



Army Audit Readiness Strategy

FY 2012



Office of the Assistant Secretary of the Army
Financial Management & Comptroller
Accountability & Audit Readiness Directorate



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1.0 Executive Summary

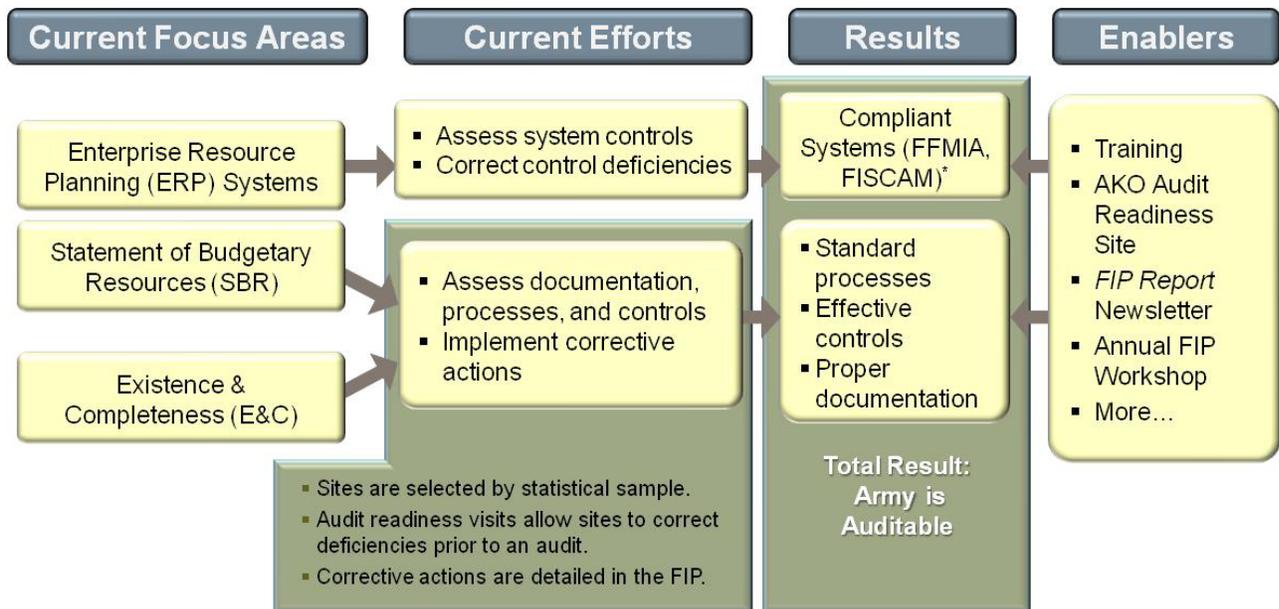
The Army must transform itself to meet the financial and managerial requirements of the digital age, producing timely, accurate, and relevant information that is consistently auditable. An Army that can obtain an unqualified audit opinion can better manage resources and improve its support of the warfighter.

To achieve this, the Army has created a Financial Improvement Plan (FIP) to reach audit readiness. The FIP is aligned with the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Improvement and Audit Readiness (FIAR) Plan to improve financial management, prioritize improvement activities, strengthen internal controls, and ultimately achieve auditability. To achieve the OUSD(C) FIAR Plan objectives, the USD(C) has identified two major financial improvement priorities:

1. The Department’s budgetary information, as contained in the Statement of Budgetary Resources (SBR).
2. Information regarding the existence and completeness (E&C) of mission critical assets.

The other areas identified in the FIAR Plan to reach auditability are appropriations received, full audit (except for legacy asset valuation), and full financial statement audit. The Army has made improving the controls within the Enterprise Resource Planning (ERP) systems an additional focus area. Figure i below summarizes the current focus areas and how they will result in audit readiness.

Figure i: Summary of Audit Readiness Activities





Achievements

The Army achieved the following accomplishments in FY 2011 and the first quarter of FY 2012:

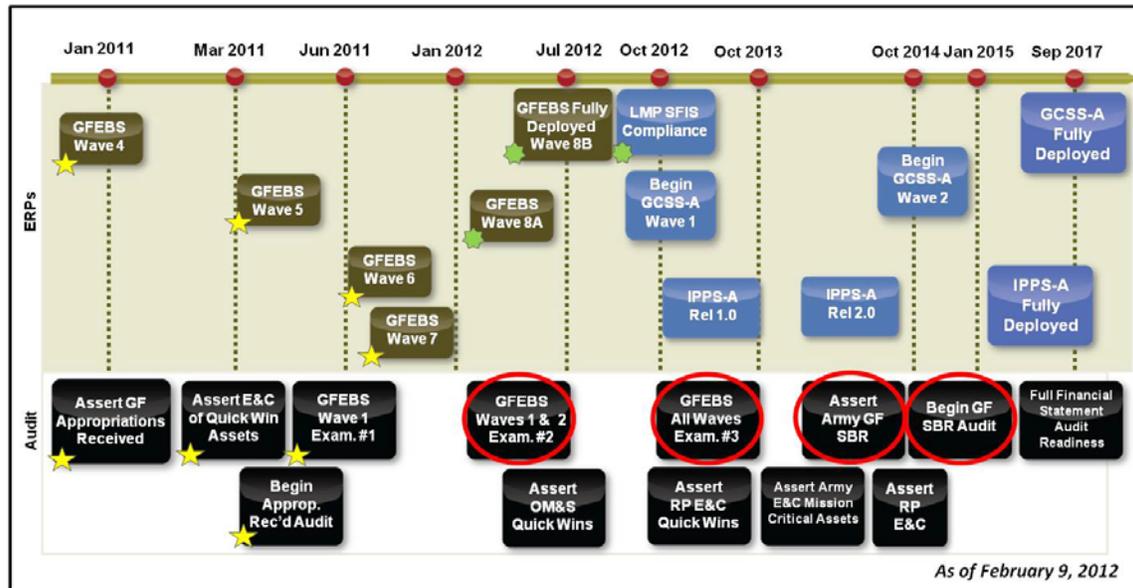
- Received an unqualified audit opinion in August 2011 for all general fund appropriations received, covering about \$232 billion FY 2010 appropriations. This covers a substantial reporting element on the Army’s financial statements.
- Received a qualified audit opinion in November 2011 on SBR Exam 1 that examined five business processes at the three General Fund Enterprise Business System (GFEBS) Wave 1 locations—Forts Benning, Jackson, and Stewart.
- Continued testing and corrective actions around processes for the SBR.
- Completed internal audit readiness assessment of GFEBS and began internal audit readiness assessment of GCSS-Army.
- Conducted the second annual Army FIP Conference/Workshop in August 2011 for more than 140 Army command and field-level attendees.

Major Milestones for FY 2012

For FY 2012 the Army updated its plans based on Secretary of Defense Leon E. Panetta’s “Improving Financial Information and Achieving Audit Readiness” Memorandum dated October 13, 2011. In it, all military services must achieve audit readiness for the SBR by the end of FY 2014. The Army plans to assert audit readiness for the SBR by June 2014.

