



FY 2014
Army General Fund
Audit Readiness Strategy



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



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1.0 Executive Summary

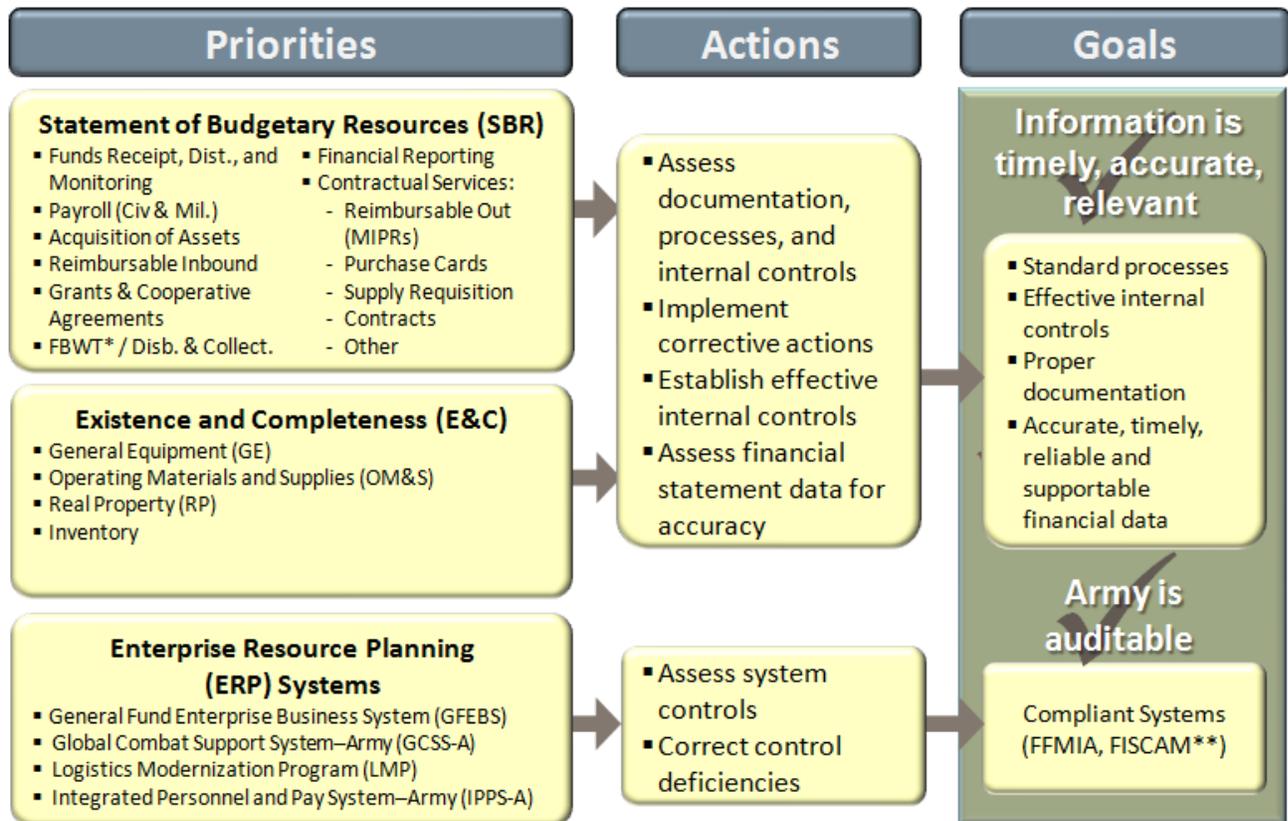
A transformation is underway. In the last four years, the Army has experienced unprecedented changes in its business operations and more are coming. The result will be an Army that can produce timely, relevant, and accurate financial information that supports the highest standards of military readiness.

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

1. Budgetary information, as contained in the Statement of Budgetary Resources (SBR).
2. Information regarding the E&C of mission critical assets.

The other areas identified in the FIAR Guidance to reach auditability are appropriations received, full audit (except for legacy asset valuation), and full-scope financial statement audit. The Army has made improving the controls within the enterprise resource planning (ERP) systems an additional focus area. Figure 1 summarizes the current focus areas and how they will result in audit readiness.

Figure 1: Army Audit Readiness Activities



* Fund Balance with Treasury; ** The Federal Financial Management Improvement Act and Federal Information System Controls Audit Manual



Major Achievements for FY 2013

The Army made significant progress over the past year related to audit readiness and the dedication of hundreds of Army personnel. Table 1 highlights major audit readiness milestones.

Table 1: Audit Readiness Milestone Dates

Major Audit Readiness Milestones	Start Date	Complete Date
GF SBR Exam #1	✓	✓
GF SBR Exam #2	✓	✓
GF SBR Exam #3	✓	03/2014
FY2015 Schedule of Budgetary Activity	06/2014	12/2015
OM&S E&C “Quick Wins”	✓	✓
Real Property E&C “Quick Wins” (23 Installations)	✓	12/2013
General Equipment, and OM&S E&C	12/2013	06/2014
Real Property E&C	09/2014	03/2015

The Framework for Audit Readiness

The audit readiness efforts are guided by a detailed framework that allows the Army to identify risk, correct deficiencies, and achieve and sustain auditability. Major phases of the Army’s audit readiness framework include discovery and gap analysis, testing, corrective action, and sustainment. The OASA(FM&C) manages various stakeholder relationships for the audit readiness effort, including robust communications and training efforts.

