TI-97 Audit Strategy and Plan of Execution

American Society of Military Comptrollers (ASMC) – PDI
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Agenda

TI-97 Audit Strategy & Plan of Execution

- — OUSD(C) TI-97 Audit Strategy

- — OUSD(C) TI-97 Plan of Execution

- — DLA Assertion Strategy

- — DFAS Service Provider Strategy

- — DLA & DFAS Partnership

TI-97 Audit Strategy
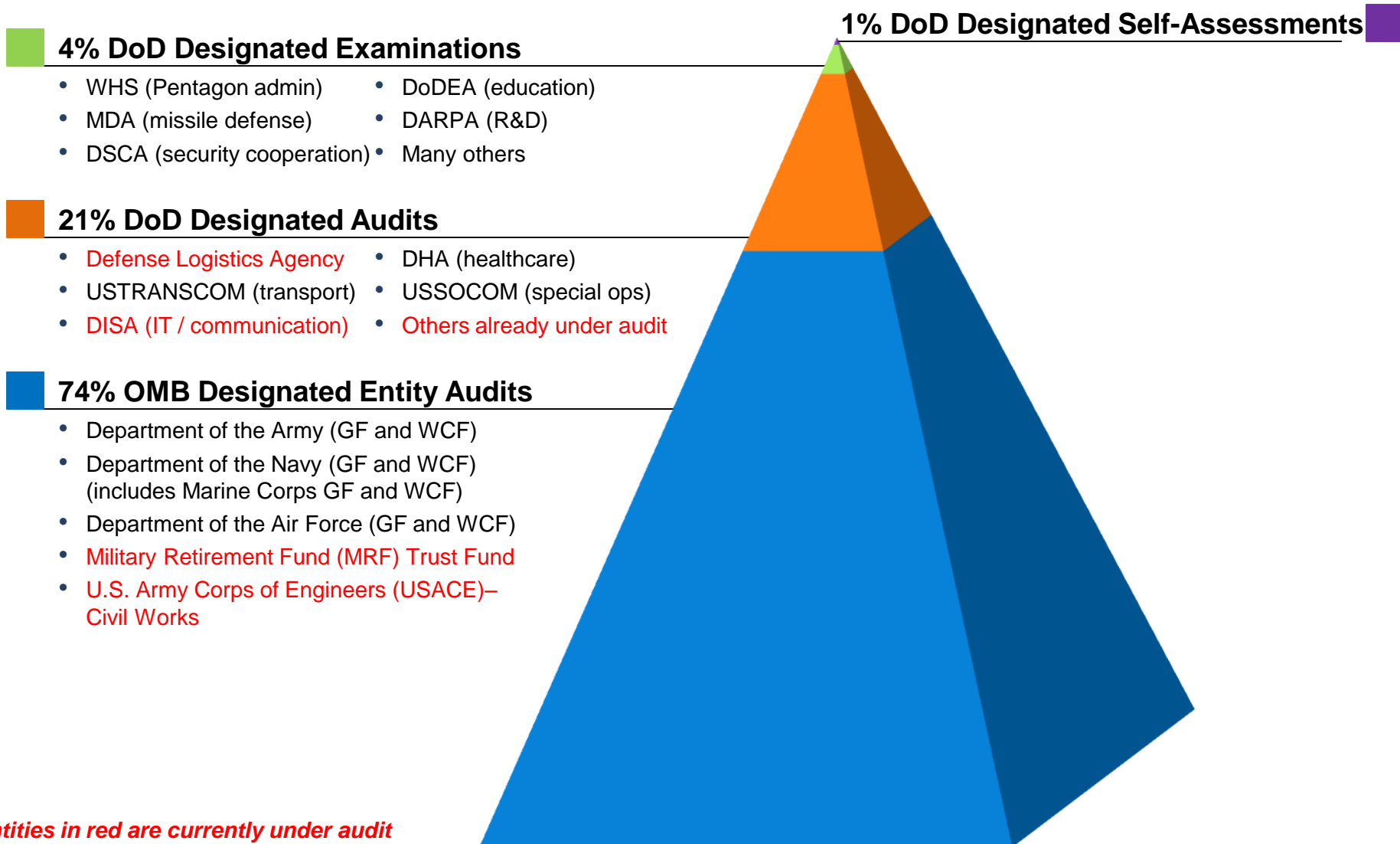
DoD's Consolidated Audit Strategy

- **DoD continues to execute its strategy to move to full financial statement audit by FY 2018 in accordance with the NDAA for FY 2010**

- **Strategy assigns each of DoD's reporting entities to one of four categories:**
  - OMB Designated Entity Audits
  - DoD Designated Audits
  - DoD Designated Examinations
  - DoD Designated Self Assessments

The Resulting DoD Consolidated Financial Statement Audit Starting in FY 2018 Will Likely Be the Largest Financial Statement Audit Ever Performed

Categories of Reporting Entities

Categories as Percentage of Total Budgetary Resources

4% DoD Designated Examinations

- WHS (Pentagon admin)
- DoDEA (education)
- MDA (missile defense)
- DARPA (R&D)
- DSCA (security cooperation)
- Many others

21% DoD Designated Audits

- Defense Logistics Agency
- DHA (healthcare)
- USTRANSCOM (transport)
- USSOCOM (special ops)
- DISA (IT / communication)
- Others already under audit

74% OMB Designated Entity Audits

- Department of the Army (GF and WCF)
- Department of the Navy (GF and WCF) (includes Marine Corps GF and WCF)
- Department of the Air Force (GF and WCF)
- Military Retirement Fund (MRF) Trust Fund
- U.S. Army Corps of Engineers (USACE)– Civil Works

1% DoD Designated Self-Assessments

Entities in red are currently under audit

Timeline to Move to Stand-Alone Audit

The five TI-97 reporting entities below will move towards stand-alone financial statement audits.

Tier 2: Mid Cap Reporting Entities	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 Forward
DLA	Examination – SBA (General Funds)	CAP Remediation & Audit Readiness Planning Activities	Full Financial Statement Audit (GF and WCF)	**Stand Alone Full Financial Statement Audits -- as a part of the DoD Consolidated Full Financial Statement Audit**	
Defense Health	Examination – SBA	CAP Remediation	Audit Readiness & Audit Planning Activities		
USSOCOM	Examination – SBA	CAP Remediation	Audit Readiness & Audit Planning Activities		
DISA	Undergoing Internal Validation	Full Financial Statement Audit (GF and WCF)			
USTRANSCOM	Continuing Audit Readiness Activities		Audit Readiness & Audit Planning Activities		

The Defense Agencies already under audit are not included in this list.
The Defense Agencies already undergoing financial statement audit will continue to receive annual full financial statement audits.

Timeline to Stand-Alone Examination

The TI-97 reporting entities below will move towards stand-alone audit readiness examinations of their financial statements.

Tier 3: Small Cap Reporting Entities	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 Forward
WHS	Examination – SBA	CAP Remediation	SBR* Examinations (*SBR + Select Material Balance Sheet items as applicable)	Annual Full Financial Statement** Examinations (** Assessment required; however, the goal is full financial statement examination for each reporting entity)	
MDA	Examination – SBA				
DSCA	Mock Audit				
DoDEA	Mock Audit				
DARPA	Examination – SBA				
ChemBio	Examination – SBA				
DTRA	Examination – SBA				
DCMA	Mock Audit				
JCS	Mock Audit				

TI-97 Plan of Execution

TI-97 Audit Readiness Critical Capabilities

- **Fund Balance with Treasury**
  - —Perform complete reconciliations for outlays, Fund Balance with Treasury, and unobligated balances for all material active/expired appropriations

- **Universe of Accounting Transactions**
  - —Produce a universe of transactions reconciled to the financial statements

- **Property Existence, Completeness, and Valuation**
  - —Identify all historical property, establish historical property values, and develop sustainable processes to identify and value property

- **Journal Vouchers (JVs)**
  - —Perform root cause analysis of Journal Vouchers and implement corrective actions to address root causes reducing the volume, frequency, and amount of JVs that are recorded in the preparation of the Department's financial statements. Implement processes and controls to review, approve, and support remaining Journal Vouchers

- **Service Provider Input**
  - —Support service providers and reporting entities to clearly define roles and responsibilities and define, design, and test customer user entity controls.

