



**U.S. ARMY**

# Army Financial Improvement and Audit Readiness



July 2012

Office of the Assistant Secretary of the Army  
(Financial Management & Comptroller) (OASA(FM&C))

*Accountability & Audit Readiness:  
Sustaining Army's Strength*



# Financial Improvement is a Top Army Priority

## Army Campaign Plan

### 9 Optimize Business Operations

#### 9-4 Strengthen Financial Management

- 9-4.3 Achieve and sustain effective internal controls.
- 9-4.4 Achieve and sustain audit readiness.
- 9-4.5 Provide for operational efficiencies through more readily available and accurate cost and financial information.



## SA 2012 Top Priorities

Financial improvement, audit readiness, and accountability touch on four of the SA's 10 Top Priorities:

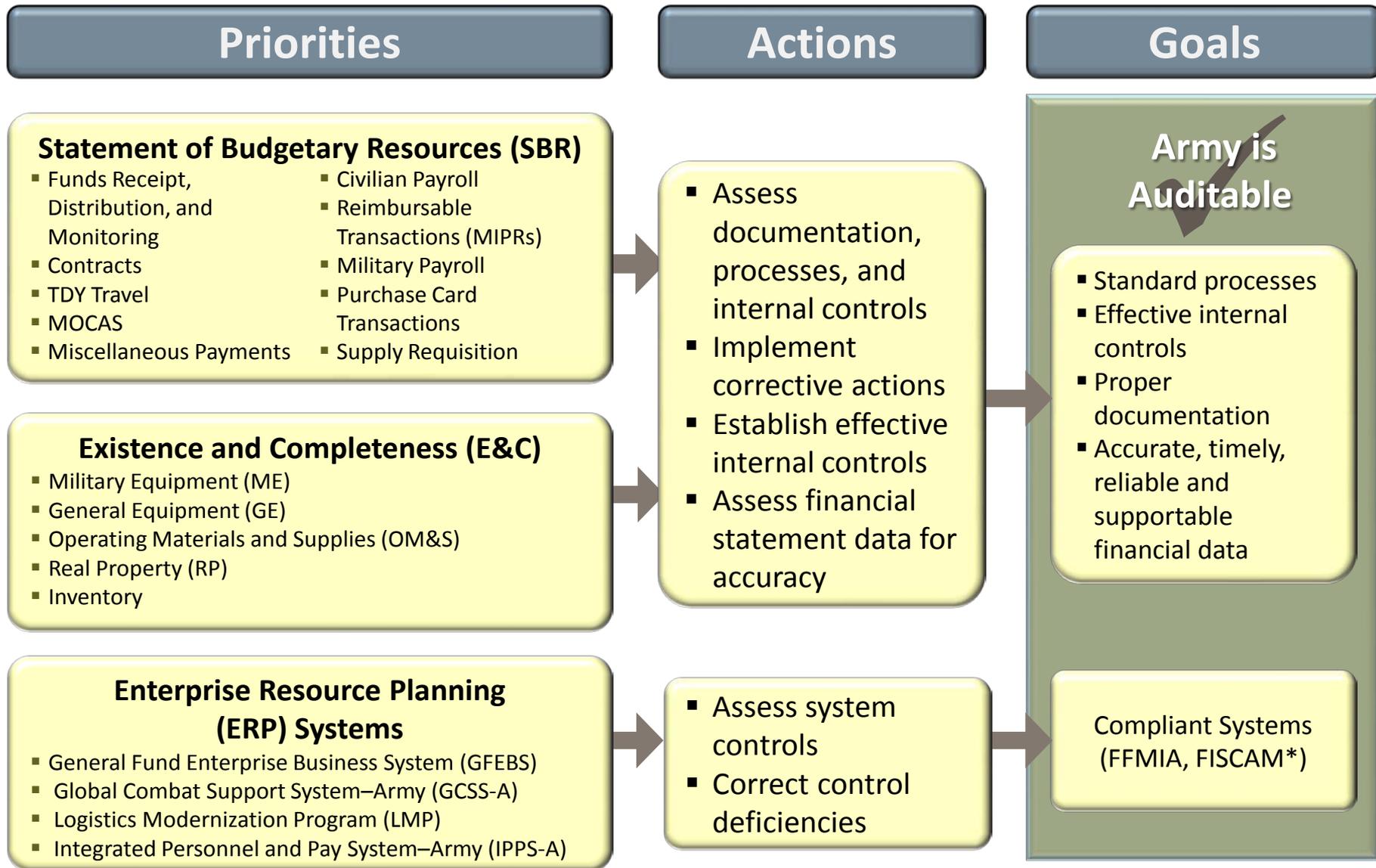
- 1) Ensure a highly capable force within evolving budgetary constraints
- 2) Transform the Institutional Army
- 3) Build the Army of 2020 (POM 14~18)
- 8) Ensure accountability