The Office of the Assistant Secretary of the Army (Financial Management & Comptroller) (OASA(FM&C)) has governance systems in place to support its audit readiness efforts. Quarterly, OASA(FM&C) holds In-Process Reviews, Senior Leader Steering Group, and Audit Committee meetings to engage stakeholders at all levels of the Army. OASA(FM&C) has implemented a robust communications management effort that includes an active Army Knowledge Online (AKO) community site, a quarterly newsletter, and an annual conference. Personnel development engages Army commands in audit readiness and includes meeting with Army commands to enlist their support and a comprehensive training program to educate personnel. OASA(FM&C) has created the AADR to consolidate and maintain all discovery, evaluation, and testing documents.



2.0 Overview

The Army is transforming the way it does business. In the last four years, the Army has experienced unprecedented changes in its business operations. More changes are coming as the Army works toward standardizing its business practices and improving internal controls. The result will be an Army that can produce timely, relevant, and accurate business and financial information that supports the highest standards of military readiness.

Congress requires the Department of Defense (DoD) to have audit ready financial statements by 2017. Former Secretary of Defense Leon E. Panetta assured Congress that all of the Services will have auditable Statements of Budgetary Resources (SBR) by 2014 and will achieve audit readiness for all financial statements by 2017. Current Secretary of Defense Chuck Hagel reiterated this priority in his 2013 Financial Accountability message.

Army leadership is committed to these audit readiness goals. They have communicated that improved financial operations and strengthened fiscal stewardship are now top priorities throughout the Army in strategic documents such as the Secretary’s Top Priorities list and the Army Campaign Plan.

***“Successful audits will help us improve the Department’s management and it will also demonstrate that the DoD manages the public’s money with the same competence and accountability that we bring to our military operations.*”**



—Secretary of Defense
Chuck Hagel

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 and requirements are described in the table below.

Table 2: Financial Legislation and Requirements

Federal Managers’ Financial Integrity Act (FMFIA) of 1982	Authorizes Government Accountability Office (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	Extends the requirements of the CFO Act to include agency-wide reports from all major executive branch agencies and their components and for the



Table 2: Financial Legislation and Requirements

1994	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	Defines and clarifies federal managers' responsibility over the establishment of an 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, several DoD- and Army-specific directives require financial improvement. Secretary Panetta issued a memorandum on October 13, 2011 accelerating DoD's audit readiness efforts by moving the milestone to have an auditable general fund SBR to FY 2014.

Prior directives include the Under Secretary of Defense (Comptroller) (USD(C)) memorandum dated August 11, 2009 and the Secretary of the Army memorandum dated February 18, 2011. The USD(C) memorandum re-focuses DoD Components' financial improvement and audit readiness efforts by requiring Components to improve financial information and processes most widely used in managing DoD. Budgetary information and processes (culminating in the SBR) and verification of the E&C of mission critical assets are DoD's priorities. 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 DoD's 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 accomplished 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 and external stakeholders they can rely on the financial data for decision-making purposes. An unqualified opinion is the desired result of an audit but the audit process itself is a useful tool to measure 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. 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 OUSD(C) has identified two major financial improvement priorities:

- Budgetary information, as contained in the SBR.
- Information regarding the existence and completeness of mission critical assets.

OUSD(C) has formulated a comprehensive strategy with a critical path that allows DoD to focus on improving the information most useful to management, while moving 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-Scope 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, which are smaller, more manageable combinations of material transactions or financial statement line items. The OASA(FM&C) is responsible for defining assessable units and ensuring adequate coverage of all OUSD(C) priority areas, as defined in the FIAR Guidance.

The 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 key supporting documentation required during an audit.

Updates to the OUSD(C) FIAR Guidance in March 2013 included several significant changes. One of these changes is the incorporation of financial reporting objectives into the report and the relationship with key supporting documents. In addition, the OUSD(C) updated the management assertion letter template, as well as the DoD service provider requirements. The FIAR Guidance is located at: http://comptroller.defense.gov/fiar/documents/FIAR_Guidance.pdf.

2.3 Army Achievements to Date

2.3.1 SBR Accomplishments

Pursuant to Secretary Panetta's directive to have an audit ready SBR by 2014, the Army accelerated its efforts in FY 2013 and achieved the following:

- Begun a 'mock audit' of all material GFEBS activity in July 2013.
- Executed monthly internal control tests of design and operating effectiveness of SBR business processes, including all material GFEBS activity.
- Facilitated training across all Army Commands for all SBR business processes.
- Finalized procedures and infrastructure for substantive testing.
- Conducted initial SBR substantive testing.



- Analyzed GFEBS data to refine population identification, sample selection, and corrective action identification.
- Established a process for testing of Military Payroll internal controls on a monthly basis in conjunction with the SBR testing cycle.

2.3.2 E&C Accomplishments

OASA(FM&C) has performed substantive and internal controls monthly testing activities across the Army in FY 2013. The scope of the E&C efforts includes General Equipment, OM&S, and RP. Through monthly testing activities, the Army has:

- Identified and implemented corrective actions for retaining key supporting documentation and gaps in the operating effectiveness of internal controls.
- Enforced and implemented effective quality control review programs, such as the Command Supply Discipline Program (CSDP).

Another major E&C accomplishment in FY 2013 includes:

- The Army began an examination of the RP E&C “Quick Wins,” which includes buildings and structures at 23 installations, in July 2013 by an external auditor. This is the first RP audit of any kind of the Military Services and marks a significant accomplishment.

