure is responsible for defining and executing the Army's financial improvement plan (FIP), which is maintained by OASA(FM&C) personnel and includes specific, measurable actions necessary to remedy known audit readiness impediments. The Army FIP complies with the OUSD(C) FIAR Guidance to ensure consistent and timely progress by the Army in achieving DoD-wide goals.

To achieve the OUSD(C) FIAR Plan objectives, the OUSD(C) has identified two major financial improvement priorities: (1) the Department's budgetary information, as contained in the Statement of Budgetary Resources, and (2) information regarding the existence and completeness (E&C) of mission critical assets. OUSD(C) has formulated a comprehensive strategy of incremental steps that allow the Department to focus on improving the information most useful to DoD decision makers, while moving the Department closer to the ultimate goal of achieving and sustaining auditability. These incremental steps include assertions of:

- Appropriations Received;
- SBR;
- Mission Critical Assets E&C;
- Full Audit except for Legacy Asset Valuation; and
- Full Financial Statement.

Each DoD component must perform the activities prescribed by the FIAR Guidance to address each of the OUSD(C) priority areas. DoD components have the ability to identify various assessable units, smaller, more manageable combinations of material transactions or financial statement line items. OASA(FM&C) is responsible for defining assessable units and ensuring adequate coverage of all OUSD(C) priority areas, as defined the OUSD(C) FIAR Guidance. The FY 2011 OUSD(C) FIAR Guidance defines a series of standardized phases that all reporting entities must follow to achieve audit readiness. The methodology currently focuses on the identification and implementation of key control objectives (KCOs) and key supporting documents (KSDs). Meeting the OUSD(C)-defined KCOs, coupled with comprehensive risk



FY 2011 Army Audit Readiness Strategy

assessments, will allow reporting entities to effectively design or identify existing control points within their business environments. The identification and collection of KSDs will allow reporting entities to better evaluate the effectiveness of controls, substantiate recorded account balances, and provide auditors with the supporting documentation required during an audit.

2.3 Army Achievements to Date

For more than a decade, the Army has worked hard to implement financial improvements and increase awareness of the importance of audit readiness throughout the organization. In October 1998, the OASA(FM&C) published the first iteration of the Army FIP, then known as the Chief Financial Officers (CFO) Strategic Plan, which incorporated all known initiatives and required steps to achieve the Army vision of an unqualified audit opinion on its General Fund financial statements. The following year, OASA(FM&C) developed a similar plan for the Army Working Capital Fund, which was integrated with the General Fund plan, resulting in a unified Army FIP for becoming CFO Act compliant. OASA(FM&C) also monitored and facilitated quarterly planning meetings from FY 1999 to FY 2001, a year which included an effort to re-baseline the Army CFO Strategic Plan to incorporate the universe of requirements promulgated by the Federal Accounting Standards Advisory Board (FASAB). Through OASA(FM&C)'s leadership and foresight, the Army FIP has accomplished several important steps along the audit readiness path, including:

- Implementing globally the Defense Property Accountability System (DPAS) for installation or general equipment property, also termed Table of Distribution and Allowances (TDA) property;
- Establishing a repeatable process that complies with federal accounting standards to account for Internal Use Software;
- Implementing DPAS at ten government-owned, contractor-operated Army ammunition plants and depots to account for and report Government Furnished Equipment, adding \$359M in previously unreported assets to the GF balance sheet and providing OASA(FM&C) visibility of a total of \$692M in assets;
- Supporting the Integrated Facilities System, the Army's real property accountability system, Software Change Package 16 and FFMIA compliance.
- Developing and delivered CFO Act compliance education and training to several thousand Army resource managers;
- Creating the Army Balance Sheet Reference Guide, which maps the Army's business processes to the financial statement lines;
- Administering the annual Army FIP Conference / Workshop that provides a medium for communicating audit readiness goals and progress, the first of which included more than 120 Army Command and field-level attendees;
- Updating the Army's FIP to meet the requirements set forth in the FY 2010 OUSD(C) FIAR Guidance; and
- Obtained resources necessary to support audit readiness activities through FY 2014.

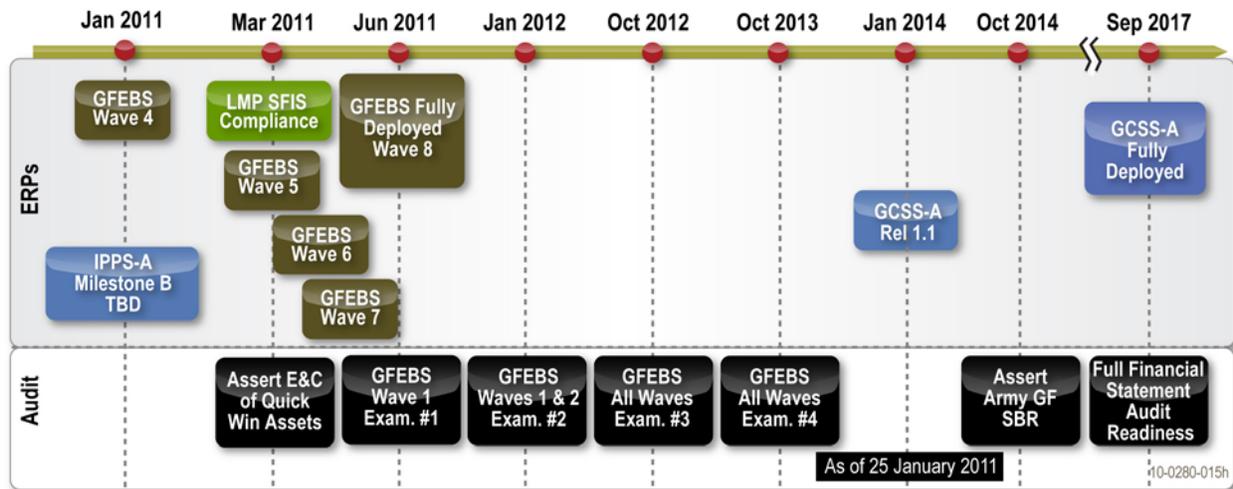
Today, the Army FIP includes all major steps and actions identified as necessary to achieve a favorable audit opinion on the annual financial statements.



2.4 Status of Future Milestones

The Army continues to build on the momentum gained since 1998 as it advances toward the auditability goal of FY 2017. To synchronize the Army’s audit readiness work with the USD(C) priorities established in FY 2009, OASA(FM&C) has developed several milestones the Army must meet along the critical path towards auditability as illustrated in Figure 1.

Figure 1 - Army Audit Readiness Milestones



2.5 SBR Accomplishments

The first significant SBR-related accomplishment is the assertion to the audit readiness of General Fund Appropriations Received as of 30 September 2010. The Appropriations Received assertion represents the passing of an important milestone in the Army’s audit readiness activities and involved the cooperation of staff from OASA(FM&C), OUSD(C), Defense Finance and Accounting Service (DFAS), and the U.S. Army Audit Agency (AAA). While some weaknesses exist in the control environment, the Army could materially substantiate and support the balances reported on the Appropriations Received line of the FY 2009 Army General Fund financial statements. OASA(FM&C) is currently validating the FY 2010 balances, in anticipation of the pending DoD, Office of the Inspector General (DODIG) validation of the assertion package.

The following summarizes the accomplishments made by OASA(FM&C) site visit teams on the SBR effort in FY 2010:

- Completed discovery, evaluation, and testing of General Fund Appropriations Received (funds receipt) balances;
- Completed discovery and documentation of the initial budget execution business processes within the GFEBs environment:
 - Appropriations Received
 - Reimbursable authority



FY 2011 Army Audit Readiness Strategy

- Obligations (Reimbursable orders; Contracts; Temporary Duty travel; Permanent Change of Station travel)
- Identified risks, controls, and potential weaknesses based on the budget execution business processes;
- Developed test plans based on OUSD(C) key control objectives and key controls identified within GFEBS environment;
- Completed phase 1 SBR discovery work at GFEBS Wave 1 installations (6 total locations) & discovery at an additional 27 activities; and
- Conducted initial controls testing at GFEBS Wave 1 locations
 - Fort Jackson – IMCOM and TRADOC
 - Fort Benning – IMCOM and TRADOC
 - Fort Stewart – IMCOM and FORSCOM

As a result of the FY 2010 SBR discovery work, OASA(FM&C) has identified several impediments the Army must overcome to achieve auditability, as well as the recommended solutions to overcome these impediments.