*“The leaders of all our organizations need to ask themselves, ‘How can we contribute to this effort and become leaner, faster and more adaptable?’”*

—Secretary of the Army John M. McHugh



# Executing the Financial Improvement Plan (FIP)



\*The Federal Financial Management Improvement Act and Federal Information System Controls Audit Manual



# Making and Measuring Progress



Audit readiness control catalogs list all identified internal control activities related to a specific business process. Control activities mitigate risks in business processes and can be manual or automated. (Example: SBR A.05 “SOPs for recording transactions, underlying events, and processing transactions exist and are accessible to process and control owners).



## Command And Installation Audit Readiness Guide

Assists Army Commands and Installations in becoming audit ready by providing guidance on properly executing key business processes controls.

## Commander’s Audit Readiness Checklist

Details the basic actions every Commander must be aware of and their organizations must take to enable and sustain audit readiness.

## Business Process Training

Provides staff with the training to understand the proper way to execute a process and the associated internal controls.

Support of Execution

Testing Results of Execution

Control Activity				
1.01	1.04	1.06	2.01	2.02
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
Not Tested	Not Tested	Not Tested	Fail	Fail
Not Tested	Not Tested	Not Tested	Fail	Fail
Fail	Fail	Fail	Fail	Not Tested
Not Tested	Not Tested	Fail	Fail	Not Tested
Not Tested	Not Tested	Fail	Fail	Not Tested
Not Tested	Not Tested	Not Tested	Fail	Pass
Not Tested	Not Tested	Not Tested	Fail	Pass
Not Tested	Not Tested	Not Tested	Fail	Pass
Not Tested	Fail	Not Tested	Not Tested	Not Tested
Not Tested	Fail	Not Tested	Not Tested	Not Tested

## Scorecards

Beginning in Q3, testing will result in monthly scorecards that will provide Commanders insights on how effective the execution of controls are at their Command.



# Web-Based Training

Beginning this month, Audit Readiness training courses will be available on Army Learning Management System (ALMS).



**A Priority at All Levels**

Congress, DoD, and Army leadership are looking for results

A Major DoD Initiative

Monitored by Congress

Implemented within the Army

"Currently, the Department of Defense is incapable of [producing auditable financial statements]."  
— Sen. Tom Carper (D-Del.)

The Washington Post CNN

Audit readiness remains a priority for the Department of Defense, Congress, and Army leadership. The Department of Defense has had to have auditable financial statements has been covered by major media outlets such as the Washington Post and CNN.

**Quiz**

**Matching**

- A Chief Financial Officers Act of 1990
  - B) Requires major executive agencies to establish an Office of Federal Financial Management headed by a Controller, and designate a Chief Financial Officer.
- B None of the above
- C Federal Financial Improvement Act of 1996
  - C) Requires agencies to implement and maintain financial management systems that comply with Federal financial management systems requirements, apply Federal accounting standards, and use the USSGL at the transaction level.

Question 1 of 5

Accountability & Audit Readiness: Sustaining Army's Strength

**Everyday Ties to Financial Statements**

E. General Equipment	S/L	5 or 10	9,649,888	(4,512,849)	5,137,039
F. Military Equipment	S/L	various	172,188,793	(55,126,843)	117,061,950

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# Role of Internal Review

Internal Review Offices at each Command play a critical role in audit readiness efforts. They:

1. Fulfill the documentation requests from the audit readiness teams.
2. Coordinate the corrective actions needed when deviations for controls are found.

Sampling limits the number of organizations that get tested for any given control. Commanders cannot wait for testing results to determine if internal controls are in place and effective.

Commanders must work with IR offices to do self-assessments to ensure internal controls are in place.