Fourth Estate: Responsible Parties

Critical Capability Success Require Stable Support

DCFO:
- Provides Strategy/Guidance
- Monitors progress to include NFR tracking
- Leads critical capabilities (e.g., DoD-wide policies, UOT)
- Provides Audit Infrastructure:
  - Internal control program
  - End to end process documentation
  - Audit liaison
  - Training

DCFO

ODO

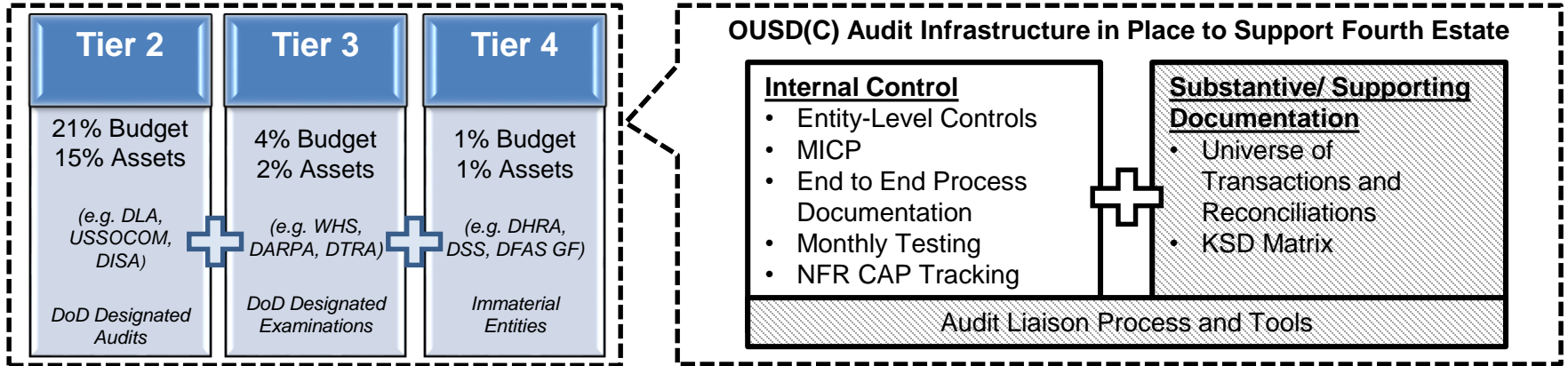DFAS

4th Estate Components:
- Develop and implement corrective actions
- Establish internal policies and procedures
- Monitor internal control compliance
- Establish MOUs and engage with the Service Providers
- Establish internal audit liaison team to support audits/exams

Service Providers (DFAS):
- Fund balance with Treasury Reconciliation for 4th Estate
- Journal Voucher root cause analysis
- Implement corrective actions for audit findings and support 4th Estate audits/exams
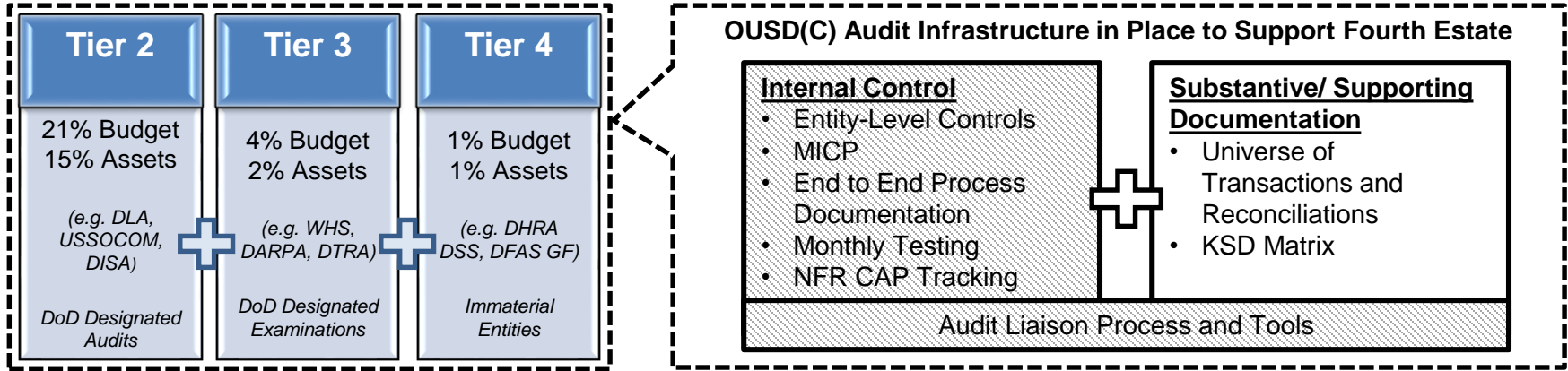
10

Fourth Estate Internal Control Program

Tier 2	Tier 3	Tier 4
21% Budget 15% Assets	4% Budget 2% Assets	1% Budget 1% Assets
(e.g. DLA, USSOCOM, DISA)	*(e.g. WHS, DARPA, DTRA)*	*(e.g. DHRA, DSS, DFAS GF)*
DoD Designated Audits	*DoD Designated Examinations*	*Immaterial Entities*

OUSD(C) Audit Infrastructure in Place to Support Fourth Estate

Internal Control
- Entity-Level Controls
- MICP
- End to End Process Documentation
- Monthly Testing
- NFR CAP Tracking

Substantive/ Supporting Documentation
- Universe of Transactions and Reconciliations
- KSD Matrix

Audit Liaison Process and Tools

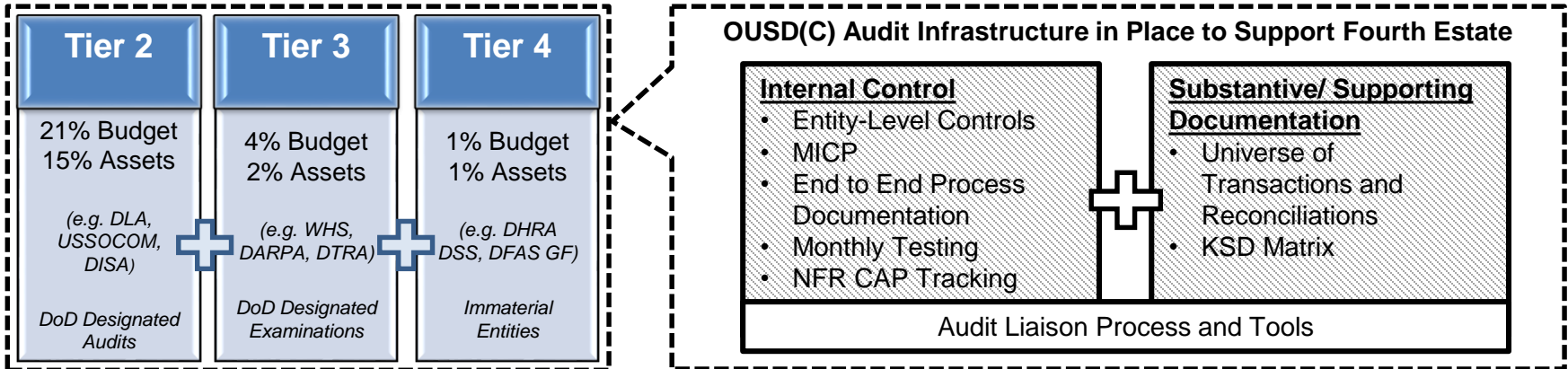|	

Entity-Level Controls	• DCFO sustains the following activities and controls across the Fourth Estate:
	    • Governance (control environment)
	    • Policy/Procedures (control activities)
	    • Training (information and communication and control environment)
	    • Risk assessment/fraud prevention (risk assessment and control activities)
	    • IT general controls (control activities)