2.6 E&C Accomplishments

In FY 2010, the Army's existence and completeness teams have performed discovery and evaluation activities for mission critical quick win assets at over 20 locations where active, guard, and reserve units serve as tenants. The teams have inventoried and gathered asset supporting documentation for approximately 6,029 capital assets, including 1,144 military equipment aviation quick win assets, 195 general equipment fire and rescue quick win assets and 4,690 general equipment capital assets with an acquisition cost of \$100,000 or above. The teams have observed:

- Lack of supporting documentation to validate property accountability information;
- Inaccurate information recorded in data fields (i.e., asset nomenclature, asset end item identifier, acquisition cost);
- Installation property book offices that have not been notified of procurement and receipt of new property;
- Hand receipt holders unable to locate property that they are custodians of;
- Property system functionality limitations; and
- Lack of visibility of assets deployed in support of Overseas Contingency Operations.

Corrective actions following asset physical inventory and internal controls testing have been identified and recommended to field level stakeholders regarding existence and completeness of mission critical assets. Corrective actions recommended have included:

- Physical inventory corrective actions:
 - Improve accountable asset records and data elements within the system of record, specifically delivering results which include 53 capital assets found on installation, 24 capital assets not found on installation, and 823 capital asset



FY 2011 Army Audit Readiness Strategy

record data element changes to installation property book offices for correction with the Army system of record

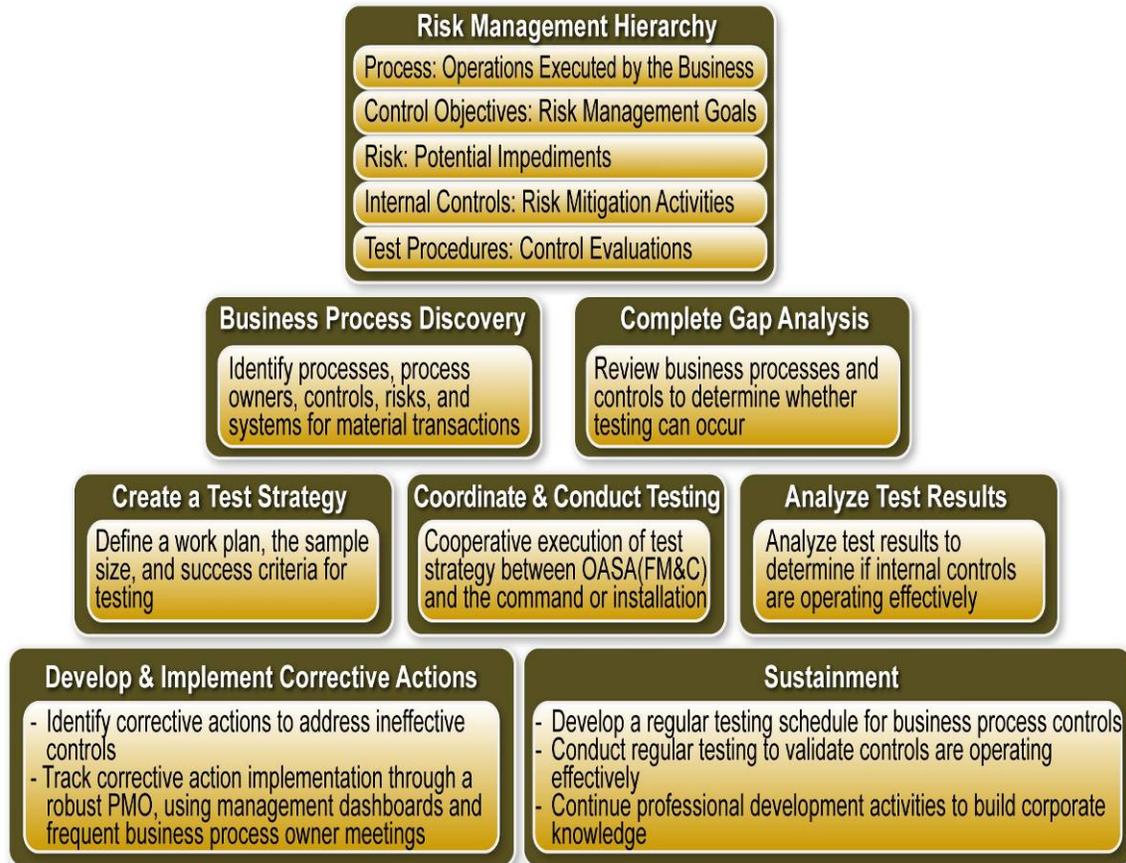
- Internal controls testing corrective actions:
 - Complete lateral transfer of assets within the Army accountable property system of record
 - Ensure consistent and authorized personnel are signing for accountability of assets
 - Conclude asset transactions within designated timeframes as established by Army regulation
 - Maintain supporting documentation over the lifecycle of the asset

The results of the physical inventories and internal controls testing are finalized in a site visit trip report, which is delivered to the location following review by OASA(FM&C). The site visit trip report serves as a scorecard of how prepared a location is for a pending audit, and outlines areas which can be addressed by a location to further their audit readiness.



3.0 Army Audit Readiness Framework

The Army defines auditability as the capability to identify and mitigate risks, produce audit trails with appropriate source documentation, and identify populations to support line items on the financial statements. This risk-based audit readiness framework illustrated in Figure 2 assists Army organizations to mitigate risk, improve efficiencies, and attain and sustain auditability.



10-0332-009d

Figure 2 – Army Audit Readiness Framework

The Army’s strategy leverages the Committee of Sponsoring Organizations (COSO) framework coupled with consideration of generally accepted accounting principles (GAAP), generally accepted government auditing standards (GAGAS), the GAO Financial Audit Manual (FAM), and OMB Circular A-123. The framework will help the Army establish an effective internal control environment, create a reliable audit support infrastructure, and develop the corporate knowledge necessary to sustain an effective control and audit support environment. Through its execution, the framework generates business process documentation, risk assessments, and internal control activity evaluations including ‘as is’ and ‘to be’ systems control evaluations. It also identifies corrective actions required to address impediments to auditability.



FY 2011 Army Audit Readiness Strategy

The framework also incorporates business system control analyses to assess the key financial controls relevant to the receipt, control, distribution, execution, and reporting of appropriated funds business processes. This methodology is based upon the following standards: Control Objectives for Information Technology (COBIT), COSO, International Organization for Standardization (ISO), Information Technology Infrastructure Library (ITIL), and the approach external auditors use to perform Federal Information System Controls Audit Manual (FISCAM) audits.

The major phases of the Army's audit readiness framework include:

Discovery & Gap Analysis: The purpose of this phase is to perform risk assessment exercises, define the current and audit ready state of business and financial operations and, perform initial evaluation of controls. The OASA(FM&C) team conducts discovery and evaluation activities to verify budgetary receipt, control, distribution, execution, and reporting business processes. We coordinate with the resource management community across the command, region, and installation levels to schedule visits and obtain concurrence on business process documentation. We identify and document risks and control points, focusing on interfacing systems, and application and general controls. The teams also conduct risk assessments and identify corrective actions to improve the Army's budget execution and financial reporting processes. This evaluation is performed in a manner similar to an audit, where organizations responsible for business transactions provide supporting documentation at the request of OASA(FM&C) discovery teams. This phase makes OASA(FM&C) aware of weaknesses and deficiencies that must be remediated prior to the assessable unit becoming audit ready.

Testing: The testing phase of the Army's audit readiness framework includes internal controls tests developed using an auditor's approach, including design of procedures performed, identification of populations, and sample selection as described in the GAO FAM Volume 1, Section 400 – Testing Phase guidelines. The tests of controls include evaluating both manual and automated controls, including IT general and application controls, and are limited to key internal controls designed to prevent and/or detect material misstatements or instances of non-compliance. The tests evaluate both the design and operating effectiveness of implemented controls. If the number of exceptions exceeds the acceptable number during sample controls testing based on the GAO FAM, we conclude that controls are not operating effectively and identify corrective actions to address the failure.