The milestone chart below (Figure ii) highlights the changes resulting from Secretary Panetta’s directive. The Army consolidated three scheduled SBR audit readiness exams into two exams, occurring in FY 2012 and FY 2013. The FY 2012 exam encompasses nine budget execution business processes at GFEBS Wave 1 and 2 sites, GFEBS IT general and application controls, and Defense Finance and Accounting Service (DFAS) operations. The FY 2013 exam encompasses all GFEBS sites and processes.

Figure ii: Audit Readiness Milestones



Complete
 In Process
 Affected by SECDEF 2014 directive



The focus on accelerating SBR efforts comes just as the Army received a qualified audit opinion on SBR Exam 1 that examined five business processes at the three GFEBS Wave 1 locations—Forts Benning, Jackson, and Stewart. The auditor found consistency of standardized business processes across all three sites. The audit report listed one material weakness, one significant deficiency, and one material deviation. As a result of the SBR Exam of GFEBS Wave 1 sites, the auditors identified best practices to improve the Army’s business processes and audit readiness efforts. The area that stood out most was the lack of supporting documentation to support testing.

In addition to SBR Exam 2, the other major milestone for FY 2012 is the assertion of Operating Materials & Supplies (OM&S) “Quick Wins” by June 2012 as part of the E&C effort. The OM&S “Quick Wins” includes three missile programs—Hellfire, Javelin, and Tube-launched, optically tracked, wire-guided (TOW) missiles.

The Framework for Audit Readiness

The audit readiness efforts are guided by a detailed framework that allows the Army to mitigate risk, improve efficiencies, and attain and sustain auditability. The major phases of the Army’s audit readiness framework include discovery and gap analysis, testing, corrective action, and sustainment. The Project Management Office manages various stakeholder relationships for the audit readiness effort, which includes a robust communications and training effort.

In FY 2012 audit readiness efforts will include discovery and gap analysis, testing, and corrective action of SBR across the Army, civilian payroll processes, E&C assets (i.e., military equipment, general equipment, OM&S, and real property), Fund Balance with Treasury processes and systems, and other business information systems to support audit readiness (e.g., GFEBS, LMP, and GCSS-A,

OASA(FM&C) has governance systems in place to support its audit readiness efforts. Quarterly, it holds In-Process Review and Audit Committee meetings to engage stakeholders at all levels of the Army. The In-Process Reviews include day-long working group sessions with action officers from Headquarters, Commands, and Installations. The Audit Committee serves as the Senior Executive oversight body of the Army’s audit readiness efforts. Sustainment efforts ensure the Army meets and maintains its audit readiness goals. OASA(FM&C) has put into place a robust communications management effort that includes an active Army Knowledge Online (AKO) community site, a quarterly newsletter, and an annual conference. Personnel development includes meeting with Army commands to enlist their support and a comprehensive training program to educate their staff. OASA(FM&C) has created the Army Audit Data Repository (AADR) to consolidate and maintain all discovery, evaluation, and testing documents. A Governance, Risk, and Compliance (GRC) framework manages business and technology risks, achieves regulatory compliance requirements, and enables process improvement objectives. Finally, the audit readiness efforts complement the Internal Control Over Financial Reporting (ICOFR) program activities.



2.0 Overview

The Army faces an unprecedented challenge. The 236 year-old, mission-focused organization must transform itself to meet the financial and managerial requirements of the digital age, producing timely, accurate, and relevant business information that is consistently auditable. An Army that can obtain an unqualified audit opinion means leaders have the information needed to better manage resources and improve support to the warfighter. To be Army strong is to be audit strong.

This effort requires a culture shift across the organization. Everyone must understand that we are all accountable for managing the Army’s dollars and resources. Accountability proves we are responsible stewards of taxpayer dollars and justifies funds we request from Congress. Ultimately, accountability and audit readiness are inherent to the Army’s mission because they allow us to better support the warfighter through better management of Army resources.

[W]e must earn and maintain the American public’s confidence in order to receive the resources that allow the Army to maintain our national defense.”
— Under Secretary of Defense (Comptroller) Robert F. Hale at the 2011 FIP Conference/Workshop

Successful transformation of the Army’s business operations is a top priority for Army leaders as well as Congress, the Office of Management and Budget (OMB), and the Government Accountability Office (GAO). The Office of the Assistant Secretary of the Army (Financial Management & Comptroller) (OASA(FM&C)) established three major components required for a successful transformation program—leadership focus, resources, and a robust plan. These three equally important elements allow the Army to demonstrate proof of efficient business processes, effective internal controls, and appropriate stewardship over financial resources.

2.1 Background

Over the years Congress has enacted legislation to define and shape the federal financial management landscape. These laws have initiated and guided Army financial improvement efforts. The most frequently referenced legislation is described in the table below.

Federal Managers’ Financial Integrity Act (FMFIA) of 1982	Authorizes 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.
Chief Financial Officers (CFO) Act of 1990	Requires federal agencies to annually prepare auditable financial statements.
Government Performance and Results Act (GPRA) of 1993	Requires agencies to report on and measure progress towards established goals, including financial management goals.
Government Management Reform Act (GMRA) of 1994	Extended the requirements of the CFO Act to include agency-wide reports from all major executive branch agencies and their components and for the government as a whole.



Federal Financial Management Improvement Act (FFMIA) of 1996	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.
GPRA Modernization Act of 2010	Extends GPRA requirements to include several significant updates to the government-wide performance framework and agency level strategic and performance planning and reporting requirements, such as quarterly progress reviews of agency priority goals.
OMB Circular A-123 - Management's Responsibility for Internal Control	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 Department of Defense (DoD)- and Army-specific directives requiring financial improvement. Most recently, Secretary of Defense Leon E. Panetta issued a memorandum on October 13, 2011 accelerating efforts to make DoD audit ready by moving the milestone to have an auditable general fund SBR to FY 2014.

Prior directives include the USD(C) memorandum dated August 11, 2009 and the Secretary of the Army memorandum dated February 18, 2011. 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 Secretary of the Army's memorandum makes clear that all Army personnel—both within and outside of the financial management practice—are responsible for audit readiness activities. The memo also outlines the audit examination process and preceding audit readiness assistance available to Army organizations. These memorandums define the audit environment and shape the DoD approach to achieving and sustaining auditability.

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 agencies have successfully aligned their financial processes and systems and as a message assuring management 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 Guidance and OUSD(C) Priorities

The OUSD(C) FIAR Guidance 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 Guidance objectives, the Army deploys resources and 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 Guidance objectives, the USD(C) has identified two major financial improvement priorities:

- The Department’s budgetary information, as contained in the SBR.
- Information regarding the E&C of mission critical assets.

OUSD(C) has formulated a comprehensive strategy with a critical path that allows 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. The critical path includes:

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

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 in 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 assessments, allow reporting entities to effectively design or identify existing control points within their business environments. The identification and collection of KSDs 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.