Included in Army’s E&C audit readiness efforts are Active Installations Defense Environmental Restoration Program (DERP) environmental liabilities (EL). The Army is working with OUSD(C) to establish an audit readiness assertion and examination plan for Army’s Active Installations DERP EL that compliments OUSD(C)’s priorities and advances the Army’s efforts to meet the Congressionally mandated 2017 audit readiness deadline.

2.4 FY 2014 Major Milestones

The upcoming fiscal year has two major milestones:

- SBR: the Army will achieve audit readiness of the GF Schedule of Budgetary Activity (SBA) by June 30, 2014. The audit will begin in FY15 on current year transactions.
- E&C: the Army will achieve audit readiness for GE, and OM&S by December 31, 2013 and RP by September 30, 2014.



3.0 Army Audit Readiness Framework

The major phases of the Army's audit readiness framework align with the OUSD(C) FIAR Guidance and include:

- Discovery and gap analysis
- Testing
- Corrective action
- Sustainment

3.1 Discovery and Gap Analysis

The purpose of this phase is to perform risk assessments, define the current and audit ready state of business and financial operations, and perform initial evaluation of controls. The 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 of these meetings is to familiarize Army personnel with the audit readiness process and answer questions pertaining to milestones. OASA(FM&C) coordinates with all Commands to obtain concurrence on business process documentation, then identifies and documents 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.

3.2 Testing

The testing phase of the Army's audit readiness framework includes internal controls tests, including design of procedures performed, identification of populations, and sample selection pursuant to the DoD FIAR Guidance. The tests of controls include evaluating both manual and automated controls, including information technology 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 FIAR Guidance, OASA(FM&C) concludes that controls are not designed or operating effectively and identifies corrective actions to address the failure.

Included in this phase is monthly internal controls and substantive testing for SBR, GE, OM&S, and RP. These tests simulate the audit process so that Army personnel gain exposure to the process of an actual financial statement audit. Additionally, by testing controls on a monthly basis, the Army is able to spread the level of effort into manageable portions. The Army tests the controls within the budgetary processes as they occur within the GFEBS environment. Additionally, the Army began testing Military Pay controls in Quarter 3 of FY2013.



Monthly E&C internal controls and substantive testing began in October 2012 with GE and expanded to OM&S and RP in FY2013. The existence and completeness of assets are two of the five financial statement assertions that financial statement auditors test. The Army must ensure that assets recorded in an accountable property system of record (APSR) exist (existence) and assets located at installations and commands are recorded in an APSR (completeness).

3.3 Corrective Action

The next phase involves developing and implementing solutions to rectify weaknesses and deficiencies identified during the discovery and testing phases. OASA(FM&C) creates FIP tasks that detail how Army personnel should address weaknesses identified in the discovery and testing phases. These tasks include specific action items, detailed timelines, and required or committed resources necessary to implement the audit ready environment.

The implementation of corrective actions is an important aspect of audit readiness and everyone within the Army organization has a role to play. OASA(FM&C) communicates the corrective actions to Command and installation personnel, who are responsible for implementing the appropriate corrective actions. Internal Review collaborates with Commands to monitor the implementation efforts.

3.4 Sustainment

The Sustainment phase involves maintenance of the audit readiness state. To validate audit readiness of SBR and E&C business processes, OASA(FM&C) performs periodic testing of internal controls as required by OMB Circular A-123, Appendix A. Issues identified during sustainment are addressed in a timely manner so the sustainment of the audit ready environment is not impacted. Corrective actions to issues identified in the sustainment phase must be implemented prior to the next reporting or audit cycle. In addition to testing, audit readiness training is available for all SBR and E&C business processes. The training provides the Army with a comprehensive controls-based curriculum that focuses on corrective actions.



4.0 Implementing the Audit Readiness Framework

In FY 2012, the Army expanded the resources available to the field to facilitate implementation and help them understand, at a detailed level, how to ensure that internal controls are in place and designed and operating effectively at their organization, including:

Table 3: Army Audit Readiness Resources for Implementation

Audit Readiness Command and Installation Guide	The Audit Readiness Command and Installation Guide is the starting point in audit readiness. The purpose of this guide is to assist Army commands and installations in becoming audit ready. It provides an overview of audit readiness and descriptions of key supporting resources available to commands and installations for becoming audit ready. Users can find summaries of key internal control activities identified for each command and installation, including authoritative guidance and/or policies related to the internal control activities and internal control deviations discovered by Army audit readiness teams during testing.
Commanders' Checklist	Details the basic actions every Commander must be aware of and their organizations must take to enable and sustain audit readiness.
Control Catalogs	List all identified internal control activities for all Army business processes. Control activities mitigate risks in business processes and can be manual or automated.
Business Process Narratives and Flowcharts	Business process narratives and flowcharts provide a description of how personnel perform a specific business process, the risks the process poses to the financial statements, and the controls required to mitigate the risks.
Process Training	Process training covers the purpose of and how to implement SBR and E&C internal control activities.

Implementing the Framework covers more than just SBR and E&C. Audit readiness efforts also focus on improving the information technology systems that manage the resources related to the financial statements. The sections below provide the details on how each of these areas will be addressed and the milestones reached.

4.1 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. The original plan for SBR was to undergo four examinations by an auditor and assert audit readiness by FY 2015.

The first major SBR milestone the Army achieved was the unqualified opinion from an external auditor on August 19, 2011 for General Fund Appropriations Received, covering about \$201 billion of FY 2012 appropriations.