MICP	• FIAR Director provides ultimate oversight and responsibility for MICP operations across the Fourth Estate, including overseeing that Reporting Entities are assessing risks, documenting and designing controls, testing the design and effectiveness of controls, and developing and implementing CAPs as needed
End-to-End Process Documentation	• FIAR maintains and provides the consolidated auditor with complete and accurate high-level Fourth Estate end-to-end process, system, and control documentation
Monthly Testing	• FIAR performs dual-purpose (internal controls and Key Supporting Documentation (KSD)) monthly testing for priority assessable units on a rotational basis

NFR CAP Tracking	• FIAR:
	    • Tracks, compiles, and monitors all NFRs issued by auditors and IPA firms conducting examinations
	    • Monitors that the auditees are implementing and validating corrective actions to address each NFR
	    • Determines if additional Reporting Entities, in addition to the auditee, should respond to NFRs to leverage lessons learned across the Department

11

Fourth Estate Substantive/Supporting Documentation

Tier 2	Tier 3	Tier 4
21% Budget 15% Assets	4% Budget 2% Assets	1% Budget 1% Assets
(e.g. DLA, USSOCOM, DISA)	*(e.g. WHS, DARPA, DTRA)*	*(e.g. DHRA DSS, DFAS GF)*
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Substantive/ Supporting Documentation
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- KSD Matrix

Audit Liaison Process and Tools

	Tier 2	Tiers 3 and 4
Universe of Accounting Transactions (UoT) and Reconciliation	• All TI-97 GF Reporting Entities are included in the consolidated TI-97 UoT, which also contains beginning balances, journal vouchers, and elimination entries, which will be reconciled to all material feeder systems • The consolidated TI-97 UoT includes all DoD agency-wide elimination entries	
	• Tier 2 GF Reporting Entities extract their own UoT from the consolidated TI-97 UoT • Tier 2 WCF Reporting Entities and IC Agencies maintain their own UoTs, including journal vouchers specific to their entity • The Reporting Entity's extracted (or stand-alone) UoT reconciles to its financial statements and material feeder systems	• Tiers 3 and 4 Reporting Entities will have a combined UoT extracted from the consolidated TI-97 UoT • The Tiers 3 and 4 Reporting Entities' combined UoT reconciles to the consolidating financial statements and material feeder systems
KSD Matrix	• FIAR maintains a minimum listing of key supporting documents required to support the activity and balances reported on the financial statements	

Fourth Estate Audit Liaison Process & Tools

Tier 2	Tier 3	Tier 4
21% Budget 15% Assets	4% Budget 2% Assets	1% Budget 1% Assets
(e.g. DLA, USSOCOM, DISA)	*(e.g. WHS, DARPA, DTRA)*	*(e.g. DHRA DSS, DFAS GF)*
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OUSD(C) Audit Infrastructure in Place to Support Fourth Estate

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- Entity-Level Controls
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Substantive/ Supporting Documentation
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- KSD Matrix

Audit Liaison Process and Tools

	Tier 2	Tiers 3 and 4
Audit Liaison Process and Tools	• Reporting Entity communicates directly with external auditors • Reporting Entity may use FIAR Audit Responses Center (ARC) Tool to track and review auditor PBC responses prior to submission	• FIAR serves as a liaison between Reporting Entities and external auditors • FIAR uses FIAR ARC Tool to communicate any auditor PBC requests to Reporting Entities, and track and review responses prior to submission
	• DoD Inspector General oversees auditor on-boarding and contract oversight in role as Contracting Officer's Representative (COR)	• FIAR serves as COR, overseeing on-boarding and providing contract oversight

13

TI-97 Audit Readiness Critical Capabilities: Challenges

- There are multiple challenges to achieving the critical capabilities.

- FIAR, in coordination with DFAS and the Reporting Entities, has established initiatives, such as working groups and policy updates, to remediate these challenges.

Critical Capability	Challenges
Fund Balance with Treasury	• Difficult to identify and address all the differences when reconciling FBWT
Universe of Accounting Transactions	• Difficult to collect reconciled data from over 20 accounting systems and reconcile to dozens of feeder systems
Property Existence, Completeness, and Valuation	• Lack of established process to value existing and future property
Journal Vouchers	• Lack of support for journal vouchers made to accounting records
Service Provider Input	• Lack of documented roles and responsibilities between Service Providers and Reporting Entities

TI-97 Audit Readiness Critical Capabilities: Fund Balance with Treasury – Capabilities Required

#1 Treasury Reconciliations	• Ability to reconcile all TI-97 accounting systems to US Treasury, differences are all assigned to a specific limit/reporting entity and supported at the transaction-level, as defined by DoD FMR Volume 4, Chapter 2, 020208 and Treasury Financial Manual, Volume 1, Part 2, Chapter 5100. • Ability to age and track differences until resolution. • Ability to provide a Treasury Reporting universe of transactions supporting all appropriation, receipt, transfer, and disbursement activity (i.e., any activity impacting the USSGL 1010 account and sub-accounts). • Ability to fence off sensitive activities with a security level higher than SIPR. • Reducing aggregate absolute values of differences between US Treasury and Reporting Entities to less than 1% of all activity.
#2 Disbursement, Collection, and Interfund Validations (Internal DoD)	• Ability to edit Line of Accounting (LOA) before disbursements, collections, and interfund are processed.
#3 IPAC Validations	• Ability to edit Line of Accounting before IPACs are processed.
#4 Treasury Suspense Accounts	• Control in place to track, research, and resolve collections and disbursements posted to the non-exempt Suspense accounts at the voucher level within 60 days.
#5 Statements of Differences (SODs) for Deposits in Transits, Check Issue, and IPAC	• Control in place to track, research, and resolve differences identified on the SODs for Deposits in Transits, Check Issue, and IPAC at the ALC-level within 30 days.
#6 Beginning Balances	• Obtain coverage over at least 99 percent of FBWT beginning balances brought forward, using capabilities #1 through #5 once go-forward solution is in place.
#7 Pre-DRRT Problem Disbursements	• Control in place to track, research, and resolve pre-DRRT problem disbursements (e.g., unmatched disbursements, negative unliquidated obligations, in-transit disbursements).

TI-97 Audit Readiness Critical Capabilities:
Fund Balance with Treasury

Solutions Required for Audit

- **DRRT Reconciliation Tool Enhancement (Increment 3)**
  (Addresses Capability #1, #6)
    - Performs full Fourth Estate Reconciliation between all TI-97 accounting systems and US Treasury
        - Air Force CCAS: Detailed reconciliation for Air Force allocations will continue to be performed in CCAS.
    - Moves DRRT to SIPR (High Side) – Addresses security concerns related to combining detailed transactions and funding activities
    - Includes Cash Management Report Functionality (i.e., capability to break out FBWT at the agency-level). Currently acts as the "check book" for Fourth Estate. Need to determine how this will change under new environment.