Updates to the OUSD(C) FIAR Guidance for FY 2012 will include several significant changes. One of these changes is the full integration of OMB Circular A-123, Appendix A, Internal Control Over Financial Reporting, requirements.

This integration will drive efficiency in the utilization of DoD’s resources to meet the objective of achieving an audit ready state. Other examples of changes include updates to key capabilities and capabilities measures and a list of audit “dealbreakers” that have prevented reporting entities from achieving audit readiness.

“We all need to change...Our behaviors have to change every day.”

—Secretary of the Army (Financial Management & Comptroller)
Mary Sally Matiella at the 2011 FIP Conference/Workshop



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 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, 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).

In FY 2011 and the first quarter of FY 2012, specific accomplishments include:

- Received an unqualified audit opinion in August 2011 for all general fund appropriations received, covering about \$232 billion FY 2010 appropriations. This covers a substantial reporting element on the Army's financial statements.
- Received a qualified audit opinion in November 2011 on SBR Exam 1 that examined five business processes at the three General Fund Enterprise Business System (GFEBS) Wave 1 locations—Forts Benning, Jackson, and Stewart.
- Continued testing and corrective actions around processes for the SBR.
- Completed internal audit readiness assessment of GFEBS and began internal audit readiness assessment of GCSS-Army.
- Conducted the second annual Army FIP Conference/Workshop in August 2011 for more than 140 Army command and field-level attendees.

2.3.1 SBR Accomplishments

The SBR site teams visited the GFEBS Wave 1 and 2 sites in 2011 to conduct discovery and documentation of business processes that make up obligations within the GFEBS environment, which include:

- Government purchase card
- Civilian payroll
- Miscellaneous payments
- Supply acquisition

Field teams identified risks, controls, and potential weaknesses for the four new business processes listed above and refined the risks, controls, and potential weaknesses for the other business processes that affect SBR:

- Funds Receipt, Distribution, and Monitoring
- Contracts
- TDY Travel (in DTS)
- PCS Travel



- Reimbursable Transactions (MIPRs)
- Military Payroll

The field teams developed test plans based on OUSD(C) FIAR key control objectives and key controls identified within the manual and GFEBS environments. The SBR teams are also working with DFAS Indianapolis and Civilian Human Resources Agency (CHRA) on controls testing.

2.3.2 E&C Accomplishments

E&C field teams have performed internal controls testing activities across more than 50 installations, activities, and program management offices in FY 2011 to examine the areas of Military Equipment/General Equipment (ME/GE), Operating Materials and Supplies (OM&S), and Real Property (RP). These site visits have:

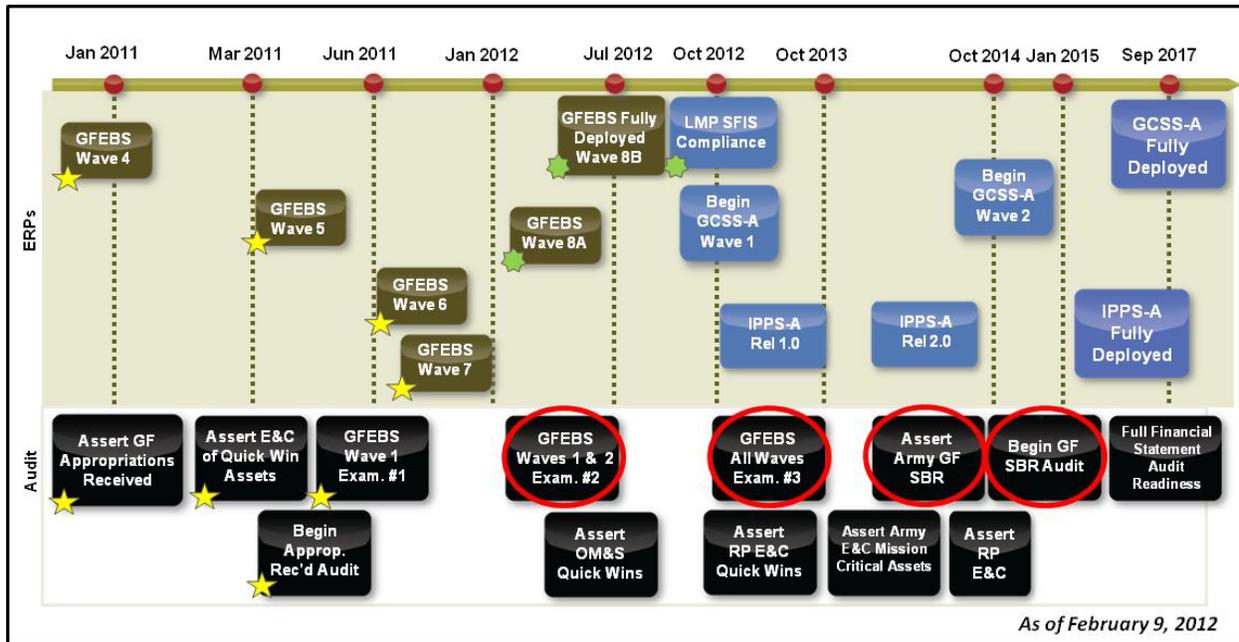
- Identified and corrected inconsistencies in document retention controls.
- Reviewed and re-performed physical inventory controls.
- Conducted reverse testing of asset records residing in the Army accountable property system of record (APSR).
- Analyzed asset and transaction supporting documentation to verify Army rights over mission critical assets.
- Identified and communicated property accountability policy inconsistencies to Army headquarter organizations for revision.
- Enforced and implemented effective quality control review programs such as the Command Supply Discipline Program (CSDP).
- Streamlined the financial reporting process to use APSR data on financial statements for ME.
- Completed E&C discovery activities on three missile programs (Hellfire, Javelin, and TOW).
- Identified installations to initiate audit readiness activities for real property.

2.4 DoD Directive for Accelerated Efforts and FY 2012 Milestones

On October 13, 2011 Secretary of Defense Leon E. Panetta issued a memorandum entitled “Improving Financial Information and Achieving Audit Readiness.” It mandates audit readiness for the SBR by the end of FY 2014. This shifts the milestones laid out in the *FY 2011 Army Audit Readiness Strategy*. The Army will now assert audit readiness for the SBR by June 2014 (the prior milestone was in 2015). The Army commits to appropriately resource efforts to have an auditable SBR by the end of FY 2014 and full financial statement auditability by 2017.

The milestone chart below highlights other changes due to Secretary Panetta’s directive. The Army consolidated three scheduled SBR audit readiness exams into two exams, occurring in FY 2012 and FY 2013. The FY 2012 exam encompasses 9 business processes, GFEBS controls, and DFAS operations. The FY 2013 exam encompasses all GFEBS sites and processes. In FY 2012 SBR field teams will increase their site visits to accelerate their efforts.