In FY 2012, the Army updated its audit readiness plans based on Secretary of Defense Leon E. Panetta's "Improving Financial Information and Achieving Audit Readiness" Memorandum dated October 13, 2011. This memo directed all Services to achieve audit readiness of the SBR



by the end of FY 2014. As a result, the Army now has only three exams to prepare for the assertion in 2014.

Table 4: SBR Milestones

SBR Milestones	Tested	Corrected	Validated Ready
GF SBR Exam #2 - GFEBS Wave 1 & 2 Sites (9 installations / 18 resource management offices and DFAS; 9 processes and GFEBS controls)	✓	✓	✓
GF SBR Exam #3 – All material GFEBS activity plus MILPAY; GFEBS and GCSS-Army IT general and application controls; LMP interface controls; DFAS processes, controls, and systems	✓	✓	03/2014
GF FY 2015 Schedule of Budgetary Activity	03/2014	06/2014	12/2015
Fund Balance with Treasury	✓	06/2014	09/2014
Tested = Completion of discovery efforts Corrected = Complete tests of corrective actions and assert audit ready Validated Ready = IG / IPA opinion on audit readiness assertion			

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.

The OASA(FM&C) has identified risks, controls, and potential weaknesses during their review of the Army budget execution processes, using past Government Accountability Office (GAO), Department of Defense Office of the Inspector General (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, gap analysis, and training site visits at GFEBS locations, the Army, jointly with the Defense Finance and Accounting Service (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.

4.1.2 SBR Exam 1

The Army asserted audit readiness for SBR Exam 1 in June 2011. The exam covered manual controls at three GFEBS Wave 1 sites—Forts Benning, Jackson, and Stewart—for the following five processes:

- Civilian Permanent Change of Station (PCS) Travel
- Funds Receipt, Distribution, and Monitoring
- Contracts executed in the Standard Procurement System
- Temporary Duty (TDY) Travel executed in the Defense Travel System
- Reimbursable Transactions—Inbound & Outbound



The auditor issued a qualified opinion in November 2011, which marked a significant milestone for the Army. The scope of the examination included an assessment of the design and operating effectiveness of internal controls at the Wave 1 sites (for U.S. Army Installation Management Command (IMCOM), U.S. Army Training and Doctrine Command (TRADOC), and U.S. Army Forces Command (FORSCOM) only) among an assessment of other management assertions. The auditor recommended civilian PCS travel be removed as a process to evaluate because the funds associated with this process were not material; therefore, PCS is not included in future audit readiness activities or exams.

4.1.3 SBR Exams 2 and 3

The Army continued its iterative approach to examination to achieve audit readiness for the SBR in FY 2013 with Exam 2 concluding and Exam 3 commencing later in the fiscal year.

In April of 2013, an external auditor finalized its report on the Army's second examination of the General Fund Combined Statement of Budgetary Resources (GF SBR). The auditor's findings were consistent with findings previously identified by the OASA(FM&C). During Exam 2, the scope of work included 19 fund centers across 10 installations, nine business processes, integrated DFAS end-to-end processes, and GFEBS IT General Controls. In conducting their work, the auditors noted three material weaknesses, including Journal Voucher (JV) Processing, Supporting Documentation, and GFEBS IT General Controls. In addition, the lack of evidence related to the implementation of internal controls was noted as a significant deficiency.

Exam 2 was a great learning experience for the Army, identifying the key areas of focus for corrective action implementation. In addition, the auditor's work reaffirmed that the Army's control environment is properly designed. Moving forward the Army must proactively address control and documentation deficiencies and support the accuracy and completeness of sample amounts recorded in the general ledger. For further insight into Exam 2, the OASA(FM&C) has provided a lessons learned matrix to all Exam 2 participants and has posted it to the Army Audit Readiness AKO website for review.

With efforts related to Exam 2 now complete, the Army used this information to further improve its processes in preparation for Exam 3, which began in July 2013. This exam will most closely mimic the SBA audit to be conducted in FY2015. The Exam 3 results, expected in April 2014, will provide the final external feedback prior to achieving the Congressionally mandated SBR milestone.

4.1.4 Covering the General Fund Combined Statement of Budgetary Resources

The GF SBR Exams are organized primarily in terms of processes and financial management systems that generate, process, and/or maintain transactions that impact the SBR. Based on the approach to Exams, Army has demonstrated, total or in part, coverage of the most significant line items on the SBR – Appropriations Received, Spending Authority from Offsetting Collections – Earned/Collected and Outlays. However, to achieve audit readiness, Army will ensure that all significant line items are addressed through a combination of implementation, maintenance, and



evaluation of internal controls and substantive testing (i.e., test of details and substantive analytics), which will be used in three ways, to:

- Provide additional evidence, beyond the results of internal controls testing, of the effectiveness of internal controls over financial reporting,
- Evaluate balances of significant line items that are impacted by “low volume/high dollar” transactions, and
- Confirm that documentation required to support balances is readily available and can be retrieved and provided to auditors within required timeframes.

Overall, Army’s approach relies on identifying the line items that have the most significant impact on the SBR, as well as identifying the general ledger account(s) that comprise significant line items.

There are a number of line items on the SBR for which the balance of the line item is based on relationships between budgetary accounts. Army’s approach to these line items is to implement and evaluate internal controls and/or perform substantive testing on the accounts on which the line item is based. To ensure the line items are reasonably accurate, Army will verify that the related posting and tie points are appropriately configured in the general ledger and reporting systems and/or evaluate the accuracy of the associated financial statement crosswalk.