Corrective Action: The next phase involves developing and implementing solutions to rectify weaknesses and deficiencies identified during the evaluation and discovery phase. OASA(FM&C) must create FIP tasks that detail how Army personnel should address weaknesses identified in the discovery and evaluation phase. FIP tasks will include specific action items, detailed timelines, and required/committed resources necessary to implement the audit ready environment.



FY 2011 Army Audit Readiness Strategy

Sustainment: This phase involves maintenance of the audit readiness state. OASA(FM&C) performs periodic testing of internal controls as required by OMB Circular A-123, Appendix A. Any issues identified during sustainment are addressed in a timely fashion so as not to jeopardize sustainment of the audit ready environment. Ideally, corrective actions to address issues identified in the sustainment phase should be implemented prior to the next reporting or audit cycle.

Throughout all audit readiness phases, the Army generates significant amounts of information and work products that will serve an important role in documenting and sustaining an audit-ready environment. SBR and E&C field teams submit site visit reports and comprehensive documentation of the business processes for each site. Field teams also submit control risk assessments, comprehensive test plans and results, in addition to any work papers used to identify work performed, and summary trip reports of our discovery, testing, and corrective action visits.

3.1 Army Audit Readiness Project Management Office (PMO)

The Army Audit Readiness PMO will utilize a full scope of resources to maintain an understanding of the form and substance of applicable policies, procedures, and/or transaction(s) within the Army environment. The PMO will regularly review applicable generally accepted accounting principles and Federal accounting standards; consult with other professionals or experts; perform research and other procedures to ascertain and consider the existence of creditable precedents or analogies; develop point-of-view papers to illustrate detailed accounting treatments, auditing procedures, account analyses, and policy changes; and coordinate with the Federal Accounting Standards Advisory Board (FASAB), Government Accountability Office (GAO), DOD Office of Inspector General (OIG), and other stakeholders to obtain concurrence with the developed solutions to ensure reasonableness of proposed approaches.

Each quarter, the PMO prepares and moderates the quarterly Army FIP in-process reviews (IPRs) and Audit Committee Meetings. The PMO publishes quarterly Army FIP Newsletters to provide status of the Army FIP and audit readiness activities to the field. The PMO manages and updates the Army Financial Improvement Plan as activities progress. The PMO manages the Army's input into the semi-annual OUSD(C) Financial Improvement and Audit Readiness (FIAR) Plan status report submissions to Congress. The PMO organizes and facilitates the Army FIP Conference and Workshop on an annual basis.

3.2 Army SBR Audit Readiness

In FY 2009, the USD(C) directed the DoD components to focus on improving budgetary processes and information most useful to the Department's leaders. By focusing on improving budget execution processes, the DoD will improve the information reported on the SBR and, ultimately, receive an unqualified audit opinion on the SBR. The OASA(FM&C) has defined assessable units for the SBR effort by dividing the SBR into distinct sections that follow Army budget execution business processes: budgetary resources received, obligations, disbursements/outlays, and financial reporting. These assessable units are illustrated in the below table:



Table 1 – Army SBR Assessable Units

SBR Assessable Units	
Appropriations Received	Civilian Pay
Reimbursables – In- & Out-Bound	Military Pay
Temporary Duty Travel (TDY)	Disbursements
Permanent Change of Station Travel (PCS)	Financial Reporting
Contracting	

3.2.1 Appropriations Received

As of 30 September 2010, the Army has asserted the audit readiness of the Appropriations Received line on the FY 2009 Army General Fund Statement of Budgetary Resources. In early FY 2011, the DoDIG will conduct a review of the Army’s assertion package to determine the validity of this assertion, beginning with an audit entrance conference in late October 2010. OASA(FM&C) worked closely with OUSD(C) in assessing the audit readiness of the GF Appropriations Received balances and identifying process changes that the Army Budget Office (ABO) and DFAS-Indianapolis (DFAS-IN) must implement to sustain auditable business processes. In addition during the assessment phase, OASA(FM&C) employed AAA, which confirmed that the Army could substantially support the balances reported on the FY 2009 Appropriations Received line of the SBR.

OASA(FM&C) will support the pending DoDIG validation effort and any additional audits or examinations. In addition, OASA(FM&C) will continue to test the ABO and DFAS-Indianapolis business processes to ensure the implementation of corrective actions and existence of effective internal controls.

3.2.2 GFEBS SBR Audit Readiness Approach

GFEBS is a key component of the future state Army systems environment. Until the Army began implementing GFEBS, it did not have a system that recorded the financial results of business process transactions from the point of transaction to the United States Standard General Ledger (USSGL). GFEBS is scheduled to deploy to over 200 Army locations by 2nd Quarter FY 2012. GFEBS will significantly help the Army manage nearly \$250 billion in annual budgetary resources and will provide a near real-time view of the financial position of the Army. Users will have immediate access to funds status and will be able to more efficiently make budget request decisions to execute the Army’s mission. Implementing GFEBS allows the Army to overcome significant material weaknesses, specifically the lack of transaction data transparency and an easily traceable audit trail, enabling financial resources to be more efficiently directed towards the Soldiers and civilians executing the Army’s mission.

To achieve auditability, all accounting events must be recorded in the general ledger completely and accurately. General ledger postings must be traceable back to supporting evidence (i.e. system records, hardcopy documents, etc). The implementation of GFEBS will greatly enhance the Army’s ability to achieve auditability for the Army GF SBR by standardizing budgetary processes throughout the organization, consolidating budget execution data in one system,



FY 2011 Army Audit Readiness Strategy

integrating financial and non-financial activities, and by providing robust real-time reporting of financial data.

The Army's GF SBR audit readiness plan strategically centers on GFEBS and synchronizes audit readiness activities with the on-going business process transformation of the GFEBS deployment. This allows the Army to maximize the effectiveness of expended resources by focusing on the to-be, rather than legacy, business processes; train GFEBS users how to leverage the system to support audit readiness; and sustain a controlled business environment that supports effective budget execution and annual audit requirements. The Army's efforts to ensure internal control and sound financial management processes are incorporated into new system implementations will allow the Army to advance towards an audit-ready state.

Since March of 2010, OASA(FM&C) has deployed teams to a number of sites to map the budgetary life cycle by focusing on transactions impacting budget and reimbursable authority, obligations, disbursements, and financial reporting. Teams meet with key personnel to discuss processes, identify activities impacting the statement of budgetary resources, and review supporting documentation. In addition to mapping existing processes, the teams identify risks, controls meeting KCOs, and potential weaknesses needing remediation.

The OASA(FM&C) team has conducted audit readiness discovery and evaluation site visits at GFEBS Wave 1 (Fort Benning, Fort Jackson, and Fort Stewart) and Wave 2 (Fort Bragg, Fort Drum, Fort Knox, Fort Rucker, Fort Gordon, and Fort Campbell) as well as FORSCOM Headquarters and IMCOM Southeast Headquarters. During these visits, the teams documented the budget execution business processes; identified gaps and deficiencies within those processes; and developed corrective actions to improve the installations' ability to support audit readiness activities.

As a result of the FY 2010 SBR discovery work, OASA(FM&C) has identified several impediments the Army must overcome to achieve auditability, including:

- Lack of standardized processes or documented SOPs;
- Non-compliance with requirements, such as Tri-annual Joint Review Program;
- Difficulty in providing supporting documentation caused by a number of factors:
 - Lack of familiarity with the requirements of an audit-like testing effort to include such factors as the importance of due dates, supporting documentation retention, functionality of the PBC listing, and the role of testing teams;
 - Difficulty in navigating between feeder systems and GFEBS. In most instances, testing required installation personnel to retrieve key information from GFEBS in order to navigate feeder systems;
 - Inexperience with the different GFEBS modules and employing legacy methodologies to perform day to day tasks resulting in a loss of efficiency.
- Lack of evidence for assigned GFEBS user roles and the approvals of those roles; and
- Lack of evidence of who performed reconciliations, when they were performed, and a supervisor review.