# Sustainment in Action: Audit Readiness PMO

Organization	Action	Frequency	Work Products
Army Audit Readiness PMO	<ul style="list-style-type: none"><li>• Produce sample from source systems and distribute to Army IRs to test</li><li>• Assess test results and update FIP and other metrics.</li><li>• Report results to Army leadership</li></ul>	Monthly	<ul style="list-style-type: none"><li>• Email with sample and test plans</li><li>• Update test result scorecard, FIP, Army IR assessments</li></ul>
Army IRs	<ul style="list-style-type: none"><li>• Execute internal controls test plans and report results to audit readiness PMO</li><li>• Monitor corrective actions</li></ul>	Monthly	Upload test plans and documents from functional stakeholders to the AADR
Functional Stakeholders	Submit supporting documentation or other required material to Army IR as requested – response timeframes will be established and monitored	Monthly	Email with supporting documents or other information



# Business Process Internal Controls (Manual and Automated)

**Below are the number of manual and automated (application) business process controls for each assessable unit.**

<b>Assessable Unit</b>	<b>Number of Manual Controls</b>	<b>Number of Automated Controls</b>
Statement of Budgetary Resources	63	58
Military Equipment/ General Equipment	9	3
Real Property	12	0
Operating Materials & Supplies	15	0
Environmental Liabilities	20	2



# Sample Sizes and Pass/Fail Determination

Sample sizes are based on the frequency of a control activity per Appendix D of the Office of the Under Secretary of Defense (Comptroller)'s Financial Improvement and Audit Readiness Guidance (December 2011).

Annual Frequency	Example	Annual Population Size	Total Sample Size	Allowable Deviations
Annual	Review and update SOPs.	1	1	0
Quarterly	Review quarterly financial reports.	4	2	0
Monthly	Review summary schedules from the accountable property system of record (APSR).	12	3	0
Weekly	Review all journal vouchers manually entered into GFEBS.	52	10	1
Daily	Review statement of fund report for exceeded allotments.	250	30	3
Multiple Times per Day	Review and reconcile sales orders to ensure that the data entered into the system is complete and accurate.	250+	45	5

Number of allowable deviations is the number most likely to be used by an auditor to determine if a control has passed when performing an annual audit.



# Internal Control Test Results (Level 1)



## Army Status of Internal Controls by Organization

\*\*\*Mock Data for Display Purposes Only\*\*\*

Excerpt from the Status of Internal Control Results: First Level Report

Organization	E&C				SBR			Government Purchase Card (GPC)	Military Pay	Miscellaneous Payments
	General Equipment	Military Equipment	Operating Materials and Supplies (OM3)	Real Property	Army Wide	Civilian Pay	Contracts			
AA	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ABO	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
AC/RC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ACSIM	Not Tested	Not Tested	Not Tested	4/18/12	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
AMC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ARCENT	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ARNORTH	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ARSTAF	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ARSTRAT	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ASC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
ATEC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
CIDC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
COE	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
EUSA	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
FOA	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
FOAS	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
FORSCOM	Not Tested	Not Tested	Not Tested	Not Tested	4/4/12	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
HQDA	Not Tested	4/17/12	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
IIMA	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
INCOM	Not Tested	Not Tested	Not Tested	Not Tested	4/4/12	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
INSCOM	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
JT	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
MDW	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
MEDCOM	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
NETCOM	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
NG	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
NGB	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
OASA(FM&C)	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
SDDC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
SECAR-JT	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
TRADOC	Not Tested	Not Tested	Not Tested	Not Tested	4/4/12	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USAASC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USACE	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USAMC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USARAF	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USARC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USAREUR	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USARPAC	Not Tested	1/17/12	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USARSO	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USASMDC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USASOC	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested
USMA	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested



# Internal Control Test Results (Level 2)

*Below is an excerpt from the Status of Internal Control Results: Second Level Report*



Army Status of Internal Controls by Organization and Installation

**\*\*\*Mock Data for Display Purposes Only\*\*\***

Assessible Unit (All)