4.1.5 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. The Army plans to leverage the completed FBWT work to address the Net Outlays section of the SBR. As required by the FIAR Guidance, the Army will achieve FBWT audit readiness by June 2014 at the same time as the GF SBR.

The Army has partnered with DFAS to develop and implement an automated reconciliation tool, modeled after the Columbus Cash Accountability System (CCAS)-Air Force system, within the Army, and a process for resolving identified reconciling items. Once the tool is operational, the Army and DFAS will be able to reconcile on a monthly basis the Army’s FBWT, which stood at approximately \$190B as of the end of FY 2012. This critical control activity significantly advances the Army’s audit readiness posture. Although the Army FBWT Tool is essential for an auditable FBWT line item, the 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 that also affect the FBWT balance.



4.1.6 SBR Resources

OASA(FM&C) continues to develop and refine resources available to Army field personnel to support their efforts to effectively implement internal controls. These resources are available to download on the Army audit readiness AKO site.

4.1.6.1 Audit Support Handbook

The SBR Audit Support Handbook provides resources for commands and installations that are directly involved in Army SBR audit readiness efforts. This audit support handbook is organized by SBR business process and includes standard operating procedures for retrieving information and documents from information management systems, such as GFEBS, to support audit readiness or auditors’ requests.

4.1.6.2 Office Hours

OASA(FM&C) holds “Office Hour” calls every Tuesday and Thursday to answer questions regarding internal control requirements and documentation for sites filling out their pre-site questionnaire or addressing SBR corrective actions after a site visit. Notes from calls are available to share lessons learned and address frequently asked questions. Call times vary based on location (i.e., within or outside the continental United States). See the Army audit readiness AKO site for details.

4.2 Existence and Completeness

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 DoD’s mission critical assets. Mission critical asset categories include:

- GE (e.g., material handling equipment, training equipment, special tooling and test equipment, ships, aircraft, combat vehicles).
- OM&S (e.g., ammunition, munitions, missiles).
- RP (e.g., land, buildings, structures).

Table 5: E&C Milestones

E&C Milestones	Tested	Corrected	Validated Ready
OM&S “Quick Wins” (Javelin, Hellfire, TOW missiles)	✓	✓	✓
Real Property “Quick Wins” (23 Installations)	✓	✓	Underway
General Equipment, OM&S (All assets)	✓	12/2014	6/2014
Real Property (All installations)	✓	9/2014	03/2015
Tested = Completion of discovery efforts Corrected = Complete tests of corrective actions and assert audit ready Validated Ready = IG / IPA opinion on audit readiness assertion			

Financial management information, as well as other management information for mission critical assets, is recorded in an APSR. 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.

Existence testing is accomplished through a "book to floor" inventory process, validating assets recorded in the APSR against assets maintained in the field. Completeness testing is accomplished through a "floor to book" inventory process, validating assets represented in the field against assets recorded in the APSR. Per the OUSD(C) FIAR Guidance, 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).

Included in the Army's E&C audit readiness efforts is Active Installations Defense Environmental Restoration Program (DERP) EL. For each site on an installation that the Army identifies a need for an environmental cleanup action, a restoration cost is developed. The restoration cost identifies the total estimated cost to restore the site to an environmentally sound condition. The liability associated with this cost is referred to as the Cost-to-Complete (CTC). The CTC Estimate is prepared by environmental cost estimators to identify all requirements and/or costs to complete environmental cleanup actions for a particular site on an installation.

4.2.1 General Equipment

The Army's audit readiness approach for GE (Class VII assets) follows the SBR approach. The Army conducts monthly internal control and substantive testing (e.g., transaction completion testing, transaction authority testing, physical inventory re-performance, reverse testing of asset records) Army-wide. 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 FIAR Guidance. Results are consolidated, summarized, reviewed, and distributed to Army stakeholders after each testing cycle.

The Army shows evidence of improvement through each testing cycle in demonstrating property accountability and the operating effectiveness of internal controls. Over the first three quarters of FY 2013, GE E&C monthly testing results averaged an 80 percent pass rate for substantive testing and a nearly 50% pass rate for internal control testing. The Army is generally able to provide documentation supporting assets recorded in the APSR but documentation may be missing key attributes such as signatures and dates.

The Army plans to assert the E&C of GE assets by December 31, 2013. OASA(FM&C) is working closely with OUSD(C) and the Office of the Under Secretary of Defense for Acquisition, Technology, & Logistics (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.

4.2.2 Operating Materials & Supplies

The initial OM&S approach focused on Class V assets (ammunition). 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 represented highly managed assets.



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 life cycle business processes. The munitions life cycle business processes include:

- Production
- Receive Shipment
- Surveillance
- Physical Inventory
- Issue/Turn-In
- Prepare Shipment
- Demilitarization
- Account Management

The OM&S “Quick Wins” represent approximately 16 percent of the total value of Class V assets. In April 2013, the DoD OIG issued a qualified opinion over the OM&S “Quick Wins” assertion and found that the Army’s assertion of audit readiness for the existence, completeness, and rights and obligations of its OM&S “Quick Wins” assets, as of September 30, 2012, was fairly stated in all material respects in accordance with DoD FIAR Guidance. This marked a significant accomplishment for the Army in receiving an additional positive audit opinion in only two years of audit readiness work. The Army is conducting corrective action work for all OM&S assets to support the planned assertion in December 2013. This effort expands the Army’s audit readiness efforts to all Class V supply assets.