Figure 1: Audit Readiness Milestones



Complete
 In Process
 Affected by SECDEF 2014 directive

Along with Exam 2, the other major milestone for FY 2012 is the assertion of Operating Materials and Supplies (OM&S) “Quick Wins” by June 2012 as part of the E&C effort. “Quick Wins” missile programs include the Hellfire, Javelin, and TOW.

2.4.1 Qualified Opinion Received for GFEBs Wave 1 SBR Exam 1

The focus on accelerating SBR efforts comes just as the Army reached the major milestone for GFEBs Wave 1 Exam 1 for SBR in November 2011. Independent public accounting firm KPMG issued a qualified audit opinion for Exam 1, which examined five business process at the three GFEBs Wave 1 locations—Forts Benning, Jackson, and Stewart. The auditor found consistency of standardized business processes across all three sites. The audit report listed one material weakness, one significant deficiency, and one material deviation. During Exam 1 of GFEBs Wave 1 sites, auditors’ findings focused on certain areas and identified best practices to improve the Army’s business processes. The area that stood out most was the lack of supporting documentation to support testing.

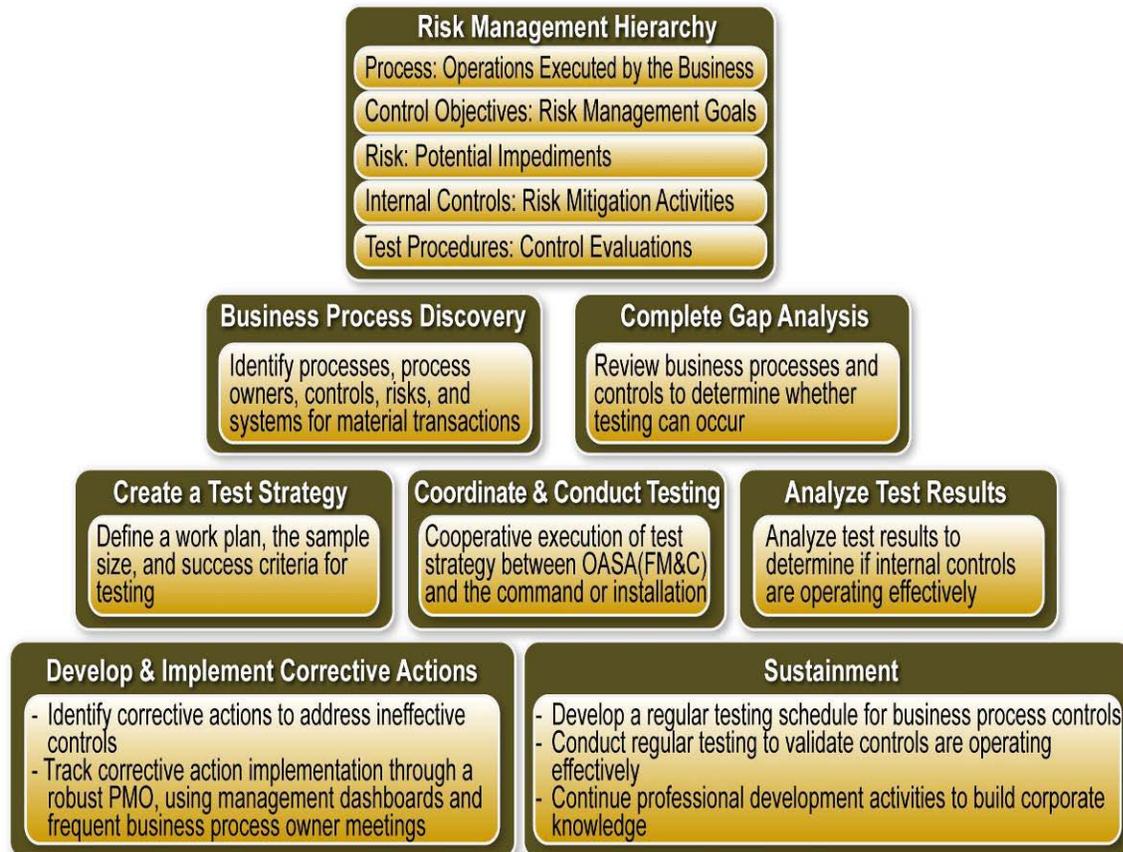
2.4.2 Other Milestones for FY 2012

The other major area of focus for FY 2012 will be Army’s ERP systems. GFEBs will be fully deployed across the Active Army, Guard, and Reserve. Audit examinations of GFEBs follow the same schedule that was used for deployment, which was conducted in waves across different geographic sites. GCSS-Army will also receive an audit examination for its Wave 1 sites. When fully deployed, GFEBs and GCSS-Army will form an integrated funds and asset management system that allow for consolidated financial reporting of assets for the first time in the Army’s history. The first release of IPPS-A is planned for later in the year. FY 2012 will also see the assertion of OM&S “Quick Wins.”

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.

Figure 2: Army Audit Readiness Framework



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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 Government Accountability Office / President’s Council on Integrity and Efficiency (GAO/PCIE) Financial Audit Manual (FAM), and OMB Circular A-123. The framework helps 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 identifies corrective actions required to address impediments to auditability.

The framework 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 and gap analysis
- Testing
- Corrective action
- Sustainment

Discovery and 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. OASA(FM&C) conducts discovery and evaluation activities to verify budgetary receipt, control, distribution, execution, and reporting business processes.

Audit readiness preparation meetings assist Army personnel in preparing for an independent audit of their business and resource management processes. The focus on these meetings is to familiarize Army personnel with the Army Audit Readiness Directorate *Audit Handbook* and answer questions pertaining to audit readiness milestones.

OASA(FM&C) coordinates 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.

OASA(FM&C) also conducts risk assessments and identifies 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). This phase makes OASA(FM&C) aware of weaknesses and deficiencies that must be remediated prior to the assessable unit becoming audit ready.

Prioritization of sites for audit readiness differs by activity area. SBR site visit locations follow the GFEBs deployment waves. OM&S site visit locations are determined by "Quick Wins" assets. ME/GE site visit locations are Army Commands focused. Real Property site visit locations are based on the "Key Supporting Documents" progress.

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/PCIE 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/PCIE 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) creates FIP tasks that detail how Army personnel should address weaknesses identified in the discovery and evaluation phase. FIP tasks include specific action items, detailed timelines, and required or committed resources necessary to implement the audit ready environment.

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 the sustainment of the audit ready environment is not jeopardized. 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 serve as 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 discovery, testing, and corrective action visits.

3.1 Army Audit Readiness Project Management Office (PMO)

The Army Audit Readiness PMO maintains an understanding of the form and substance of applicable policies, procedures, and transactions within the Army environment. The PMO:

- Regularly reviews applicable generally accepted accounting principles and Federal accounting standards.
- Consults with other professionals or experts; performs research and other procedures to ascertain and consider the existence of creditable precedents or analogies.
- Develops audience specific briefings and papers to illustrate detailed accounting treatments, auditing procedures, account analyses, and policy changes.
- Coordinates with FASAB, GAO, DoD Office of Inspector General (OIG), and other stakeholders to obtain concurrence with the developed solutions to ensure reasonableness of proposed approaches.