One of the most important outputs of the audit readiness activities is an audit support handbook, a living-document that serves as standard operating procedures for current and future GFEBs users, including screen shots and step-by-step guides for gathering and maintaining support documentation requested by auditors. The OASA(FM&C) teams also updated process flow charts and narratives, as well as the risk and control assessments during our discovery visits to the GFEBs locations.

Site visits begin with an in-brief with appropriate personnel and offices to explain visit procedures. These meetings typically involve installation commanders, representatives from the installation internal review office, representatives from the appropriate contracting office, RM staff, and installation tenant organizations that may be impacted. Subsequent to the in-brief, the OASA(FM&C) teams conduct process interviews with personnel with detail knowledge of the processes being examined. These interviews allow site visit teams to acquaint themselves with the budget execution processes at each site. The desired outcome of these interviews is to gain an understanding of steps involved in the process by identifying the people/organizations involved at each step, key documentation created, and critical systems used to perform the processes. The site visit teams also identify any DoD forms and other documents used in supporting the recorded obligations.

In some instances, discovery activities may be combined with evaluation activities (i.e. testing). Combining discovery with testing allows the site visit teams to complete their work in a more efficient and less time consuming manner, allowing installations to focus on their mission critical activities. Testing is only combined with discovery when control activities are found to be designed appropriately and implemented. Testing typically involves identifying a population of transactions to test, selecting a sample of transactions to test, obtaining supporting documentation, and executing established test plans to assess the effectiveness of controls for those transactions. Upon completion of the visit, the field teams inform resource management and other stakeholders of the results of the visit in an out-brief.

Each site visit team completes their work by preparing a draft trip report for submission to the Army FIP PMO describing work performed, individuals/organizations interviewed, supporting documentation obtained, transactions reviewed and analyzed, an initial internal controls assessment of the site, and recommended corrective actions. Teams also prepare documentation (process narratives, flowcharts, and control points) describing the control environment as it currently operates. As a follow-up to site visit team work, installations and responsible organizations formulate corrective actions to improve identified weaknesses. A final site visit will be performed to ensure correction actions resolve issues identified during the initial site visit.

The Army is also developing a strategy to address any legacy data that might exist outside of GFEBs at the time of assertion. Because the Army is not converting legacy data into GFEBs, many multi-year appropriations will exist outside of GFEBs for several years. In fact, the Command and installation RM personnel continue to manage prior year obligations in legacy systems after GFEBs deployment. The OASA(FM&C) has begun conducting an analysis of



FY 2011 Army Audit Readiness Strategy

prior year appropriations as of the end of FY 2010 to estimate the potential legacy data universe at the beginning of FY 2015 when the Army plans to assert the GF SBR audit readiness. Upon assessing the materiality of the open contracts under the various multi-year appropriations, the Army will finalize a data conversion strategy to be executed prior to the GF SBR assertion in FY 2015.

3.3 Existence and Completeness of Mission Critical Assets

The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C)) and Army G-4 have chosen to focus the Army's initial existence and completeness efforts on Army installation military equipment and general equipment in support of the FIAR priorities. The DoD Financial Management Regulation Volume 4, Chapter 6, defines general equipment as tangible assets with a useful life of two years or more, are not intended for sale, are acquired for use by the entity and exceed the capitalization threshold. Military equipment expands on this definition as a classification of assets not ordinarily losing their identity or becoming subsumed into another item and that are used for battlefield missions.

The Army reports over \$100 billion of general and military equipment on its annual balance sheet. Currently, Army does not meet federal accounting standards regarding financial reporting of general and military equipment. Factors impeding the achievement of auditability of Army equipment include field level deviation from property accountability regulations, inability to locate assets captured in the financial statements, and lack of asset documentation supporting the existence of assets. OASA(FM&C) and the Army FIP team has developed an Existence & Completeness plan of action with these challenges in mind.

In a memorandum issued by Office of the Under Secretary Defense (Acquisition, Technology and Logistics) (OUSD(AT&L)) on 2 November 2009, existence and completeness are defined as follows:

- **Existence** – All accountable property (military and general equipment, real property, inventory, and operating materials and supplies) in DoD systems of record exists and their records match actual physical assets.
- **Completeness** – All accountable property is identified and accurately recorded in a DoD system of record.

The OUSD(AT&L) memorandum tasks the components with either demonstrating that their assets are already being accounted for properly in component Accountable Property Systems of Record (APSRs) or identifying process, control or system deficiencies impeding success and developing plans to remediate these impediments.

3.3.1 E&C Regulations and Policies

The E&C initiative directly supports pertinent regulations and policies regarding property accountability and financial reporting within the DoD and Army. Specifically, the E&C initiative addresses the following regulations and policies:

Table 2 – Army E&C Quick Win Assets



FY 2011 Army Audit Readiness Strategy

Regulation / Policy	Army E&C Relevance
DoD FMR Volume 4, Chapter 6, "Property, Plant, and Equipment"	Regulation which prescribes DoD accounting policy for Property, Plant, and Equipment. The DoD FMR defines the criteria for capitalizing, depreciating, and financially reporting GE and ME assets. In addition, the DoD FMR addresses asset document retention that supports cost and accountability, enabling periodic, independent verification of the property records through physical inventories of DoD GE and ME.
AR 710-2, Supply Policy Below the National Level	AR 710-2 provides specific policy for the accountability and assignment of responsibility for property issued to a using unit. AR 710-2 establishes the classes of supply, performance standards for supply effectiveness, establishment of property books under Modified Table of Organization & Equipment (MTOE), Table of Distribution Allowances (TDA), or Joint Table of Allowances (JTA), establishment of property book record data elements, and type and occurrence of asset inventories.
AR 735-5, Policies and Procedures for Property Accountability	AR 735-5 provides the basic policies and procedures for accounting for U.S. Army property. The regulation defines accountability and responsibility, categorizes property, defines accounting procedures to be used, and identifies basic procedures for operating a property account. AR 735-5 outlines property book establishment for activities belonging to an assigned unit identification code (UIC), establishes appointment criteria and duties of accountable officers, and guidelines for establishing and maintaining the Command Supply Discipline Program (CSDP).
DoD FMR Volume 4, Chapter 4, "Inventory and Related Property"	Regulation which prescribes DoD accounting policy for Inventory, Operating Materials and Supplies. The DoD FMR defines the recognition, valuation, and accounting treatments of reporting I/OM&S. The DoD FMR further discusses business rules for capitalizing costs of specific I/OM&S categories including government-furnished, war reserve, and stockpile materials.
AR 710-1, "Centralized Inventory Management of the Army Supply System"	AR 710-1 prescribes policy on management of materiel and stockage. AR 710-1 establishes procedures for transfers of materiel within the Army environment, among DoD services, and interagency with other federal entities. The regulation provides wholesale retention requirements, business rules for implementation of total asst visibility in line with DoD 4140.1-R, and financial reporting of inventory supply levels.
AR 725-50, "Requisition and Issue of Supplies and Equipment"	AR 725-50 describes procedures for requisitioning, receiving, storing, and issuing Army materiel between wholesale and retail supply systems. AR 725-50 defines disposal transaction requirements, prescribes policy for physical inventory of material, including use of statistical sampling, and identifies methods of reconciling discrepancies between requisitioned materiel supporting documentation and supply system records.
AR 740-1, "Storage and Supply Activity Operations"	AR 740-1 provides policy and procedures for the management of Army material storage and global supply operations. AR 740-1 describes criteria for storage facility use, procedures for storing and transporting supply Class V materiel, and contains control provisions of prepositioned stock.
AR 740-26, "Physical Inventory Control"	AR 740-26 provides policy on the physical inventory of materiel in the Army. The regulation requires accountability of fielded material, reconciliation of inventory counts, and reporting of adjustments made to the supply system. Specifically, AR 740-26 mandates annual inventories for most categories of controlled inventory, lists methods of conducting inventories, and prescribes acceptable variance rates from sampled counts.