4.2.3 Real Property

The RP approach to audit readiness includes the RP “Quick Wins” assertion in June 2013. The “Quick Wins” assertion focused on 23 installations that self-reported substantial progress in obtaining key supporting documentation for real property assets, excluding land. The RP “Quick Wins” sites account for approximately 50 percent of the Army’s real property assets reported on the Balance Sheet. An auditor is examining the Army’s assertion and plans to issue their report by Quarter 2 of FY 2014.

The Army’s RP audit readiness efforts align with the FIAR Guidance and include developing process narratives and flowcharts, risk analyses, and controls test plans. To date, the Office of the Assistant Chief of Staff Installation Management (OACSIM) and OASA(FM&C) have conducted discovery and evaluation efforts to:

- Assess status against the Army’s audit readiness objectives.
- Confirm the existence and accuracy of key supporting documentation that is required for RP assertion.

The Army continues to evaluate internal controls and the availability of documentation to support real property transactions. The Army will assert the existence, completeness, rights, obligations, and valuation of all RP assets by September 30, 2014.

4.2.5 Active Installations DERP Environmental Liabilities

The Army executes the EL audit readiness strategy by gaining an understanding of business processes, testing internal controls related to the Army Cost-to-Complete (CTC) Estimation and financial reporting processes, conducting substantive testing of CTC estimates and their associated elements, and completing a CTC Estimate supporting documentation review. The Army’s EL approach incorporates field site visits to Army installations and organizations that



have reported Environmental Restoration sites through the Army Environmental Database - Restoration (AEDB-R) system. The Army tests internal controls and traces estimate details from initial site identification through submission to the Army Environmental Command (AEC) for review and approval. In addition, the Army executes its control testing in accordance with the FIAR Guidance.

The Army is working with OUSD(C) to establish an audit readiness assertion and examination plan for Army's Active Installations DERP EL that compliments OUSD(C)'s priorities and advances the Army's efforts to meet the Congressionally mandated 2017 audit readiness deadline.

4.2.6 E&C Resources

OASA(FM&C) continues to develop and refine resources available to Army field personnel to support their efforts to effectively implement internal controls. These resources are available to download on the Army audit readiness AKO site, including the Army Audit Readiness Command and Installation Guide and the Commanders' Checklist, as presented previously in section 4.0. In addition, OASA(FM&C) holds "Office Hour" calls every Tuesday and Thursday to answer questions regarding internal control requirements and documentation for sites addressing E&C corrective actions after a site visit or monthly testing. Meeting minutes from calls are available to share lessons learned and address frequently asked questions. Call times vary based on location (i.e., within or outside the continental United States). See the Army audit readiness AKO site for details.

4.3 Systems to Support Audit Readiness

Army's auditability is dependent on establishing an audit-ready systems environment that includes successfully deploying ERP systems that interface 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, yet incorporates a standard financial template in both GFEBs and GCSS-Army. By leveraging the Army Enterprise Systems Integration Program (AESIP), which serves as a data hub for the Army's ERP systems, the Army is able to ensure data consistency across the major ERPs and minimize duplicate transaction postings. In addition, the Army is using GFEBs as the general fund system of record for financial reporting, and creating a consolidated trial balance in GFEBs that includes summary accounting data from GCSS-Army, with the supporting details residing in GCSS-Army. GFEBs submits to DFAS each month a consolidated trial balance that covers a significant majority of all Army general fund activity. In the coming years, Army will also incorporate Army accounting data from Defense Joint Military Pay System (DJMS); the military pay system, and the US Army Corps of Engineers' Financial Management System (CEFMS), so that the consolidated trial balance submitted by GFEBs covers all Army general fund activity.

Army's reasoning for deploying ERPs extends beyond audit readiness efforts. 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.



The Army must focus on validating the existence of effective controls 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 assessments include 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.

4.3.1 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 occurred in eight waves, culminating on July 1, 2012. GFEBS has more than 52,000 users at 227 locations in 71 countries, and subsumed more than 107 legacy systems. The real-time nature of GFEBS has reduced the need for data calls and gives the Army more accurate data on funds availability and execution, thereby improving capabilities for Army to achieve audit readiness.

The GFEBS implementation began with a single organization at a single installation on October 1, 2008, followed by a slightly larger deployment wave on April 1, 2009, and subsequent deployment waves every few months. On June 24, 2011, GFEBS received a Full Deployment Decision from the DoD Deputy Chief Management Officer (DCMO), which affirmed the deployment readiness of the GFEBS solution and authorized system implementation Army-wide. GFEBS is a standard general ledger compliant system that replaces numerous financial databases all of which were on different cycles.

In January 2011, OASA(FM&C) began a comprehensive review of GFEBS using the GAO FISCAM and best practices for assessing SAP systems. To help manage GFEBS user access, the Army implemented the SAP Governance, Risk, and Compliance (GRC) Access Controls module to allow a standardized access control framework. As a result of the GFEBS assessment, Army noted several control deficiencies that need to be addressed to support and sustain auditable business processes and data.

The OASA(FM&C) and GFEBS PMO are remediating these deficiencies, which will be validated by both the OASA(FM&C) and an auditor prior to the FY15 SBA audit. 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.