The PMO oversees the following activities:

- Prepares and moderates the quarterly Army FIP In-Process Reviews (IPRs) and Audit Committee Meetings.
- Creates and publishes the quarterly *FIP Report* newsletters to provide status of the Army FIP and audit readiness activities.
- Manages and updates the Army FIP as activities progress.



- Maintains the AKO Army Audit Readiness online community.
- Manages the Army's input to the semi-annual OUSD(C) FIAR Plan status report submissions to Congress.
- Organizes and facilitates the annual Army FIP Conference/Workshop.
- Supports Army leaders in preparing for Congressional testimonies.
- Provides training to installation-level Army personnel.
- Reviews SBR and E&C field teams' work products.

3.2 Audit Ready Statement of Budgetary Resources

In accordance with the FIAR Directorate goals and objectives and the National Defense Authorization Act (NDAA) for FY 2010, the Army initiated a General Fund SBR discovery and evaluation effort in March 2010.

3.2.1 Appropriations Received

Auditability of Appropriations Received is important to the Army's overall audit readiness efforts. On August 19, 2011 the Army received an unqualified audit opinion for all general fund appropriations received, covering about \$232 billion FY 2010 appropriations. This covers a substantial reporting element on the Army's financial statements.

This unqualified opinion marks a significant accomplishment in the Army's General Fund SBR audit readiness efforts. While the Independent Public Accounting (IPA) firm identified four findings, the Army previously identified and implemented corrective actions to improve oversight of the monthly reconciliations conducted by DFAS and to establish and maintain local standard operating procedures (SOPs) for the funds distribution and reporting processes.

3.2.2 Statement of Budgetary Resources

The Army bases the SBR audit readiness site visit schedule on the GFEBS deployment schedule. By integrating the GFEBS deployment with SBR discovery and gap analysis site visits, the Army validates its business processes and quickly discovers system or process deficiencies in the GFEBS environment.

OASA(FM&C) has identified risks, controls, and potential weaknesses during their review of the Army budget execution processes, using past GAO, DoD OIG, and Army Audit Agency audit reports to guide their work. In addition, the Army developed test plans based on the key control objectives included in the OUSD(C) FIAR Guidance, as well as the key controls identified within the GFEBS environment.

Along with performing discovery and gap analysis site visits at GFEBS locations, the Army, jointly with DFAS, is conducting discovery, gap analysis, and testing for the Civilian Pay, Military Pay, Financial Reporting, and Fund Balance with Treasury, to include the Collections and Disbursements business processes.

The Army is applying lessons learned from organizations that are preparing for, currently undergoing, or have successfully completed a financial statement audit, including the Navy,



Marine Corps, and Army Corps of Engineers. Because of these lessons learned, the Army has made significant progress toward SBR auditability with the discovery effort to date, including the focus on document retention requirements, the importance of system controls, and personnel training and development to sustain audit readiness.

Since the start of the discovery and gap analysis effort, the Army has conducted site visits at GFEBS Wave 1 and Wave 2 locations, which includes 17 Army sites as well as processes at DFAS. The site visit teams document budget execution and monitoring processes for budgetary and reimbursable authority (including allotments and sub-allotments), obligations, and disbursements.

During FY 2011, the Army expanded audit readiness activities to include additional sites and assessable units (e.g., Civilian Pay and Supply Procurement). In addition to assessing the manual control environment, Army is also assessing the information technology general and application internal controls for significant systems, most notably GFEBS and GCSS-A.

SBR Assessable Units	
Appropriations Received	Miscellaneous Payments
Reimbursables—In- & Out-Bound	Civilian Pay
Temporary Duty Travel (TDY)	Military Pay
Contracts—SPS	Disbursements
Government Purchase Card	Financial Reporting
Supply	

The Army employed an IPA firm to conduct the first of three audit readiness examinations of the SBR. The examinations began in June 2011 at GFEBS Wave 1 sites—Forts Benning, Jackson, and Stewart. The IPA firm issued a qualified opinion in November 2011, which is a significant milestone for the Army. The scope of the examination included an assessment of the design and operating effectiveness of internal controls at Wave 1 sites among an assessment of other management assertions.

During FY 2012, Army began visiting GFEBS Wave 3–8 sites to provide guidance on audit readiness and internal control implementation requirements.

3.3 Audit Ready Existence and Completeness of Assets

The second priority established by the USD(C) in FY 2009 directed the DoD Components to focus on improving information that is essential to the effective management of the Department’s mission critical assets. Mission critical asset categories include:

- Military Equipment (ME) (e.g., ships, aircraft, combat vehicles).
- General Equipment (GE) (e.g., material handling equipment, training equipment, special tooling and test equipment).
- Operating Materials & Supplies (OM&S) (e.g., ammunition, munitions, missiles).
- Real Property (RP) (e.g., land, buildings, structures, utilities).
- Inventory (e.g., rations, supplies, spare parts, fuel).



Financial management information, as well as other management information for mission critical assets is recorded in official systems of record, which are referred to as “accountable property systems of record” (APSRs). Ensuring that asset accountability and important management information relevant to mission critical assets is accurately recorded in each reporting entity’s APSR is required to support future financial statement audits.

The existence and completeness of assets are two of the five financial statement assertions that financial statement auditors test. Existence and completeness verifies existence (book to floor) and completeness (floor to book) of mission critical assets. The DoD Components must ensure that all assets recorded in their APSR exist (existence) and all of the reporting entities’ assets are recorded in their APSR (completeness).

OASA(FM&C) and Army G-4 prioritized the Army’s initial E&C efforts on Army installation ME/GE in coordination with OUSD(C) recommendations. The Army also identified initial E&C efforts for OM&S.

3.3.1 Military Equipment and General Equipment

OASA(FM&C), Office of the Deputy Chief of Staff (DCS) of the Army, Army G-4, and DCS Army G-8 coordinated to identify the universe of mission critical assets for the E&C assertion during Quarter 1 of FY 2014. The Army used current logistics and financial reporting systems to determine mission critical assets. These systems are interim solutions until the ERPs are fully deployed and provide comprehensive accountability and financial accounting of Army assets.

The Army’s audit readiness approach for ME/GE follows the SBR approach, in that OASA(FM&C) teams perform internal controls and substantive testing (e.g., transaction completion testing, transaction authority testing, physical inventory re-performance, reverse testing of asset records) at installations. Due to the Army’s large volume of capital assets, OASA(FM&C) conducts substantive tests on a sample of each asset category, using an internal statistician that follows standard audit sampling guidelines. In addition, the Army executes its control testing in accordance with the GAO/PCIE FAM.