TI-97 Audit Readiness Critical Capabilities: Fund Balance with Treasury

Solutions Required for Audit

- **GEX/SLOA Centralized Service Implementation Strategy**
  (Addresses Capabilities #2 and #3)

  - Generates and passes **standardized** financial data between systems to provide control, traceability, auditability, transparency, and reconciliation of financial data across DoD's end-to-end processes. GEX focuses on passing and **validating standardized data** at key points across the end-to end process as opposed to reconfiguring multiple systems

  - Has routing capability to translate, validate, and apply business rules at key end-to-end data exchange points

  - Connects to SLOA Centralized Service, which will validate the Line of Accounting for all transactions **(up front) prior to** processing the transactions

  - Passes SLOA-compliant financial transactional data between core end-to-end financial, feeder, disbursing and reporting systems

- **Improved Business Processes/Procedures**
  (Addresses Capabilities #4, #5, #6, and #7)

  - **Improves processes and controls** for researching and resolving differences identified during Treasury reconciliations, suspense accounts, and Statements of Differences timely, and ensures they are well-documented

17

TI-97 Audit Readiness Critical Capabilities:
Universe of Transactions

- **Why do we need a Universe of Transactions?**
  - Allows Defense to conduct consolidated audit for Treasury Index 97 and perform other data needs (i.e. DATA Act)
  - Creates Single Source repository to include:
    - All accounting transactions
    - Business events leading to accounting transactions
    - Adjustments (including JVs), balances, and supporting documentation
  - Enables transparency of a comprehensive set of DoD spending data
    - Financial (accounting), logistical (contracts, invoices, purchase card), personnel (pay, travel), etc.
    - Enables measurement of costs from unstandardized business processes (root cause) and multiplicity of systems (symptom)
  - Enables and facilitates analysis
    - Provides tools for rapid data analysis from systems (e.g., DLA EBS, Army GFEBS), transaction types (e.g., Contracts, Civilian Pay, Travel), and Components
    - Motivates data driven decision process

TI-97 Audit Readiness Critical Capabilities: Property Existence, Completeness, and Valuation

- **Overview**
  - Align with FIAR mission critical asset and liability categories
  - Provide implementation guidance
  - Include financial and functional representatives from OSD and material Components

Working Group	Highlighted Accomplishments
Equipment	• Developed a Department-wide strategy to establish an auditable equipment baseline • Developed a methodology to sustain the valuation of equipment acquired through major programs • Briefed to GAO and DoDIG
Real Property	• Codified a GAAP compliant and implementable real property reporting policy • Standardized Real Property baseline valuation across the Department
Internal Use Software	• Assisted in the development and publication of FASAB Technical Release 16 • Established a Department-wide definition of IUS that clarifies the accounting standards • Developed requirements for reporting of IUS on a go-forward basis
Inventory and Related Property	• Worked with FASAB on development of SFFAS 48 "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials" • Developed framework for Components to evaluate the capitalization or expense of OM&S • Provided clarifying guidance on initial spares, organic manufacturing, and accounting for inventory vs minor equipment
Environmental and Disposal Liabilities	• Established guidelines for auditable reporting of Environmental Liabilities including reconciliation requirements and procedures for year-end reporting • Established an indirect cost allocation position for Defense Environmental Restoration Program

- **Path Forward**
  - Where appropriate, update the FMR and develop policy memos, implementation guidance, and metrics to assess and monitor implementation
  - Continue working new issues and vetting with IG, GAO, and FASAB
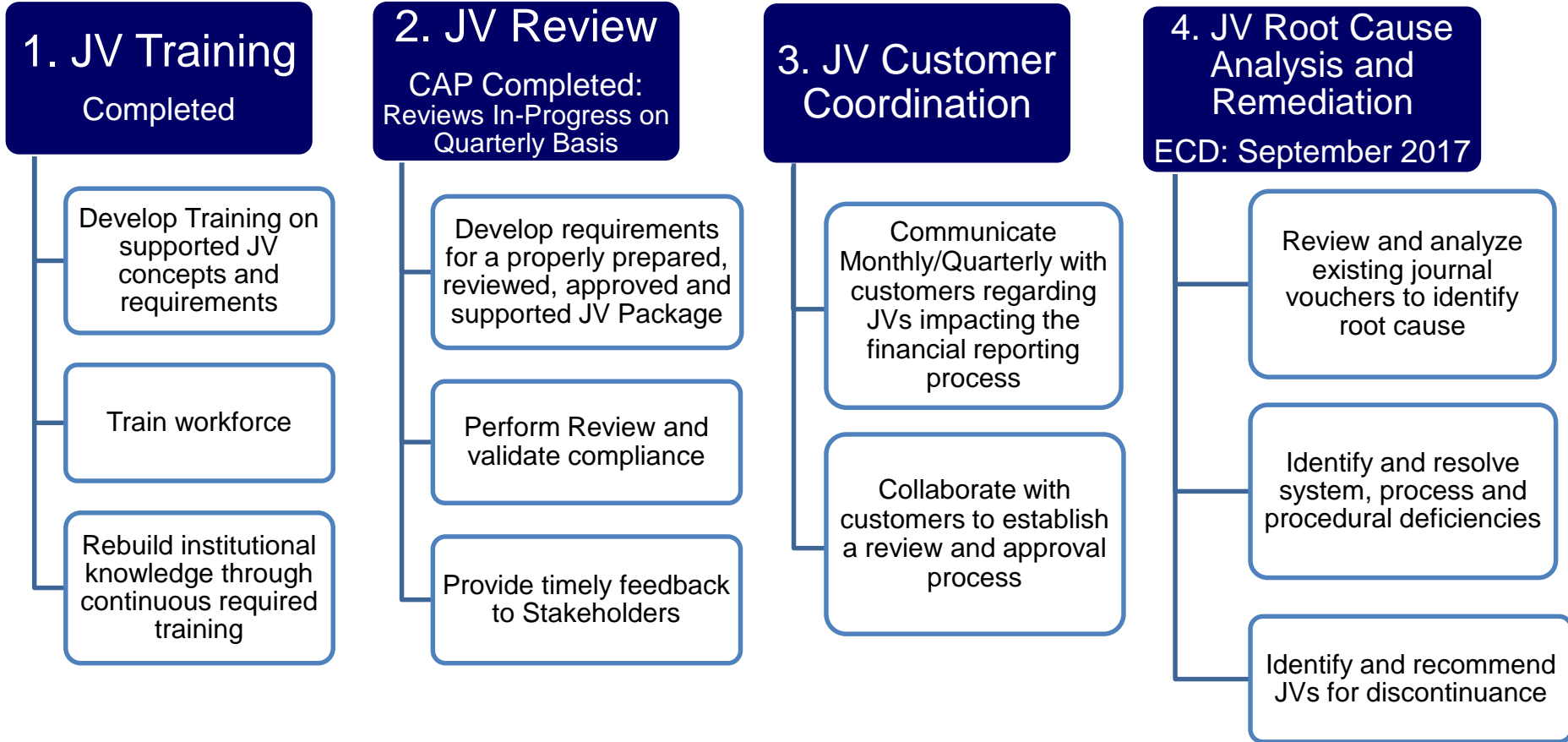
19

TI-97 Audit Readiness Critical Capabilities: Property Existence, Completeness, and Valuation