Organization and Installation	Control Activity									
	1.01	1.04	1.06	2.01	2.02	2.03	2.04	4.04	4.05	4.06
ACSIM	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Fail	Pass	Fail
Adelphi	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Fail	Not Tested	Not Tested
FT CAMPBELL	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Fail	Pass	Pass
FT MEADE	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Not Tested	Fail	Not Tested	Fail
FORSCOM	Not Tested	Not Tested	Not Tested	Fail	Fail	Pass	Fail	Not Tested	Not Tested	Not Tested
Army Wide	Not Tested	Not Tested	Not Tested	Fail	Fail	Pass	Fail	Not Tested	Not Tested	Not Tested
HQDA	Fail	Not Tested	Fail	Not Tested						
FT JACKSON	Fail	Not Tested								
FT RUCKER	Not Tested	Not Tested	Fail	Not Tested						
FT SHAFTER	Not Tested	Not Tested	Fail	Not Tested						
IMCOM	Not Tested	Not Tested	Not Tested	Fail	Pass	Pass	Fail	Not Tested	Not Tested	Not Tested
Army Wide	Not Tested	Not Tested	Not Tested	Fail	Pass	Pass	Fail	Not Tested	Not Tested	Not Tested
TRADOC	Not Tested	Not Tested	Not Tested	Fail	Pass	Pass	Fail	Not Tested	Not Tested	Not Tested
Army Wide	Not Tested	Not Tested	Not Tested	Fail	Pass	Pass	Fail	Not Tested	Not Tested	Not Tested
USARPAC	Not Tested	Fail	Not Tested							
Army National Guard - CA	Not Tested	Fail	Not Tested							



# Internal Control Test Results (Level 3)

## Test Results for Ft. XXX IMCOM

Key Control Number	Test Period	Sample Size for Location	Number of Failed Samples	% of Failed Samples	Control Activities	Failure Reason
SBR A.01	6/4/2012	1	1	100%	A Budget Analyst runs a Statement of Funds (SoF) Report daily to monitor for new allotments and execution of the funds within each sub-activity group (SAG). The SoF report indicates whether, at the SAG level, the Command has over or under executed funds in comparison to the budget and spend plan. The Analyst reviews the execution issues and researches the amounts being executed by the divisions. This review is evidenced by a signature and date on the SOF.	Control Failed  Review missing signature.



# When Commands Are Not Sampled



## Caution!

Sampling limits the number of organizations that get tested for any given control.

Commanders cannot wait for testing results to determine if internal controls are in place and effective.

Commanders must work with IR offices to do self-assessments to ensure internal controls are in place.



# Resources on AKO

[www.us.army.mil/suite/page/auditready](http://www.us.army.mil/suite/page/auditready)  
 (or search Army Audit Readiness Home)



- When does sustainment begin?
- Who is the Army Audit Readiness Directorate primary contact?
- Discuss access to the AADR.
- What happens to installations without Army IR support?
- What are the sampling parameters (e.g. size and error rate)?
- How many samples will I have to test?
- What if I'm not included in the sample?
- Are the Army IRs monitored for quality control?
- How do I get command tenants/units/contractors to participate in sustainment?
- When will the IPA or DoD-IG audit happen?
- Is this sustainment process permanent?



# When Does Sustainment Begin?

Now. The process to ensure internal controls are in place, operating effectively, and implementing corrective actions when they are not will ensure we become audit ready and is an ongoing process to remain ready once we are auditable.



# Who is the Primary Army Audit Readiness Directorate Contact?

There are several contacts depending on the area:

- **General Fund:** Mr. William Roberts, [william.h.roberts2@us.army.mil](mailto:william.h.roberts2@us.army.mil), 703.601.3003
- **Working Capital Fund:** Mr. Jorge Roca, [jorge.f.roca@us.army.mil](mailto:jorge.f.roca@us.army.mil), 703.601.1252
- **Statement of Budgetary Resources:** Ms. Sharon Hale, [sharon.g.hale2.civ@mail.mil](mailto:sharon.g.hale2.civ@mail.mil), 703.601.3979
- **CIVPAY:** Ms. Aimee Schrecengost, [aimee.schrecengost@us.army.mil](mailto:aimee.schrecengost@us.army.mil), 703.601.2818
- **FBWT/Approp. Rec'd/DFAS:** Mr. Doc Rossi, [doc.rossi@us.army.mil](mailto:doc.rossi@us.army.mil), 703.601.3988
- **MILPAY:** Mr. Rich Adamy, [richard.c.adamy@us.army.mil](mailto:richard.c.adamy@us.army.mil), 703.601.3992



## Discuss Access to the AADR.

The Army Audit Readiness Directorate will work with IRs to determine the command or regional level at which access may be granted. Once granted, users will have access to pertinent documents for their designated activities.



# What Happens to Installations Without IR Support?

Many IR activities are already based on a regional support approach. IR's within a region may be used to support installations that do not have an on-site IR office.