As part of the installation-level work, OASA(FM&C) prepares process narratives, flowcharts, and control assessments for the asset lifecycle processes and execute controls testing for ME/GE assets for control activities found to be appropriately designed. As Army identifies deficiencies in its asset management processes, OASA(FM&C) develops and includes corrective action tasks in the FIP and monitors the implementation of the appropriate control activities. To date, some of the deficiencies OASA(FM&C) teams have identified include:

- Property book offices unaware of capital asset procurements by organizations.
- Hand receipt holders unable to locate property for which they are custodians.
- Assets and transactions lacking key supporting documents, as defined by the FIAR Guidance.
- Incomplete or inaccurate supporting documentation.
- Inaccurate data elements recorded in the APSR for mission critical assets (e.g., acquisition date, serial number, location, condition).
- Property systems not fully compliant with federal systems requirements.



- Inconsistent control activity execution across installations, Commands, and organizations.

OASA(FM&C) is assisting the various business process owners with implementing corrective actions to address these deficiencies. In addition, the Command and installation Internal Review offices are monitoring the implementation of corrective actions to ensure the Army can sustain an auditable environment after the initial OASA(FM&C) site visits.

The Army plans to assert the E&C of ME/GE assets by December 31, 2013. OASA(FM&C) is working closely with OUSD(C) and OUSD(AT&L) in advance of the assertion to meet the FIAR Guidance requirements. This interim milestone assertion supports the Army with preparing auditable financial statements by September 30, 2017.

3.3.2 Operating Materials and Supplies

The initial OM&S approach is focused on Class V (ammunition), the largest OM&S class. OASA(FM&C) with Army G-4 identified three “Quick Wins” missile programs including the Hellfire, Javelin, and Tube-launched, Optically-tracked, Wire-guided (TOW) missiles. These programs have a high dollar value per capita and the Army G-4 expects stringent internal controls to already exist in the asset management processes. The Army identified the “Quick Wins” environment by engaging and utilizing the National Level Ammunition Capability (NLAC) system, determining the scope of the Class V environment, and building a notional site visit schedule.

The OM&S approach follows the FIAR Guidance and includes creating process flows, narratives, and conducting assessments of the internal control activities within the munitions lifecycle business process. The munitions lifecycle business processes include:

- Production
- Receive Shipment
- Surveillance or Ammunition Stockpile Reliability Program (ASRP) testing
- Maintenance or renovation of components
- Re-warehousing
- Physical Inventory
- Issues and Turn-Ins
- Prepare Shipments
- Demilitarization
- Testing or modification of assets

OASA(FM&C) will conduct approximately 35 site visits in preparation for the OM&S “Quick Wins” E&C assertion by June 30, 2012.

Alongside the “Quick Wins” E&C testing, OASA(FM&C) is evaluating the overall internal controls at the corresponding OM&S locations and looking for control gaps that require remediation prior to asserting all OM&S classes by December 31, 2013.

3.3.3 Real Property

During FY 2011, the Office of the Assistant Chief of Staff Installation Management (OACSIM), with the assistance of OASA(FM&C), continued performing real property audit readiness site visits in preparation for the upcoming real property “Quick Win” E&C assertion in FY 2013. The real property “Quick Win” E&C assertion will focus on 20 sites at or near 100% complete with



asset key supporting documentation and will expand to all installations in 2013. The OACSIM site visit teams are performing real property inventories and are working to implement the Army’s *Real Property Handbook* across Army installations. This handbook serves as a guide for conducting annual real property physical inventories and provides key supporting documentation requirements. The Army’s real property audit readiness efforts also align with the FIAR Guidance and include developing process flows, narratives, risk analyses, and controls test plans.

To date, the OACSIM and OASA(FM&C) have visited sites to:

- Verify adherence to the *Real Property Audit Handbook* requirements.
- Assess status against the Army’s audit readiness objectives.
- Confirm the existence and accuracy of key supporting documentation that is required for real property assertion.

The Army will assert the existence, completeness, rights, obligations, and valuation of real property E&C assets by September 30, 2014.

3.3.4 Inventory

OASA(FM&C) developed an approach for audit readiness activities that addresses the Inventory assets within the Army Working Capital Fund. The approach adheres to the FIAR Guidance, closely follows the OM&S approach, and is integrated with LMP, which is the Army’s Working Capital Fund ERP system. OASA(FM&C) works closely with the Army Materiel Command (AMC) to finalize the Inventory audit readiness plans, including planning site visits and finalizing the broader Army Working Capital Fund audit readiness strategy.

3.3.5 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:

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; property books under Modified Table of Organization & Equipment (MTOE), Table of Distribution Allowances (TDA), or Joint Table of Allowances (JTA); property book record data elements; and type and occurrence of asset inventories.



Regulation / Policy	Army E&C Relevance
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); and 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 & Supplies (I/OM&S). The DoD FMR defines the recognition, valuation, and accounting treatment 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 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.

3.4 Fund Balance with Treasury

As the Army continues its audit readiness Fund Balance with Treasury (FBWT) efforts, the approach for the FBWT assertion will focus on the GFEBs environment. In addition, it follows the approach successfully employed by the Air Force and DFAS-Columbus to identify requirements for the implementation of an automated tool to perform a monthly reconciliation of the Army's and the Department of Treasury's records. In cooperation with DFAS-Indianapolis, OASA(FM&C) developed a FBWT FIP, which consists of appropriations received, disbursements, and collections. The Army plans to leverage the completed FBWT work to address the Net Outlays section of the SBR. The Army expects to assert FBWT by Quarter 2 of FY 2014.



The Army has partnered with DFAS to develop and implement the Air Force's automated reconciliation tool, Columbus Cash Accountability System (CCAS), within the Army, as well as develop a process for resolving identified reconciling items. Although CCAS-Army is essential for an auditable FBWT line item, Army recognizes that this is only one piece of the puzzle. As such, Army and DFAS are working together to implement the appropriate internal controls within the appropriations received, disbursements, and collections processes.

3.5 Systems to Support Audit Readiness

Army auditability is dependent on establishing an audit ready systems environment that includes successfully deploying ERP systems and interfacing them with other business and financial systems.

The Army has a federated approach to ERP systems implementation. The federated approach minimizes ERP to ERP transaction-level interfaces to record GCSS-Army logistics activities, as well as centralize key financial processes (e.g., funds distribution, asset accounting, cost management), by leveraging the Army Enterprise Systems Integration Program (AESIP). AESIP serves as a data hub for the Army's ERP systems and ensures common data across all platforms.

Army's reasoning for deploying ERPs is more expansive than audit readiness. While auditable financial statements are a vital output, the systems allow Army to more effectively manage the organization. The deployment of ERPs results in a more efficient and effective organization, as Army standardizes business processes and implements effective automated internal controls.

3.5.1 General Fund Enterprise Business System (GFEBs)

GFEBs is the Army's General Fund web-enabled accounting, asset management, and financial reporting system. It is used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. The deployment schedule for GFEBs occurs in eight waves and to thousands of financial users across the globe. GFEBs subsumes more than 80 legacy systems.