4.3.2 Logistics Modernization Program (LMP)

The LMP, the Army's wholesale logistics 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. Additionally, LMP serves as the Army Working Capital Fund (WCF) general ledger. LMP is also an important for the Army GF, as it executes a critical interface between GFEBs and one of the Army's contract writing systems, Procurement Automated Data and Document System (PADDS).

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. In FY2013, the OASA(FM&C) began conducting an internal FISCAM assessment of LMP to support the Army GF and WCF audit readiness efforts.

4.3.3 Global Combat Support 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. GCSS-Army received its Full Deployment Decision (FDD) in Quarter 1 of FY 2013. Since FDD, 25 sites have been fielded and are actively using GCSS-Army. The Army has deployed GCSS-Army to 27 locations and will have GCSS-Army fully deployed by Quarter 4 of FY 2017.

The GCSS-Army assessment began in September 2011 and includes key controls critical to the Army's financial reporting process. As the OASA(FM&C), the FISCAM assessment revealed deficiencies consistent with a complex SAP deployment, including some of the same issues the GFEBs program faced. The Army created a corrective action plan to mitigate the deficiencies and will have GCSS-Army assessed by an auditor during the GF SBR Exam 3.

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

IPPS–A will be the Army's integrated pay system, replacing the legacy systems, and will serve as a critical piece of the Army's future systems environment. Scheduled to be fully deployed in FY2018, IPPS-A will revamp the Army's Military Pay and Personnel environment, beginning with a trusted database that interfaces with 15 existing human resource (HR) systems. This initial release will provide the Army's personnel community access to the Soldier Record Brief and nine standardized personnel and pay reports. Additional releases will expand functionality, establish interfaces with GFEBs, and subsume additional HR systems. As IPPS-A is deployed across the Army, the OASA(FM&C) will account for any business process changes and impacts to the control environment.

4.4 Command Audit Readiness

OASA(FM&C) complements activities across Commands in support of the Army's audit readiness milestones. OASA(FM&C) supports ongoing audit preparation activities with a command level emphasis, including testing controls and balances for budgetary resources, property accountability, and information systems. In addition, OASA(FM&C) facilitates command level audit readiness training and monitors the implementation and completion of corrective actions. OASA(FM&C) supports the development of command audit readiness strategies to enhance the overall Army audit readiness strategy in accordance with the OUSD(C) FIAR Guidance.

5.0 Leadership Engagement and Governance

The Army leadership has been actively involved in audit readiness and has shown strong and visible commitment to the efforts. The Army has proven this commitment, first and foremost, through sufficient resources, a sustainable infrastructure, and trained personnel to support soldiers, to ensure audit readiness.

In February 2011, the Secretary of the Army issued a memorandum entitled “Army Audit Readiness Efforts” that announced the start of audit readiness site visits and the need to support them. In April 2012, the Chief of Staff sent a message to General Officers on Army financial improvement and audit readiness. OASA(FM&C) remains responsible for managing the Army’s audit readiness activities with appropriate direction, guidance, and oversight. 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 overseeing the execution of the Army FIP.

In FY 2012, the ASA(FM&C) issued several audit readiness directives, including:

- On March 30 a memorandum stating the importance of internal review (IR) to audit readiness efforts and urging Commanders to discontinue disproportionate cuts to IR staff.
- On April 6 a memorandum with a checklist for Commanders, detailing the basic actions every commander must be aware of and their organizations must take to enable and sustain audit readiness.

5.1 Army Audit Committee Meetings

In FY 2013, the ASA(FM&C) began chairing the Army Audit Committee. Members represent leaders at the ASA and Deputy Chief of Staff (DCS) levels from Headquarters, Department of the Army (HQDA) and Army commands. Prior to FY 2013, the DASA(FO) chaired the committee with membership drawn from the senior leaders at the Deputy Assistant and Assistant DCS levels. This shift in the committee makeup represents a change in expectations from the Secretary of the Army and Chief of Staff of the Army for top Army leaders to be actively involved and accountable for audit readiness goals.

The Army Audit Committee’s mission and its composition by senior levels make it the most important body driving audit readiness. The Army Audit Committee 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. In FY 2013, OASA(FM&C) began issuing testing results that demonstrate how effectively organizations are implementing internal controls across the Army; testing results are reviewed at these meetings.

Figure 2: Army Audit Readiness Governance Structure





5.2 Army In-Process Review (IPR) Meetings

OASA(FM&C) continues 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. The Army Director of Accountability & Audit Readiness chairs the IPR meetings, which keep Army business process owners aware of and supporting the FIP mission and goals. The meetings also allow the Army audit readiness stakeholders to share experiences and best practices.

5.3 Army Senior Leader Steering Group (SLSG) Meetings

The DASA(FO) chairs SLSG meetings, which also include General Officer and Senior Executive Service (SES) representatives from Army headquarters and secretariat organizations. The SLSG meets quarterly and oversees operational execution of the Army Managers' Internal Control Program and provides advice on internal control matters that merit reporting in the Secretary of the Army's annual statement of assurance.

5.4 Vice Chief of Staff of the Army Engagement

In his memorandum of September 20, 2012, the Secretary of the Army directed the VCSA to oversee commanders' progress toward financial improvement and audit readiness. In FY 2013, the Vice Chief of Staff of the Army (VCSA) began to include audit readiness as an agenda item in the monthly Strategic Readiness Update (SRU) meetings with Commanders further highlighting the importance of audit readiness as a top priority for the Army. OASA(FM&C) prepares the audit readiness content for the SRUs and conducts regular pre-brief meetings with the VCSA to keep him apprised of the Army's progress and any areas that need additional leadership attention.