Document	GE	RP	IUS	I&RP	E&DL	Opening Balance	Go-Forward
Published Memorandum							
Strategy and Implementation Guidance for General Equipment Valuation	✓					✓	✓
Alternative Valuation Methodology for Establishing Opening Balances for Buildings Structures and Linear Structures		✓				✓	
Accounting Policy Update for Financial Statement Reporting for Real Property Assets		✓				✓	✓
Strategy for Internal Use Software Audit Readiness			✓			✓	✓
Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials				✓		✓	
Accounting Policy Update for the Expense Recognition of Operation Materials and Supplies				✓		✓	✓
Inventory and Related Property Policy Requirements	✓			✓		✓	✓
Strategy for Environmental & Disposal Liabilities Audit Readiness					✓	✓	✓
Draft Memorandum							
Financial Accounting Policy for Real Property Outside of the United States, Real Property Estimated Useful Lives and Land Valuation		✓				✓	✓
Accounting for Pooled Assets				✓		✓	✓
Long Range Ballistic Missile Classification	✓			✓		✓	✓
Assets in the Custody of Others	✓			✓		✓	✓

TI-97 Audit Readiness Critical Capabilities:
Journal Vouchers (JVs)

- High Level corrective action plans (CAPs) address NFRs for Unsupported JVs from the Financial Reporting SSAE No. 16
  - CAPs will be concurrently worked in 4 segments

1. JV Training
Completed

- Develop Training on supported JV concepts and requirements
- Train workforce
- Rebuild institutional knowledge through continuous required training

2. JV Review
CAP Completed:
Reviews In-Progress on Quarterly Basis

- Develop requirements for a properly prepared, reviewed, approved and supported JV Package
- Perform Review and validate compliance
- Provide timely feedback to Stakeholders

3. JV Customer Coordination

- Communicate Monthly/Quarterly with customers regarding JVs impacting the financial reporting process
- Collaborate with customers to establish a review and approval process

4. JV Root Cause Analysis and Remediation
ECD: September 2017

- Review and analyze existing journal vouchers to identify root cause
- Identify and resolve system, process and procedural deficiencies
- Identify and recommend JVs for discontinuance

21

TI-97 Audit Readiness Critical Capabilities:
Journal Vouchers (JVs) – Root Cause & Analysis

Objective: **Reduce the volume, frequency, and amount of journal vouchers** (JVs) that are recorded in the preparation of the Department's financial statements. This is done by evaluating the root causes which require JVs in DDRS, and determining the improvements needed to remove the need for these JVs to occur in DDRS.

✧ **Improvement Plan Development:**

  ✧ **Manual JVs:**
    ✧ *Determine actions required to remove JVs from the Financial Reporting process (DDRS) and move accounting transactions into the customers' accounting systems.*
    ✧ Identify existing SCRs and follow up on status
    ✧ Develop corrective actions (improvement plans or IPs) for both systems and customers
        ✧ The improvement plans include process changes, completion of existing SCRs, and development of new SCRs, as needed, to correct the identified issues

  ✧ **System Generated (Automated) JVs:**
    ✧ Create detailed documentation to explain the purpose, function, and criteria for System Generated JVs
    ✧ Develop list of required minimum key supporting documents (KSDs) to fully support currently unsupported System Generated JVs
    ✧ Determine system changes, if any, required to improve the System Generated JV process or remove unnecessary System Generated JVs

TI-97 Audit Readiness Critical Capabilities:
Service Provider Input

1. Identify all Service Organizations (Service Providers) that impact the Reporting Entity's internal controls over financial reporting.

2. Document an understanding of the Service Providers' impact on the Reporting Entity's Financial Reporting and Associated Risks.

3. Document the Reporting Entity's Understanding of Service Provider Controls in Place to Mitigate Financial Reporting Risks.

4. Evaluate the Design and Operating Effectiveness of Service Provider Controls in Place to Mitigate Financial Reporting Risks.

5. **Address Complementary User Entity Controls (CUECs) Identified by the Service Provider.**

6. Establish Regular Communications with Service Providers to Monitor Performance and Identify Events that may Impact Internal Controls Over Financial Reporting.
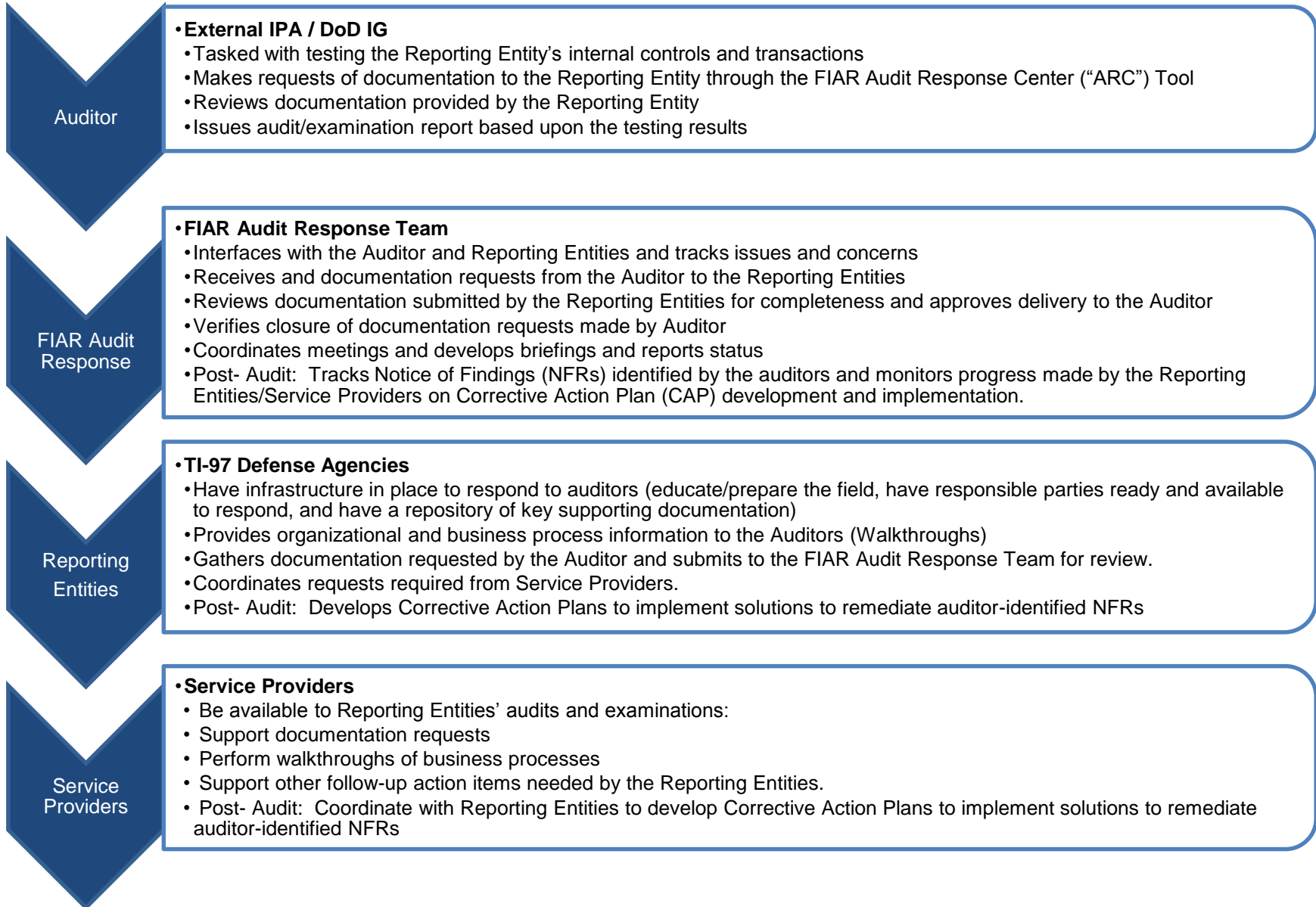
D O C U M E N T

Establish a Memo of Understanding (MOU) that Clearly Identifies Who is Responsible for What

Audit & Examination Roles & Responsibilities

Auditor

- **External IPA / DoD IG**
  - Tasked with testing the Reporting Entity's internal controls and transactions
  - Makes requests of documentation to the Reporting Entity through the FIAR Audit Response Center ("ARC") Tool
  - Reviews documentation provided by the Reporting Entity
  - Issues audit/examination report based upon the testing results

FIAR Audit Response

- **FIAR Audit Response Team**
  - Interfaces with the Auditor and Reporting Entities and tracks issues and concerns
  - Receives and documentation requests from the Auditor to the Reporting Entities
  - Reviews documentation submitted by the Reporting Entities for completeness and approves delivery to the Auditor
  - Verifies closure of documentation requests made by Auditor
  - Coordinates meetings and develops briefings and reports status
  - Post- Audit: Tracks Notice of Findings (NFRs) identified by the auditors and monitors progress made by the Reporting Entities/Service Providers on Corrective Action Plan (CAP) development and implementation.