On June 24, 2011, GFEBs received the Full Deployment Decision from the DoD Deputy Chief Management Officer, which affirmed the deployment readiness of the GFEBs solution and authorized system implementation Army-wide. GFEBs deployment is scheduled to conclude with Wave 8B in July 2012.

3.5.2 Logistics Modernization Program (LMP)

The LMP Army Working Capital Fund ERP delivers a fully integrated suite of software and business processes that streamline the maintenance, repair, overhaul and planning, finance, acquisition, and supply of weapon systems, spare parts, services, and material to the warfighter.

Fundamental to the Army's transformation efforts, LMP replaces a stove-piped legacy systems environment and enables the Army to harness the power of precise, up-to-the-minute, enterprise-wide data, and improved business processes. The Army is finalizing a plan to begin Army Working Capital Fund and LMP discovery and gap analysis, testing, and corrective action audit readiness activities, similar to the Army General Fund and GFEBs activities, by mid-FY 2012.



3.5.3 Global Supply System–Army (GCSS-Army)

GCSS–Army integrates the Army supply chain, obtains accurate equipment readiness, supports split base operations, and receives up-to-date status on maintenance actions and supplies in support of the warfighter. In January 2011, the U.S. Army Acquisition Support Center informed OASA(FM&C) that GCSS-Army will not be fully deployed throughout the Army until Quarter 4 of FY 2017, which is a change from the previous date of Quarter 4 of FY 2015. The Army began an audit readiness assessment of GCSS-Army in FY2012 and will complete this assessment by December 31, 2012.

On August 9, 2011, the GCSS-Army Program received its Milestone C approval from the Defense Acquisition Board. The granting of Milestone C moves the GCSS-Army program from Engineering Manufacturing and Deployment Phase into the Production and Deployment Phase. After a successful Initial Operational Test & Evaluation (IOT&E), the program will ask for a Full Deployment Decision, which allows the program to deploy to the entire Army.

3.5.4 Integrated Personnel and Pay System–Army (IPPS-A)

IPPS–A is the Army’s integrated pay system, replacing the legacy systems, and serving as a critical piece of the Army’s future systems environment. The Army is revising the system development strategy and is working toward establishing a Milestone B decision date.

3.5.5 Other System Assessments

The Army will focus on validating the existence of effective controls to meet auditor requirements within each of the systems above. 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 on these systems and other feeder systems that will exist in FY 2017.

The business system control assessment includes a comprehensive review to ensure the Army’s systems will meet the requirements of a 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 that these major enterprise-wide systems contribute to achieving audit readiness.

In January 2011, OASA(FM&C) began a comprehensive review of GFEBs. GFEBs was implemented using the SAP Governance, Risk, & Compliance (GRC) Access Controls module allowing for a standardized access control framework. As a result of the GFEBs assessment, Army noted the several control deficiencies that need addressed to support and sustain auditable business processes and data.

Army is working aggressively to remediate these deficiencies in advance of the GFEBs Waves 1 and 2 audit exam in Q4 FY2012. In addition to the GFEBs assessment team, OASA(FM&C) has assembled a team to perform a root cause analysis of GFEBs issues identified by end users and field teams. The objective of the analysis is to ensure the system is appropriately configured to support implementation of application and manual controls.



3.6 Full Financial Statement Assertion

As the Army progresses toward 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 cannot wait until after the Army has met its SBR and E&C objectives in FY 2014 and FY 2015, respectively. Some of the current SBR, E&C, and FBWT efforts enable the Army to meet the broader financial statement goals, including:

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

Additional audit readiness efforts led by various business process owners that assist the Army in meeting the FY 2017 deadline include:

- OACSIM execution of the Army's *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.
- OACSIM's development of an environmental liabilities management system that allows the Army to track the estimates and costs expended for environmental liability clean-up projects.



4.0 Governance

Army leaders involved in financial improvement efforts work within the context of the current operational mission. To successfully achieve this mission, OASA(FM&C) ensures the Army has sufficient resources, a sustainable infrastructure, and trained personnel to support soldiers, ensure readiness, and transform itself into the force of the 21st century. Some of OASA(FM&C) tasks 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.
- Manage and coordinate programs for the accession, training, and professional development of Army resource managers.

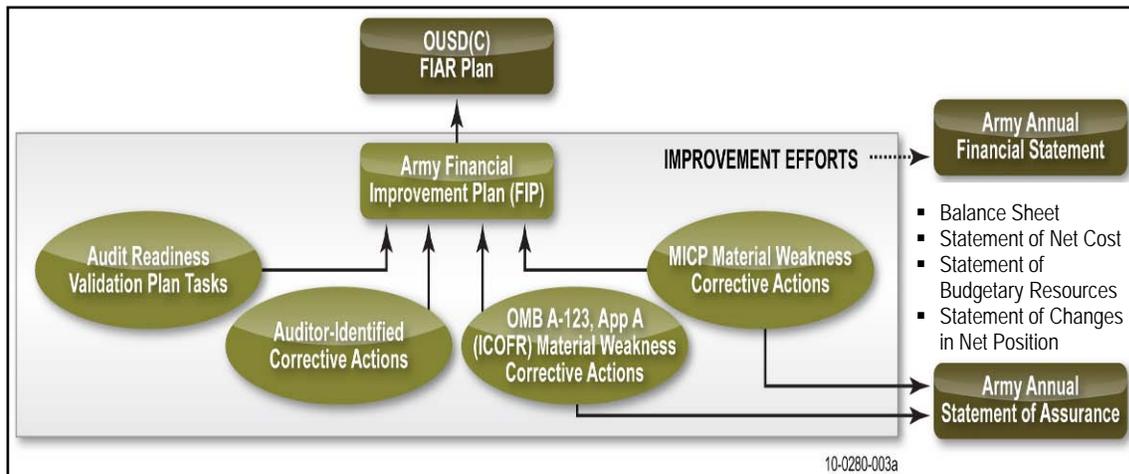
***OASA(FM&C) Mission:
Provide the resources to support Army missions. Control the distribution of funds, account for Army assets, and ensure the efficient and effective stewardship of the nation's resources entrusted to the Department of the Army.***

OASA(FM&C) is responsible for managing the Army's audit readiness activities with appropriate direction, guidance, and oversight. OASA(FM&C) developed an internal infrastructure to drive the service's financial improvement and audit readiness objectives by executing the Army FIP. The Army Accountability and Audit Readiness Directorate 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 Army FIP requires Army business process owners to provide updates on their improvement activities. By allowing business process owners to assume responsibility for reporting their progress, OASA(FM&C) engages more than 20 staff agencies with audit readiness responsibilities. In addition to overseeing and executing 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 an unqualified audit opinion and identifies federal accounting standards and requirements and 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 Managers Internal Control Program (MICP) material weaknesses as illustrated in the below figure.