# How Many Samples Will I Have To Test?

That will vary because as samples are picked at random.



## What If I'm Not Included in the Sample?

Sampling does limit the number of organizations that get tested for any given control. Commanders cannot wait for testing results to determine if internal controls are in place and effective. Commanders must work with IR offices to do self-assessments to ensure internal controls are in place.



# Are the Army IRs Monitored for Quality Control?

HQ is in the process of determining how IRs can best receive support and feedback on their efforts.



## How Do I Get Command Tenants/Units/Contractors to Participate in Sustainment?

Contact the Army Audit Readiness Directorate to discuss challenges with participation.



# When Will the IPA or DoD-IG Audits Happen?

Milestone	Responsible Party	Start Date	Complete Date
<b>Verify using Independent Audit Firm</b>			
GF SBR Exam #1 - GFEBS Wave 1 Sites (5 processes)	FM&C	✓	✓
GF SBR Exam #2 - GFEBS Wave 1&2 Sites (9 processes, GFEBS, DFAS)	FM&C	7/1/12	12/31/12
GF SBR Exam #3 - All Army GF Activity in GFEBS (11 processes, GCSS-Army)	FM&C	7/1/13	12/31/13
OM&S E&C– Javelin, Hellfire, TOW Missiles	FM&C	7/1/12	12/31/12
E&C of Real Property at 20 Installations	FM&C	1/1/13	6/30/13
E&C of Military Equipment, General Equipment, & all OM&S	FM&C	1/1/14	6/30/14
E&C of all Real Property	FM&C	10/1/14	3/31/15
<b>Verify using Army Audit Agency</b>			
FFMIA Compliance of GFEBS	FM&C	✓	✓
FFMIA Compliance of GCSS-Army	FM&C	✓	6/30/12
FFMIA Compliance of LMP	FM&C	✓	9/30/13
<b>Verify using OUSD(C)</b>			
Audit goals in all SES performance plans	FM&C	✓	✓



# Army Audit Readiness Milestones

Milestone	Tested	Corrected	Validated
<b>IT Systems</b>			
Testing and correcting systems to meet GAO audit manual criteria			
GFEBs (ERP) [general ledger – financial transaction detail]	✓	5/31/12	12/31/12
GCSS-Army (ERP) [general ledger /logistics– financial transaction detail]	6/30/12	12/31/12	12/31/13
LMP (ERP) [general ledger /logistics– financial transaction detail]	12/31/12	6/30/13	12/31/13
<b>Statement of Budgetary Resources</b>			
Testing and correcting controls and documentation to meet FIAR Guidance criteria			
GF SBR Exam #2 - GFEBs Wave 1&2 Sites (9 installations / 18 resource management offices and DFAS; 9 processes and GFEBs controls)	✓	6/30/12	12/31/12
Processes: Funds Receipt, Distribution, & Monitoring (ABO/HQs); Reimb. In-bound & out-bound; TDY-DTS; Contracts-SPS; Civilian Pay; Misc. Payments; Government Purchase Cards; Supply Requisitions; Financial Reporting	✓	6/30/12	12/31/12
Automated FBWT Reconciliation Tool **(no assertion/audit for GF Recon process)**	1/31/13	N/A	N/A
GF SBR Exam #3 - All Army GF Activity at all GFEBs locations (Exam 2 processes plus MOCAS, GCSS-Army)	12/31/12	6/30/13	12/31/13
GF SBR Assertion / Audit - All Army GF Activity (Exam 3 processes plus MILPAY)	3/31/13	6/30/14	9/30/14
FBWT	2/15/13	6/30/14	9/30/14
<b>Asset Existence and Completeness</b>			
Testing and correcting controls and records to meet FIAR Guidance criteria			
OM&S – Javelin, Hellfire, TOW missiles (16% of FY 2011 OM&S Value)	✓	6/30/12	12/31/12
Real Property – 20 Installations	7/30/12	12/31/12	6/30/13
Military Equipment, General Equipment, OM&S – All assets	6/30/12	12/31/13	6/30/14
Real Property – All installations	3/31/13	9/30/14	3/31/15
<b>Training and Change Management-Continuous</b>	Began Army-wide in Q2 FY 2011		



# Is This Sustainment Process Permanent?

Yes. Audits will be ongoing as will the effort to ensure the Army is ready for those audits.