Reporting Entities

- **TI-97 Defense Agencies**
  - Have infrastructure in place to respond to auditors (educate/prepare the field, have responsible parties ready and available to respond, and have a repository of key supporting documentation)
  - Provides organizational and business process information to the Auditors (Walkthroughs)
  - Gathers documentation requested by the Auditor and submits to the FIAR Audit Response Team for review.
  - Coordinates requests required from Service Providers.
  - Post- Audit: Develops Corrective Action Plans to implement solutions to remediate auditor-identified NFRs

Service Providers

- **Service Providers**
  - Be available to Reporting Entities' audits and examinations:
  - Support documentation requests
  - Perform walkthroughs of business processes
  - Support other follow-up action items needed by the Reporting Entities.
  - Post- Audit: Coordinate with Reporting Entities to develop Corrective Action Plans to implement solutions to remediate auditor-identified NFRs

DLA Assertion Strategy

DLA's Complex Business and Audit Readiness

- Generated ~$38B in sales and revenue in FY 2015

- Employs ~25,000 civilian and military employees

- Supports ~2,300 weapon systems

- Manages nine distinct supply chains and ~5M items

- Administers storage and disposal of critical strategic materials to support national defense

- Processes over 100,000 requisitions and 11,000 contract actions per day

- Manages 26 distribution depots worldwide

- Provides logistics support to other federal agencies and state and local governments

- Supported the security of 110 of America's allies through $2.1B in Foreign Military sales in FY 2015 and $116M in Humanitarian Assistance

Passing an Audit =

- Effective Internal Controls
- Accurate Numbers
- Retrievable and supported data and documentation
- Compliance with laws, regulations, and policy

DLA's Road to Success

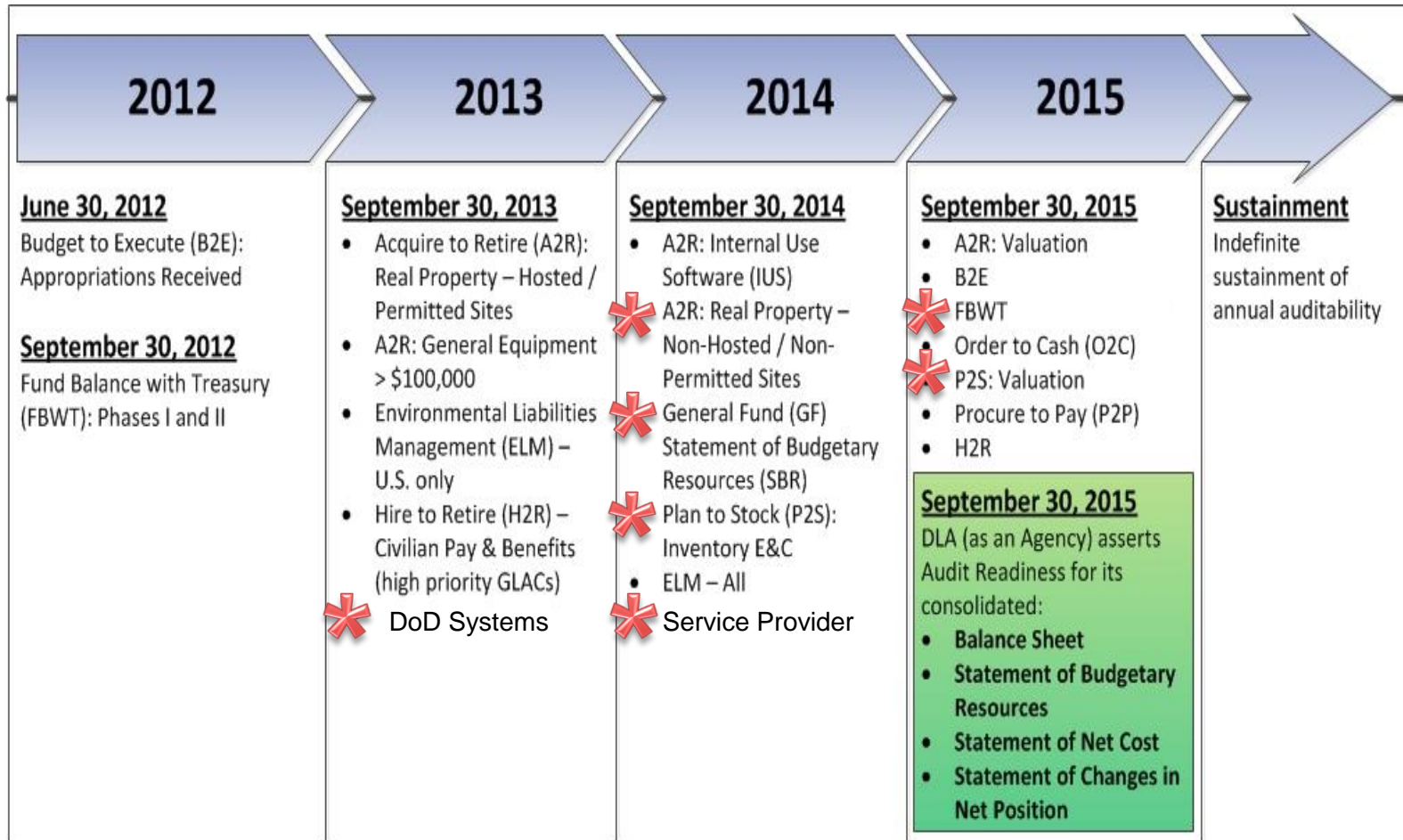- **Start with the End in Mind**

- **Strong AR Tone at the Top**

- **Senior Leader Accountability**

- **Centralized PM & Prioritization**

- **Enterprise-Wide Involvement**

- **Focus on Financial Events and Controls**

- **Robust Communication and Change Plan**

- **AR SOPs and Training developed and implemented**

- **Evidential Matter requirements and storage locations clearly communicated**

DLA Assertion Timeline

2012 / **2013** / **2014** / **2015** →

June 30, 2012
Budget to Execute (B2E):
Appropriations Received

September 30, 2012
Fund Balance with Treasury
(FBWT): Phases I and II

September 30, 2013
- Acquire to Retire (A2R):
  Real Property – Hosted /
  Permitted Sites
- A2R: General Equipment
  > $100,000
- Environmental Liabilities
  Management (ELM) –
  U.S. only
- Hire to Retire (H2R) –
  Civilian Pay & Benefits
  (high priority GLACs)

✳ DoD Systems

September 30, 2014
- A2R: Internal Use
  Software (IUS)
- ✳ A2R: Real Property –
  Non-Hosted / Non-
  Permitted Sites
- ✳ General Fund (GF)
  Statement of Budgetary
  Resources (SBR)
- ✳ Plan to Stock (P2S):
  Inventory E&C
- ELM – All