Figure 3: Army FIP Management Process



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 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 toward the same goals from the headquarter level to the commands in the field. In addition to the regular AAC and IPR meetings, 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 2012, OASA(FM&C) will continue to facilitate quarterly Army FIP IPR meetings that 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. OASA(FM&C) 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., OUSD(C), GFEBS, LMP, GCSS-Army).

4.2 Army Audit Committee Meetings

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

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

The Army Audit Committee 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 Army Audit Committee 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))
- Assistant Secretary of the Army (Civil Works) (ASA(CW))

The principal officers of the Army Audit Committee 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:

- US Army Training and Doctrine Command
- US Army Forces Command
- US Army Installation Management Command
- US Army Material Command
- United States Army Reserve
- Army National Guard
- Army Audit Agency
- Defense Finance and Accounting Service – Indianapolis
- Army Office of the General Counsel
- Department of Defense Office of the Inspector General
- Office of the Under Secretary of Defense (Comptroller)
- Office of the Assistant Secretary of the Navy (Financial Management & Comptroller)
- Office of the Assistant Secretary of the Air Force (Financial Management & Comptroller)
- Office of the Assistant Commandant of the Marine Corps

The Army Audit Committee's mission and its composition by senior levels make it the most important body driving the Army FIP. The Army Audit Committee, 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 Army Audit Committee meets each quarter after the IPR meetings, which are also held quarterly. The IPR meetings, chaired by the Army Director of Accountability & Audit Readiness, are held to ensure that 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 OASA(FM&C).



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. Critical activities in maintaining an audit ready state within the Army are an active communication management process, recurring personnel development in audit readiness initiatives, implementation of an enterprise risk and controls methodology, and execution of annual ICOFR activities.

5.1 Communication Management

The Army's management approach ensures 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 staffing are directed toward achieving audit readiness.

In FY 2011, the PMO created a communications team devoted to raising awareness and understanding of audit readiness. These efforts facilitate behavior change across the organization that lead to auditability.

5.1.1 AKO Army Audit Readiness Site

Members of the audit readiness community can go to the Audit Readiness site on Army Knowledge Online (AKO) for updates and resources. This site will be enhanced in the coming year. Resources available on the site include an "Announcement" section with the latest news, videos, and presentation documents from the FIP workshop, and the site visit schedule. The address is www.us.army.mil/suite/page/auditready.

5.1.2 Annual Army FIP Conference/Workshop

The Army has held two FIP Conference/Workshops. These events provide OASA(FM&C) with the opportunity to showcase Army FIPs for the coming fiscal year and to demonstrate Army accomplishments toward the Department's FIAR objectives. The August 2011 event had more than 140 attendees and featured the highest ranking civilian and military leaders throughout the Army and DoD Financial Management community, including the USD(C), the ASA(FM&C), and the Principal Deputy ASA(FM&C). In response to positive feedback from the Army, OASA(FM&C) will continue to organize the annual event in the spring in the Washington, DC metropolitan area.

5.1.3 Quarterly Newsletter, *FIP Report*

To reach a broader audience, Army publishes a quarterly *FIP Report* newsletter. The newsletters provide Army FIP status updates and promote audit readiness to all members of the Army community. The *FIP Report* is a vital component of the Army's audit readiness communication strategy.

5.1.4 Monthly Update Email

This email is a brief digest of audit readiness news posted on AKO, upcoming site visits, upcoming activities, and links to Congressional and media activity.



5.2 Personnel Development

OASA(FM&C) 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 Training

The audit readiness training curriculum introduced in 2011 ensures that personnel at all levels have the knowledge and skill sets they need to function effectively in the audit readiness environment. This training offers a comprehensive approach geared towards audit preparation and awareness, as well as improvements to business processes that support audit readiness. Classroom training is based on the following framework:

- Foundation (Army Audit Readiness and Army FIP courses).
- Readiness (Internal Controls, Testing, and Corrective Action courses).
- Sustainment (Business Process Internal Control courses).

Plans for 2012 include rolling out computer based training to reach broader audiences. Additional information regarding audit readiness training is in the Army Audit Readiness Training Strategy (available early 2012), the OASA(FM&C) website, and within the AKO page.

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, OASA(FM&C) will schedule semi-annual in-person meetings with the headquarter 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 better understand audit readiness, which they can pass to their regions and installations.

5.3 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 used by future auditors in support of Army assertions.



5.4 Governance, Risk, & Controls (GRC) Methodology Implementation

The GRC methodology is a framework used 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 include an analysis of:

1. **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.
2. **Business Process Controls:** Evaluation, design, documentation, and testing of system-based and manual controls around the application's business processes.
3. **Data Quality & Integrity Controls:** Evaluation, design, documentation, and testing of data quality and integrity controls associated with the application environment.
4. **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, which 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.

5.5 Internal Control Over Financial Reporting (ICOFR) Program

Office of Management and Budget (OMB) defines internal control as tools (e.g., policies, procedures) to help program and financial managers achieve results and safeguard the integrity of their programs. Taken a step further, 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.

The DoD specific authoritative guidance over ICOFR is DoD Instruction 5010.40, MICP procedures. This instruction requires the implementation of the 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 sustainment of the audit ready environment is not jeopardized. The evaluation and improvement of internal controls in 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 and narratives) can be used in the discovery and evaluation phases of 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 allows 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 that control deficiencies are identified in a timely fashion and corrective action plans are implemented to resolve those deficiencies.



6.0 Conclusion

The Army is moving in the right direction to achieve audit readiness. OASA(FM&C) has a sound, resourced plan, high levels of leadership engagement, and an effective governance in place. OASA(FM&C) is determined to maintain the momentum created in FY 2011.

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 FIP, the Army improves its business processes. Through communications, training, and on-going engagement we build the awareness and understanding needed to create a culture that understands the processes and controls that lead to auditability. OASA(FM&C) is marching toward the next SBR, E&C, and ERP audit readiness milestones in FY 2012 and, ultimately, full audit readiness by FY 2017.

The Army's plan for audit readiness is an enterprise-wide endeavor that affects staff at all levels of the organization. "We all need to change...Our behaviors have to change every day," said ASA(FM&C) Dr. Mary Sally Matiella at the 2011 Army FIP Conference/Workshop.

The importance of this work is underscored by both DoD leadership and Congress. At the Conference/Workshop, Under Secretary Robert F. Hale said that Secretary Leon Panetta and members of Congress are eager to see results from the FIP. Dr. Matiella has testified in front of both the Senate and House committee hearings in 2011 to assure Congress that the Army is reaching its milestones and creating a culture of accountability. Congress has communicated their happiness with the Army's path. The positive results, including the unqualified audit opinion on the General Fund Appropriations Received audit and the qualified opinion on the five business processes at the GFEBS Wave 1 sites, demonstrate the Army is moving in the right direction.

Transforming the way the Army, one of the largest organizations in the world, does business is a significant endeavor. This transformation enables the Army to be consistently auditable in 2017 and beyond. A transformed Army allows for better management of Army resources and ultimately improves support for the warfighter.