3.3.2 Army E&C Quick Wins

OUSD(AT&L) directed the components to develop 'quick win' assessable units; those being programs or asset classes that existence and completeness could be asserted by 2nd Quarter of FY 2011. OASA(FM&C) and Army G-4 developed their list of assessable units by narrowing the focus to general equipment and military equipment assets that exceed the DoD capitalization threshold of \$100,000. OASA(FM&C) and Army G-4 leveraged the Army's accountable property system of record, Property Book Unit Supply Enhanced (PBUSE); and Army's logistics



and maintenance system, the Logistics Information Warehouse (LIW) to narrow the quick win focus to specific general equipment and military equipment mission critical assets illustrated in the below table.

Table 3 – Army E&C Quick Win Assets

Army E&C ‘quick win’ Assets	Asset Class
Fire and Rescue assets	GE
Apache Longbow AH-64D assets	ME
Apache AH-64A assets	ME
CH-47F Improved Cargo Helicopter assets	ME
OH-58D Kiowa Aerial Scout Helicopter assets	ME
Black Hawk Utility Helicopter UH-60L assets	ME
Black Hawk Utility Helicopter UH-60M assets	ME
Light Utility Helicopter UH-72A assets	ME
Aircraft Utility UC-35A assets	ME
Small Tug 900 Class assets	ME

3.3.3 E&C Execution

The OASA(FM&C), Army G-4, and Army G-8 will utilize the Army’s Equipment Readiness Codes -Pacing (ERC-P) to identify mission critical assets to be used for management assertion of existence and completeness by 1st Quarter of FY 2015. These assets will be queried and reconciled in the Army’s current property accountability and logistics systems to determine the universe of mission critical assets.

The Army’s existence and completeness approach incorporates site visits to Army installations and organizations maintaining mission critical assets in line with GFEBS Wave deployments. At each location visited, a physical inventory of mission critical assets is conducted. Team members work with installation property book officers, hand receipt holders and internal review personnel to verify the accountable data elements and available supporting documentation for the assets. Mission critical assets found on the installation, but not recorded in the accountable property book, are noted for inclusion in the records to ensure completeness. Teams conduct internal control analyses; prepare process narratives, flowcharts and control activities across equipment asset lifecycle events; and execute test plans for mission critical assets for control activities found to be appropriately designed.

In addition to Army installation and organization site visits, team members will travel to Program Executive Office (PEO), Program Management (PM), and Defense Contract Management Agency (DCMA) locations to gather additional asset supporting documentation and create asset lifecycle business process flowcharts in support of the assertions. For assets deployed in support of Overseas Contingency Operations (OCO), alternative methods are being used to verify existence and completeness. In lieu of a physical inventory, asset supporting



FY 2011 Army Audit Readiness Strategy

documentation is being gathered to verify existence and completeness, in accordance with the FIAR supporting documentation guidance.

Army will follow the OUSD(C) FIAR Directorate tiered asset supporting documentation guidance to support existence and completeness assertions of mission critical assets. Asset supporting documentation is illustrated in the below table:

Table 4 – E&C Supporting Documentation Guidance

Tier	Key Supporting Documents
Tier 1	<ul style="list-style-type: none"> • Physical inventory count documentation • Detailed listing of assets from the APSR • Contract documentation including: <ul style="list-style-type: none"> ○ Statement of Work ○ DD Form 250 (Material Inspection and Receiving Report) ○ DA Form 3161 (Request for Issue or Turn-In Form) ○ DD Form 1348-1A (Issue Release / Receipt Document)
Tier 2	<ul style="list-style-type: none"> • Photographs or electronic ‘pings’ of assets • Asset logs <ul style="list-style-type: none"> ○ Maintenance logs ○ Usage logs • Mission-management / logistics data • Invoices • Budget / appropriation data • Payment vouchers
Tier 3	<ul style="list-style-type: none"> • Physical indicators of ownership rights, including: <ul style="list-style-type: none"> ○ Assets located on Reporting Entity facility ○ Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate Reporting Entity ownership ○ Assets marked with the Reporting Entity's name

3.3.4 E&C Assertion

Army management will assert the existence and completeness of quick wins by 2nd Quarter of FY 2011. In concert with preparation and assertion of Army ‘quick win’ assets, the existence and completeness effort will expand to the full universe of mission critical assets. This supports the overall goal of achieving an unqualified audit opinion on the Army’s financial statements by 30 September 2017, in accordance with the FY 2010 National Defense Authorization Act.

3.4 Fund Balance with Treasury

3.4.1 Conduct Manual Test Reconciliation

OASA(FM&C), in concert with DFAS-IN, has begun conducting a “proof of concept” manual reconciliation of a single Army General Fund Treasury Account Fund Symbol to test the capability of existing systems to complete a voucher-level reconciliation between the Army



FY 2011 Army Audit Readiness Strategy

General Ledger and the Treasury Government-Wide Accounting (GWA). This test reconciliation of one symbol for a single month will be a diagnostic technique to assist in identifying system-level impediments toward completing voucher-level FBWT reconciliation for the Army.

The Army is following the same process utilized by the Air Force in recent years that allowed the Air Force to implement an automated FBWT reconciliation tool. The Army will follow the Treasury guidelines for FBWT reconciliations and break down that comparison into four sections:

- Section I: GWA Balance vs. Army SGL Account 1010 Balance;
- Section II: GWA Balance per Agency Location Code (ALC) vs. ALC Summary Submission;
- Section III: ALC Summary Submission vs. ALC Detail Voucher Listing; and
- Section IV: ALC Detail Voucher Listing vs. Army Detail Voucher Listing.

The OASA(FM&C) and DFAS IN will identify and document reconciling items in the current month by comparing all vouchers between the two listings using specific matching criteria including appropriation, transaction type (i.e., collection and disbursement), disbursing station, voucher number and transaction month.

3.4.2 Develop an Audit Readiness Plan for GF FBWT

Using the test results of the manual reconciliation, the OASA(FM&C) and DFAS-IN will identify unreconciled transactions at the end of the accounting period to identify data, system and process deficiencies preventing the Army from audit readiness. The main goal of the identification of gaps or deficiencies is to assess the capabilities of current Army processes and systems attributing to the creation of unreconciled transactions. In addition, the Army will subsequently implement changes to those processes and systems in order to better produce accurate, transaction-level data on a timely basis to comply with audit guidelines. The specific efforts include:

- Work closely with DFAS-IN and Army personnel to identify and assess systems and process deficiencies that contribute to unreconciled transactions from the manual reconciliation;
- Identify and assess the capability of systems to provide transaction level detail;
- Work closely with DFAS-IN and Army systems personnel to identify system impediments to obtaining detail transaction data;
- Implement systems change requests (SCR) to provide sufficient audit trails throughout different processes, and to ensure that Army systems can produce adequate transaction-level data on a timely basis;
- Continually communicate financial system impediments and limitations to the GFEBS implementation team to ensure that GFEBS does not inherit the same impediments;
- Identify timeframes in which transaction level data can be accessed in current Army systems; and



FY 2011 Army Audit Readiness Strategy

- Work with Army trading partners to identify and rectify impediments to obtaining detailed source transactions.

Where applicable, our team will identify and recommend additional tasks that need to be resolved and added to the FIP by maintaining an auditor's perspective throughout the engagement with regard to financial improvement initiatives and tasks.

3.4.3 Implement an Automated FBWT Reconciliation Solution

The development and implementation of an automated reconciliation solution will be critical to the success of the Army FBWT reconciliation efforts. Due to both the high volume of transactions, as well as the variety of source feeder systems, the Army will implement an automated reconciliation solution for the entire universe of transactions. The architecture will be used to manage the workflow, automate the clerical task of matching transactions between Army and ALC transaction listings, and provide useful and timely reports to management. The new architecture will also identify and properly categorize individual transactions that comprise the total difference between the ALC transaction listings and Army records, and monitor the status of reconciling items.