✳ Service Provider

September 30, 2015
- A2R: Valuation
- B2E
- ✳ FBWT
- Order to Cash (O2C)
- ✳ P2S: Valuation
- Procure to Pay (P2P)
- H2R

September 30, 2015
DLA (as an Agency) asserts
Audit Readiness for its
consolidated:
- **Balance Sheet**
- **Statement of Budgetary
  Resources**
- **Statement of Net Cost**
- **Statement of Changes in
  Net Position**

Sustainment
Indefinite
sustainment of
annual auditability

✳ Most critical DLA assertions to the DoD

DLA IPA Next Steps

Jul thru Nov 17

June thru Dec 16

Apr thru Jun 17
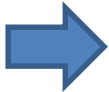
Jan thru Mar 17

Beginning Balance/Inventory June thru Dec 16

DLA's Biggest Issues: Real Property

Balance Sheet
Assets
• Cash
• Inventory
• Property
Liabilities
• Accounts Payable
Equity
• Appropriations
• Operating Results

US Standard General Ledger Subaccounts

Assets
• **172000 CIP**
• **173000   Bldg Imprv.**
• **174900   Depreciation**

Correction Action Plans
• Proving Assets are Fully Depreciated
• Building and Other Structure Values
• MILCON Construction in Progress

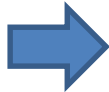# DLA's Biggest Issues: Inventory

Balance Sheet
Assets
- Cash
- Inventory
- Property

Liabilities
- Accounts Payable

Equity
- Appropriations
- Operating Results

US Standard General Ledger Subaccounts

Assets
- **152100   Inventory for Resale**
- **152200   Held in Reserve**
- **152300   Held for Repair**
- **152400   Excess, Obsolete**
- **152500   Raw Materials**
- **152600   Work in Process**
- **152700   Finished Goods**
- **152900   Allowance**

Correction Action Plans
- Inventory Reconciliations
- Moving Average Cost

Physical Inventory   **Inventory Record**   **EBS**
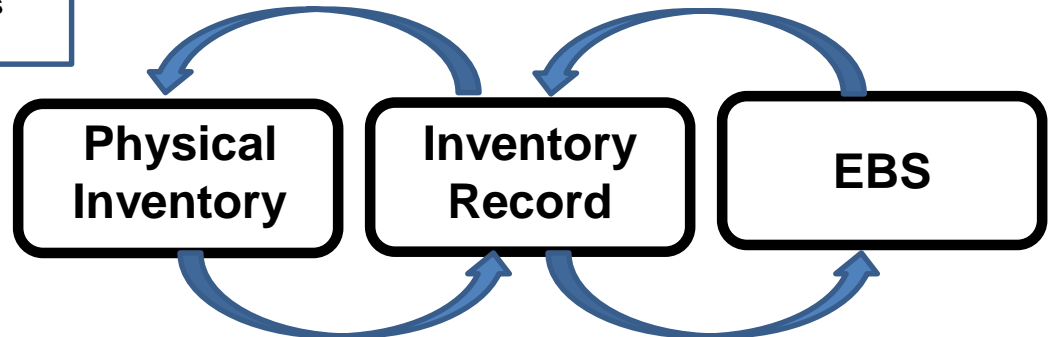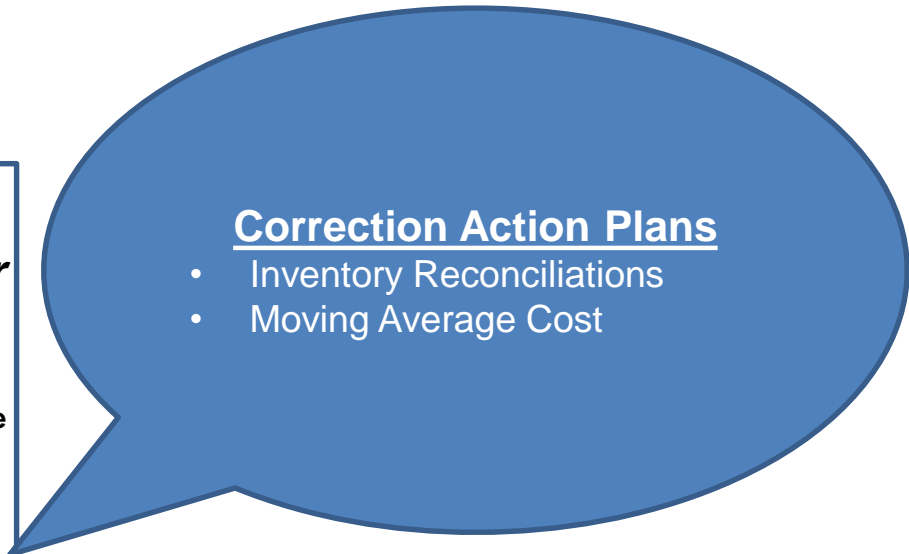
DLA's Biggest Issues: Financial Reporting

Auditor Will Work Backwards →

BALANCE SHEET

STATEMENT OF NET COSTS

SCNP

SBR

DFAS DDRS

US Standard General Ledger

1000	Assets
2000	Liabilities
3000	Net Position
4000	Budgetary
5000	Revenues
6000	Expenses
7000	Gains & Losses
8000	Memo Accts

Adjustments (Journal Vouchers)

EBS

US Standard General Ledger

1000	Assets
2000	Liabilities
3000	Net Position
4000	Budgetary
5000	Revenues
6000	Expenses
7000	Gains & Losses
8000	Memo Accts

Some Accounts Remain Open At Year End (e.g.
- **Unfilled Customer Orders**
- **Undelivered Orders**

More JVs if CAPS aren't completed

Correction Action Plans
- Support all JVs and post in EBS
- Elongate Trial Balance Close
- Make DDRS and EBS Match
- Make Budget to Proprietary Match
- Prove sub-allotment accuracy
- Complete Data Cleansing
- Prove complete cash population
- Address open document archive issues

DFAS Service Provider Strategy

DFAS Role in Audit Readiness: _Service Provider_

Department of Defense

← COMMUNICATION ● COLLABORATION ● EXPECTATIONS →

DoD Component Transactions

DFAS Audit Support

DoD Auditable Financial Statements

Independent Public Accountant

- Military Pay
- Civilian Pay
- Contractor/ Vendor Pay

People

Processes

Systems

- Army
- Navy
- Air Force
- Marine Corps
- Defense Agencies

- Conducts independent review
- Issues audit opinion

As of FY16, DFAS helped its Customers achieve 30 Favorable Audit Opinions

DFAS Audit Readiness

Audit Readiness
FY12-FY17

= SSAE 16s + Self-Reviews + System Reviews

Received 14 favorable SSAE 16 exam opinions

Supported Army, Navy, and Air Force in 8 favorable opinions on FIAR assessable unit assertions and 6 Defense Agency customers in 22 favorable stand-alone audit opinions

Achieved and sustained system audit readiness for 23 material DFAS-owned systems

Audit Support
FY15 and beyond

= Initiatives + Innovation + Remediation

Partnering with OSD FIAR and Defense Agencies in support of the audit strategy for the 4th estate

Capturing lessons learned and best practices

Utilizing the Audit Management Tool to support DFAS audit initiatives and customer audit requests

Implementing capability to monitor and support DFAS response to customers' audit findings and tracking of corrective action plans

Audit Steadiness
FY18 and beyond

= Effective Business Management + Effective Internal Controls + Sufficient, Accessible, and Current Documentation

Document, test, correct, report through a mature DFAS Managers' Internal Control Program