6.0 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 internal control over financial reporting (ICOFR) activities.

6.1 Integration of Army MICP, ICOFR, and Audit Readiness Programs

The Office of Management and Budget (OMB) issued Circular A-123, Management's Responsibility for Internal Control, which provides guidance to Federal agencies on improving the accountability and effectiveness of their programs and operations by establishing, assessing, correcting, and reporting on internal controls. Following OMB Circular A-123's guidance, the Army issued Regulation 11-2, Army Managers' Internal Control Program. OASA(FM&C) manages the Army Managers' Internal Control Program (MICP).

All Army commands and staff have a role in the MICP, which covers three types of internal controls: financial, operational, and system controls. The MICP monitors, implements, and corrects internal controls in all three areas. Army monitors its financial reporting internal controls through its internal control over financial reporting (ICOFR) program. Effective internal controls in mission and operational areas help ensure mission success, and have a direct impact on the Army's audit readiness effort.

To monitor the MICP, the Army established the SLSG which is chaired by the DASA(FO) and includes General Officer and SES representatives from Army headquarters and secretariat organizations. The SLSG meets at least four times a year to resolve weaknesses in internal control. With the SLSG's oversight and Army's Senior Leadership's operational execution of MICP, the Army will be able to sustain the improvements gained through its audit readiness efforts. The evaluation and improvement of internal controls allows for synergies of effort between audit readiness activities and internal control reporting requirements. Several of the key audit readiness tasks can be used to meet the requirements of OMB Circular A-123.

Once the Army achieves an auditable business environment, annual MICP and ICOFR activities will support continued sustainment by continually identifying internal control deficiencies and establishing corrective action plans to resolve those deficiencies. As part of the MICP, OASA(FM&C) gathers the information included in the annual Army Statement of Assurance. The Secretary of the Army issues the Army's Statement of Assurance, which provides a status of outstanding weaknesses in internal control, to the Office of the Under Secretary of Defense (Comptroller).

Efforts to ensure strong internal controls are in place do not end when the Army achieves a clean audit opinion on its financial statements. The MICP will indefinitely establish, monitor, correct, and sustain internal controls to sustain an auditable state.



6.2 Communication Management

The Army's audit readiness management approach incorporates both 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 provides the necessary resources and staffing to be directed toward achieving audit readiness.

6.2.1 AKO Army Audit Readiness Site

To provide Army's audit readiness stakeholders with a consolidated resource for training materials, audit readiness resources, and a forum for sharing lessons learned, the OASA(FM&C) created the Army Audit Readiness AKO website. From January to June 2013, this site has averaged 1,228 unique visitors a month, and 4,196 total visits. In FY2013, the Audit Readiness Directorate revamped the AKO site by adding several subpages to expand content and make navigation easier.



6.2.2 Quarterly Newsletter, *FIP Report*

To reach a broader audience and provide an opportunity to delve in-depth into audit readiness issues, Army publishes a quarterly *FIP Report* newsletter. The newsletters provide audit readiness status updates, include interviews with key Army stakeholders, 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.

6.2.3 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. Currently more than 15,000 people are on the mailing list. The Army constantly expands this mailing list to reach a broader audience with audit readiness updates, requirements, and lessons learned.

6.2.5 Army Audit Data Repository (AADR)

AADR is the Army's tool for consolidating and maintaining all discovery, evaluation, and testing documents relevant to the SBR and E&C endeavors. AADR allows authorized users to upload and access materials securely and directly over the Internet. The OASA(FM&C) has successfully utilized the AADR on more than 10 external audits in FY2012 and FY2013, including multiple audits by the DoD IG and GAO, as well as the monthly internal testing that covers more than 3,500 samples per month combined for the SBR and E&C efforts.

6.3 Personnel Development and Training

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 focus on managers in the field, particularly resource management and property accountability personnel at the command and installation level.

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 (SBR and E&C Business Process courses).

OASA(FM&C) continues to offer online training courses through the Army Learning Management System (ALMS) to reach broader audiences and to enable annual sustainment training. The training is designed to provide a consistent audit readiness message and understanding of SBR and E&C audit readiness activities, business process controls, testing, and corrective action implementation. This web-based training mirrors the content covered in the classroom, specifically:

- Army Audit Readiness and Army FIP
- Internal Controls, Testing, and Corrective Action
- E&C Business Processes
- SBR Business Processes

As of September 2013, the OASA(FM&C) delivered audit readiness training to over 20,000 personnel, including more than 3,200 via ALMS, which has become an important tool for the Army with on-going budget constraints and travel restrictions.



7.0 Conclusion

The Army has experienced dramatic changes in its business and financial operations in the last four years and more are coming. These changes are moving the Army in the right direction towards audit readiness. OASA(FM&C) has a sound, resourced plan, high levels of leadership engagement, and effective governance in place to meet its audit readiness goals.

Changes to the business environment come at a time of great challenge to all of the military services. In addition to the strain of war, we are challenged by the reduction of defense budgets and spending caps established by the Budget Control Act of 2011. These constraints make improved financial operations and strengthened fiscal stewardship top priorities throughout the enterprise.

In FY 2013, the Army built on the momentum created through these financial improvement initiatives by demonstrating progress towards our audit readiness goals, strengthening asset accountability, and advancing a culture of accountability across the Army. By implementing efficient and adaptive processes, the Army is creating a more agile and cost-effective organization.

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