Reconciling accounting data between external systems can perhaps be one of the most challenging and time consuming efforts taken within comptroller function and critical to the Army audit readiness endeavors. Reconciliation efforts entail the following: identifying the core systems and the source files for both summary and transaction-level data; validating GL balances; tracing transactions from the source files into the GL and identifying those specific transactions that did not post (thus serving as reconciling items). Furthermore, implementation of a sound reconciliation process entails both the research of all identified differences, as well as, aging and categorizing the reconciling items based on the underlying cause.

Upon determining the requirements for the Army's GF FBWT automated reconciliation solution, Army will conduct an analysis of various automated reconciliation solutions, which will include an assessment of each solution's reconciliation capability:

- Determine if the automated solution includes the capability to perform monthly reconciliations necessary to ensure the accuracy and consistency of official Army FBWT figures produced at different accounting levels: Treasury, Departmental, Intermediate, and Field Level;
- Determine frequency and time periods of available reconciliations at the test date; and
- Review automated solutions system logs or other mechanism used to maintain notes or memo information for research purposes. Assess adequacy of the automated solution audit trail used to track open items, from identification to final resolution.

The automated solution that the OASA(FM&C) determines best meets the Army's needs will allow for the reconciliation process to be implemented and sustained on a monthly basis going forward, ultimately achieving the goal of an auditable FBWT reconciliation process for the Army. As the Army implements the automated FBWT solution, the OASA(FM&C) team will:



- Establish a Cash Reconciliation Unit (CRU) consisting of Army and DFAS personnel responsible for analyzing, monitoring, and reconciling differences between Treasury and the standard GL account 1010 within an appropriate amount of time after month-end;
- Identify representatives from each location to be available in situations where reconciling items need further research;
- Develop executive “dashboard” reports to monitor the timely resolution of cash backlog items and communicating non-compliance with a 90-day performance standard to Senior Army Management. Explanations will be provided at a source transaction level for items that remain a reconciling item for a period greater than 60 days. Explanations will include steps taken by the CRU to clear previously identified reconciling differences. Reports will be made available on a monthly basis;
- Perform testing of SCRs implemented to ensure that changes are accurate, and complete and revise if necessary;
- Establish a cost effective and complete method of transferring trading partner data to the Army at the transaction level that will support the proper reconciliation of the FBWT;
- Recommend a cost effective method of retaining historical transactions in order to provide a detailed audit trail;
- Assist in implementing corrective actions to address identified impediments;
- Update policies and procedures and related processes to ensure the final process that meets associated requirements and provides a detailed audit trail; and
- Test standard operating procedures on “live” data, assessing automated reconciliation tools and assisting with the implementation of a fully operational and current FBWT reconciliation process.

A key component of the Army’s FBWT audit readiness efforts is engaging both Army and DFAS personnel to help the Army build long-term corporate expertise and sustain an auditable reconciliation environment.

3.5 Full Financial Statement Assertion

As the Army progresses towards meeting the SBR and E&C objectives, it must also keep in mind the Congressionally-mandated requirement of obtaining audit readiness of all financial statements, including the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, as well as the SBR, by FY 2017. Working toward meeting this major milestone can not wait until after the Army has met its SBR and E&C objectives in FY 2015. Some of the current SBR, E&C, and FBWT efforts will enable the Army to meet the broader financial statement goals, including:

- Leveraging E&C supporting documentation to establish valuation for legacy assets; and
- Utilizing the benefits of systems implementations to address long-standing balance sheet deficiencies, such as Accounts Receivable, Accounts Payable, and unsupported accounting adjustments.



FY 2011 Army Audit Readiness Strategy

Additional audit readiness efforts being spearheaded by various business process owners that will help the Army meet the FY 2017 deadline. These initiatives include:

- Office of the Assistant Chief of Staff for Installation Management's (OACSIM) execution of the Army Real Property Audit Handbook that provides installation staff guidance on implementing a sustainable real property business process, including acquiring and maintaining supporting documentation folders for each asset; and
- OACSIM's development of an environmental liabilities management system that will allow the Army to track the estimates and costs expended for environmental liabilities clean-up projects.

3.6 Audit Readiness Systems Assessments

With significant resources devoted to major systems enhancements, including GFEBS, LMP, and GCSS-Army, enterprise-wide engagement is crucial to the Army developing and implementing sustainable business processes and achieving audit readiness. In particular, the Army will focus on validating that effective controls necessary to meet an auditor's requirements exists within each of the systems in the to-be systems environment. The Army audit readiness effort requires business system control assessments to evaluate, document, and test the design and operating effectiveness of the key internal controls relevant to financial reporting for the GFEBS, LMP, GCSS-Army, and IPPS-A, and other financial feeder systems that will exist in FY 2017 when the Army's financial statements must be audit-ready.

The business system control assessment includes a comprehensive review to ensure the Army's systems will meet the requirements an auditor will follow in a Federal Information System Controls Audit Manual (FISCAM) audit. Specifically, the business system control assessment addresses the application security (access controls), business process controls (automated and manual), data integrity controls, and information technology general controls. The Army is investing significant resources to ensure these major enterprise-wide systems contribute to achieving audit readiness.



4.0 Governance

Army leaders involved in financial improvement efforts are working within the context of the current operational mission. To successfully achieve this mission, the OASA(FM&C) must ensure the Army has sufficient resources, sustainable infrastructure, and sufficient personnel with which to support soldiers, ensure readiness and transform itself into the force of the 21st century. The OASA(FM&C) functions include:

- Formulate, submit, and defend the Army budget to Congress and the American people;
- Oversee the proper and effective use of appropriated resources to accomplish the Army's assigned operational missions;
- Provide timely, accurate, and reliable financial information to enable leaders and managers to incorporate cost considerations into their decision-making process;
- Provide transparent reporting to Congress and the American people on the use of appropriated resources and the achievement of Army-wide performance objectives; and
- Manage and coordinate programs for the accession, training, and professional development of Army resource managers.

OASA(FM&C) Mission

Provide the resources to support Army missions. Control the distribution of funds, account for Army assets, and ensure the efficient and effective stewardship of the nation's resources entrusted to the Department of the Army

The OASA(FM&C) is responsible for managing the Army's audit readiness activities with appropriate direction, guidance, and oversight. To do so, OASA(FM&C) has developed an internal infrastructure to drive the service's financial improvement and audit readiness objectives by executing the Army FIP. The Army audit readiness staff is part of the Deputy Assistant Secretary of the Army for Financial Operations (DASA(FO)) team and is responsible for managing the Army FIP.

The Audit Readiness Directorate manages the Army FIP, which provides the Army business process owners responsibility for providing updates on their improvement activities. By allowing business process owners to assume responsibility for reporting their progress, OASA(FM&C) can increasingly engage the more than 20 staff agencies with audit readiness responsibilities. In addition to overseeing the executing of the Army FIP, OASA(FM&C) is responsible for managing the Army's internal control over financial reporting (ICOFR) program.

The Army FIP serves as the Army's roadmap to a unqualified audit opinion and identifies federal accounting standards and requirements, functional corrective action tasks, and timelines. The FIP was developed in recognition of the fact that quality financial information provides the Army with the foundation for achieving its operational mission and vision for the future. It encompasses corrective actions to address OASA(FM&C)-identified process deficiencies,



auditor-identified weaknesses, ICOFR material weaknesses, and MICP material weaknesses as illustrated in the below figure.

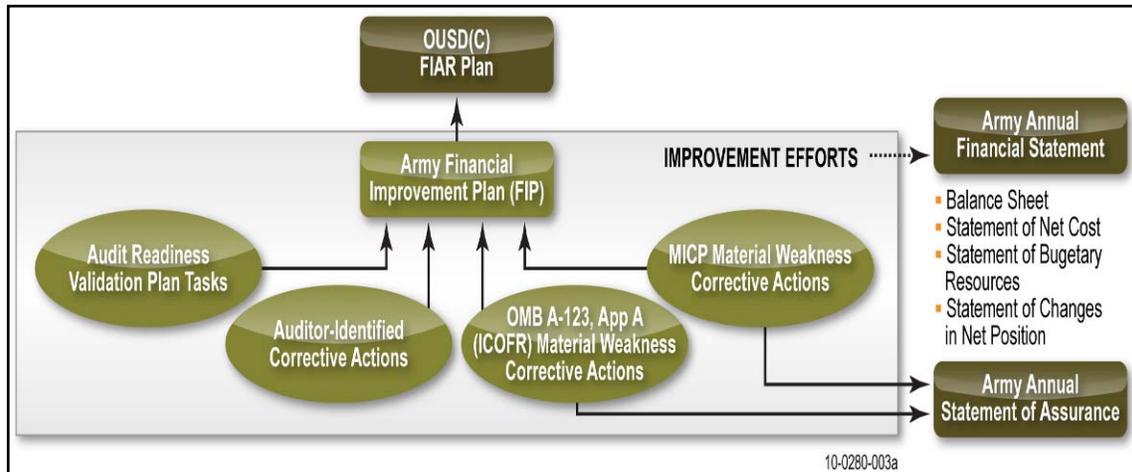


Figure 3 – Army FIP Management Process

The OASA(FM&C) organizes several meetings throughout the year to monitor the execution of the Army FIP and identify areas that require additional cross-functional coordination, including the quarterly Army FIP IPRs and Army Audit Committee (AAC) meetings (formerly referred to as the Army Audit Committee Executives Meeting), as well as the Annual Army FIP Conference / Workshop. These meetings are designed to ensure the Army has all military, civilian, and contractor personnel working towards the same goals from the headquarters level to the commands in the field. In addition to the regular AAC and IPR meetings, the OASA(FM&C) organizes smaller working groups to address ad hoc issues that present themselves throughout the FIP execution.

4.1 Army FIP In-Process Review Meetings

In FY 2011, the Army Audit Readiness Directorate will facilitate quarterly Army FIP IPR meetings that will address action items due for completion in the current and upcoming fiscal quarters, as well as actions delayed or completed during the previous quarter. Coordination activities will commence two to three weeks in advance of each meeting in order to provide enough time for business process owners to verify, monitor, and report on the items for which they are responsible. The OASA(FM&C) team will prepare a standard briefing format and arrange for guest speakers to communicate current issues relevant to the Army’s audit readiness efforts. (e.g. OUUSD(C), GFEBs, LMP, GCSS-Army).

4.2 Army Audit Committee Meetings

While the Army FIP IPRs will engage the action officers (e.g. GS-14/15) responsible for executing FIP tasks, the Army Audit Committee (AAC) is the internal Senior Executive Service (SES) / General Officer-level governance body charged with oversight of the:



FY 2011 Army Audit Readiness Strategy

- Army audit readiness strategy;
- Execution of any identified financial statement audit issues and corrective actions; and
- Proper implementation of accounting guidance and compliance testing.

The AAC was established in FY 2006 to provide a forum where leaders of the organization could discuss federal accounting and auditing issues as related to the operation of the Army. Its mission is to provide senior-level oversight of financial statement audit issues, corrective action implementation, accounting guidance and compliance testing. The AAC principal officials represent the:

- Assistant Secretary of the Army (Financial Management & Comptroller);
- Assistant Secretary of the Army (Force Management, Manpower & Resources) (ASA(M&RA));
- Assistant Secretary of the Army (Installations & Equipment) (ASA(I&E));
- Assistant Secretary of the Army (Acquisitions, Logistics & Technology) (ASA(ALT)); and
- Assistant Secretary of the Army (Civil Works) (ASA(CW)).

The principal officers of the AAC listed above are the only voting members of the committee. In addition to the principal officers, a number of advisory, non-voting members participate in the committee, including representatives from:

- Army Audit Agency;
- United States Army Reserves (USAR);
- Army National Guard (ARNG);
- Defense Finance and Accounting Service – Indianapolis;
- Office of the General Council (OGC);
- Office of the Department of Defense Inspector General;
- Office of the Undersecretary of Defense (Comptroller);
- Department of the Navy Financial Management and Comptroller;
- Department of the Air Force Financial Management and Comptroller; and
- Assistant Commandant of the Marine Corps.

The AAC's mission and its composition by senior levels make it the most important body driving the Army FIP. The AAC, chaired by the DASA(FO), is responsible for evaluating the Army's internal control program, chartering work groups to resolve control weaknesses and accounting issues, and tracking the status of individual corrective actions as documented in the FIP. The AAC meets each quarter after the IPR meetings, which are also held quarterly. The IPR meetings, chaired by the Army Director of Audit Readiness, are held to ensure Army business process owners are aware of and support the FIP mission and goals. The meeting also allows the process owners to share their experiences, best practices, and other matters with each other and with the Army Audit Readiness Directorate.



4.4 Army Audit Document Repository (AADR)

The AADR is the Army's tool for consolidating and maintaining all discovery, evaluation, and testing documents relevant to the SBR and E&C endeavors. The AADR allows authorized users to upload and access materials securely and directly over the Internet. The AADR enables rapid collaboration by providing a centralized location for staff, administrators, and auditors to compile, update, and review supporting work products. In addition to the remote upload and download capabilities standard to any library, this repository supports core Army audit discovery business processes. Customizations include defined folder structures to enable the capture of all requisite materials, document tagging to facilitate file searching and extraction, and folder locking capabilities to prevent the modification of materials subsequent to the completion of a site visit. The documents stored within the AADR may be utilized by future auditors in support of Army assertions.



5.0 Sustainment

The incremental achievement of audit readiness for assessable units over time must be sustained in order for the Army to meet its audit readiness goals. Activities that will be critical in ensuring the audit ready state is maintained within the Army include the an active communication management process, recurring personnel development in audit readiness initiatives, implementation of a enterprise risk and controls methodology, and execution of annual ICOFR activities.

5.1 Communication Management

The Army's management approach will ensure a top down and bottom up communication of financial improvement and audit readiness issues throughout the organization. The involvement of leaders at the highest level of the Army ensures the necessary resources and manpower are directed toward achieving audit readiness.

5.1.1 Annual Army FIP Conference / Workshop

The Army will hold annual FIP conferences/workshops. These conferences provide OASA(FM&C) the opportunity to showcase Army financial improvement plans for the coming fiscal year and to demonstrate Army accomplishments towards the Department's FIAR objectives. The most recent conference, chaired by the ASA(FM&C), featured the highest ranking civilian and military leaders throughout the Army and DoD FM community, including the USD(C), the DoD Deputy Chief Financial Officer, the Under Secretary of the Army, and the Principal Deputy ASA(FM&C). In response to positive feedback from the Army, OASA(FM&C) will be organizing annual conferences to be held in the 3rd quarter of each FY in the Washington, DC metropolitan area. The Army FIP Conference / Workshop will allow the Army Audit Readiness Directorate to cultivate the necessary internal controls and audit support skills throughout the Army and serve as a critical aspect of developing a sustainable corporate knowledge.

5.1.2 Quarterly FIP Newsletter

To reach a broader audience, Army publishes quarterly Army FIP Newsletters to provide status of the Army FIP and audit readiness activities to the field. We tie in the results from the Army's additional audit readiness activities, including IT system compliance testing and support, SBR & E&C results and schedule, and GFEBs evaluation and audit support. The Army FIP Newsletter is a vital component of the Army's audit readiness communication strategy.

The Army FIP Newsletters that will contain messages from the DASA(FO) and the Army's Audit Readiness Director. These messages will provide the field with updates on the overall status of the Army FIP and audit readiness activities. The newsletters will also tie in the results from the Army's additional audit readiness activities, including IT system compliance testing and support, SBR & E&C results and schedule, GFEBs evaluation and audit support, as well as the progress made with other ERP systems implementations.



FY 2011 Army Audit Readiness Strategy

In addition, the newsletters will include feedback from the locations visited; a lessons learned section with advice for installations and commands to prepare for audits; recommended readings; and audit advice. Finally, we will use the newsletter to answer any questions received from personnel responsible for audit readiness activities and on-going audit support in the field. The Army FIP Newsletter will serve a crucial role in the Army's audit readiness communication strategy as it will allow the OASA(FM&C) to communicate audit readiness requirements throughout the organization in a language that the Army will understand – rather than in strict accounting or auditing terms.

5.2 Personnel Development

The Army Audit Readiness Directorate has established a number of professional development initiatives to further enhance the Army's human capital and knowledge in federal financial management. Many of these efforts are focused on managers in the field, particularly resource management and property accountability personnel at the command and installation level.

5.2.1 Audit Readiness Online Training

During 2nd Quarter, FY 2011, the Army Audit Readiness Directorate will publish self-paced training modules on the OASA(FM&C) website covering (1) Auditing 101; (2) Internal Controls 101; (3) Army FIP execution; (4) Annual ICOFR requirements; and (5) Audit support expectations.

5.2.2 Army Command Meetings

To help manage the FIP updates and continually engage the Army business process owners, including Army commands and DFAS, in the Army's audit readiness strategies, OASA(FM&C) will schedule semi-annual in-person meetings with the headquarters resource management offices from TRADOC, FORSCOM, IMCOM, MEDCOM and AMC, as well as the audit readiness staff at DFAS-Indianapolis. Topics discussed will be relevant to each command and their difficulties in completing FIP activities. This will allow the Commands to obtain an increased understanding of audit readiness, which they can pass to their regions and installations.

5.2.3 Installation Property Accountability Meetings

During E&C site visits, field team members will conduct meetings with installation personnel regarding property accountability initiatives within the Army, including advocating the Command Supply Discipline Program (CSDP), use of unique item identifiers (UII) and the Item Unique Identification (IUID) registry, and Army property accountability policy clarification. These meetings will enhance an Army installations' understanding of property accountability initiatives and the impact of their business processes within the Army financial management environment.

5.2.4 Audit Readiness Preparation Meetings

The Army Audit Readiness Directorate will conduct audit readiness preparation meetings in conjunction with field team site visits and command meetings. These meetings will assist Army personnel in preparing for an independent audit of their business and resource management processes. The focus on these meetings will be to familiarize Army personnel with the Army



Audit Readiness Directorate Audit Handbook and answer questions pertaining to audit readiness milestones.

5.3 Governance, Risk & Controls Methodology Implementation

The Governance, Risk, & Controls (GRC) methodology is a framework utilized by organizations to effectively guide their efforts to govern the organization (governance), manage their business and technology risks (risk), achieve regulatory compliance requirements (compliance), and enable process improvement objectives. An effective business system control assessment is based on the analysis of the internal controls configured within the system environment resulting in process improvements and internal control consolidation to increase daily operations and reduce audit costs.

Business system control assessments confirm authorized transactions, and prevent or detect inappropriate activity based on specific key internal control objectives. The business system control assessments will include an analysis of the:

- Application Security (Access) Controls: Evaluation, design, documentation, and optimization of information security controls to help provide effective, efficient, and secure access to information within the system;
- Business Process Controls: Evaluation, design, documentation, and testing of system-based and manual controls around the application's business processes;
- Data Quality & Integrity Controls: Evaluation, design, documentation, and testing of data quality and integrity controls associated with the application environment;
- Information Technology General Controls: Evaluation, design, documentation, and testing of controls associated with the operation, support, and maintenance of the Army GFEBs system.

The Army will perform controls rationalization and transformation increases the operating effectiveness of the control environment by evaluating the existing GFEBs key internal controls to assess whether they are effectively designed, configured, and optimized, and eliminate redundant and ineffective controls. These assessments will occur with the use of automated tools, decreasing the amount of expended time and resources.

5.4 ICOFR Program

In the federal government, OMB defines internal control as tools (organization, policies, procedures, etc.) to help program and financial managers achieve results and safeguard the integrity of their programs. Taken a step further, Internal Controls over Financial Reporting (ICOFR) can be defined as policies and procedures implemented by financial managers to ensure financial data is accurate, complete and in compliance with applicable guidance. The authoritative guidance requiring federal agencies to implement, evaluate and ensure the effective operation of ICOFR is OMB Circular A-123, Management's Responsibility for Internal Control. OMB Circular A-123 also requires the annual issuance of management assurance statements reporting on the state of internal control within the reporting organization.



FY 2011 Army Audit Readiness Strategy

The DoD specific authoritative guidance over ICOFR is DoD Instruction 5010.40, Managers Internal Control procedures. This instruction requires the implementation of the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123 within the DoD and establishes an organizational structure to facilitate this implementation. The DoD Senior Assessment Team (SAT), which is responsible for FMFIA and ICOFR oversight within the Department, defines ICOFR as a process designed to provide reasonable assurance regarding the reliability of financial reporting. To provide Army specific oversight and attention to FMFIA efforts, the Army established the Senior Leader Steering Group (SLSG), which is responsible for assessing and monitoring MICP deficiencies and for issuing the annual Army FMFIA Statement of Assurance. The SLSG is chaired by the DASA(FO) and includes General Officer and SES representatives from the Army headquarters organizations. The SLSG meets at least four times a year and is comprised of senior leaders who have the authority to change policies or procedures in order to resolve financial reporting weaknesses.

With the SLSG's oversight and execution of the ICOFR program, the Army will be able to sustain the improvements gained through its audit readiness efforts. By developing a regular testing schedule, the Army can address any deficiencies in a timely fashion so as not to jeopardize sustainment of the audit ready environment. The evaluation and improvement of internal controls in the DoD allows for synergies of effort between audit readiness activities and ICOFR reporting requirements. Several of the key audit readiness tasks can be utilized to meet the requirements of OMB Circular A-123. For example, documents included in ICOFR Deliverable A (process flows & narratives) can be utilized in the discovery and evaluation phase of the audit readiness. Testing done as part of the evaluation phase can be leveraged in meeting the requirements of ICOFR Deliverables C and D. ICOFR deliverables are submitted to OUSD(C) annually and will continue to be prepared and submitted once auditability has been achieved.

Achieving an audit ready financial management environment within the Army will allow for the simultaneous improvement of ICOFR and vice versa. Once the Army achieves an auditable state within an assessable unit, the annual ICOFR activities will ensure continued sustainment by ensuring control deficiencies are identified in a timely fashion and corrective action plans are implemented to resolve those deficiencies.



6.0 Conclusion

The Army audit readiness strategy addresses many long-standing deficiencies in the Army's business processes. While dedicated Soldiers and civilians are working to meet the Army's mission every day, these processes and systems were not built to withstand the scrutiny of a financial statement audit. The Army leadership recognizes the importance of and benefits gained by establishing audit readiness, and this understanding is spreading rapidly throughout the organization.

Senior Army leaders are displaying the necessary interest in audit readiness and providing the OASA(FM&C) with the requisite resources to develop an audit readiness infrastructure and corporate knowledge base. The Army Audit Readiness strategy focuses on implementing internal controls, both manual and automated, throughout the organization to maximize the effectiveness of the Army's business processes. By executing the Army FIP, including discovery, evaluation, and testing activities, the Army will improve its business processes. In addition, the Army is developing the necessary human resources, with job-based and instructor-led training, to utilize the ICOFR program to sustain these improvements. The Army is building upon the momentum gained since the inception of the Army FIP in 1998, and marching toward the upcoming SBR and E&C audit readiness milestones in FY 2011 and, ultimately, full audit readiness by FY 2017.

While the Army's plan for audit readiness may emanate from the OASA(FM&C), the required changes cut across the entire Army and the execution of the Army FIP must be an enterprise-wide endeavor. As ASA(FM&C) said at the Army FIP Conference / Workshop on 28 Jun 2010, everyone in the Army, from the headquarters to the unit level, must "own the audit" and the necessary improvements to obtain a clean audit opinion. One goal of financial improvements may be obtaining an unqualified financial statement audit opinion, but the opinion by no means marks the end of the road. The audit is simply tool by which we can measure the strength of our business processes; however, obtaining an unqualified financial statement audit opinion serves as an important piece of the feedback loop that we are conducting business in accordance with our responsibilities to our two most important stakeholders – the Soldiers and American taxpayers. While achieving auditable financial statements will provide creditability for the financial management community, the most important aspect of this accomplishment will be the strengthened business and financial management processes that will provide useful, reliable, and timely information to Army decision makers.