Expand structured system reviews to micro-applications and other material DFAS-owned systems

Improve tools and management reporting

Enhance accessibility of key supporting documentation

DFAS has achieved 16 consecutive unmodified opinions on DFAS Working Capital Fund Financial Statements, 21 consecutive favorable opinions for the Military Retirement Fund, and 13 consecutive favorable opinions for the Medicare-Eligible Retiree Health Care Fund

DFAS's Road to Success

- ✓ **Established Tone at the Top/Accountability**

- ✓ **Aligned Priorities to Reporting Entities**

- ✓ **Shared Managers' Internal Control Program (MICP) Test Results**

- ✓ **Defined Provider/Receiver Roles in Memorandum of Understanding (MOU)**

- ✓ **Established Audit Infrastructure**

- ✓ **Utilized Statements on Standards for Attestation Engagements No. 16 (SSAE 16s)**

- ✓ **Developed DLA Fund Balance with Treasury (FBwT) Reconciliations**

- ✓ **Completing Pre-Assertion and Audit Touchpoints**
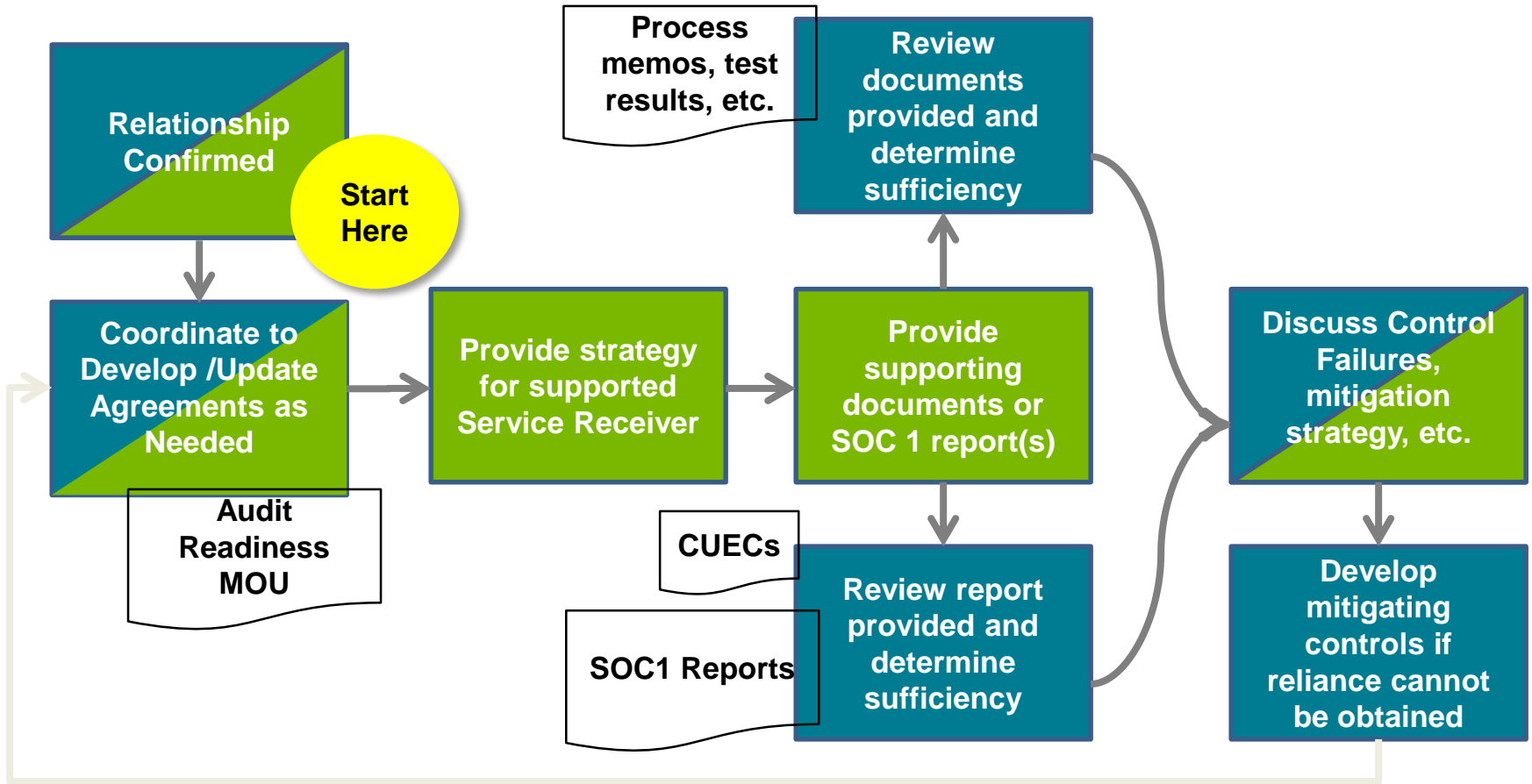
SSAE No. 16s: Past, Present, and Future
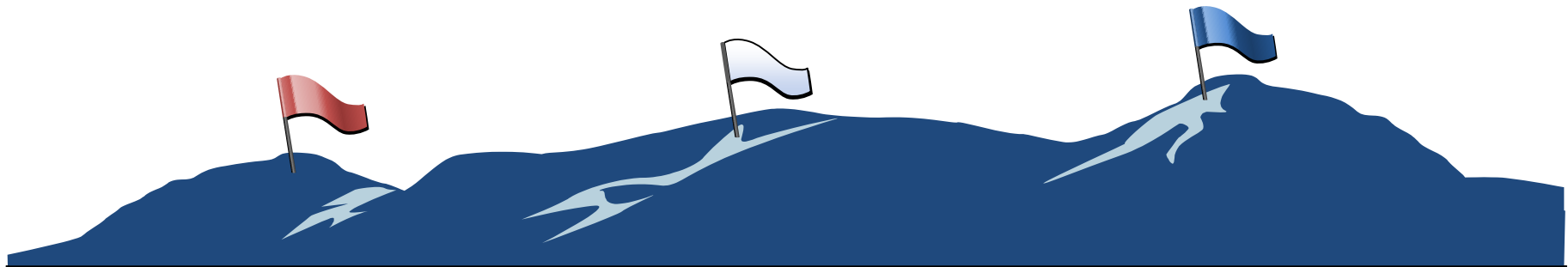
Current DFAS SSAE 16s							
Service Provider	Assessable Unit	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Results	FY 2016 Report Due	FY 2017 Report Due
DFAS	Civilian Pay Service	Qualified	Unqualified	Unmodified	Unmodified	Aug 2016	Aug 2017
	Military Pay Service		Qualified	Unmodified	Modified, Qualified	Aug 2016	Aug 2017
	Standard Disbursing Service		Unqualified	Unmodified	Unmodified	Aug 2016	Aug 2017
	Contract Pay			Unmodified	Unmodified	Aug 2016	Aug 2017
	Financial Reporting			Modified, Adverse	Modified, Qualified	Sep 2016	Sept 2017
	Defense Cash Accountability System (DCAS)					Oct 2016	Aug 2017
	Department 97 Reconciliation and Reporting Tool (DRRT)						Aug 2017
	Vendor Pay						Aug 2017

DLA and DFAS Partnership

Navigating Service Provider/Receiver Relationships

Relationship Confirmed

Start Here

Process memos, test results, etc.

Review documents provided and determine sufficiency

Coordinate to Develop /Update Agreements as Needed

Audit Readiness MOU

Provide strategy for supported Service Receiver

Provide supporting documents or SOC 1 report(s)

Discuss Control Failures, mitigation strategy, etc.

CUECs

SOC1 Reports

Review report provided and determine sufficiency
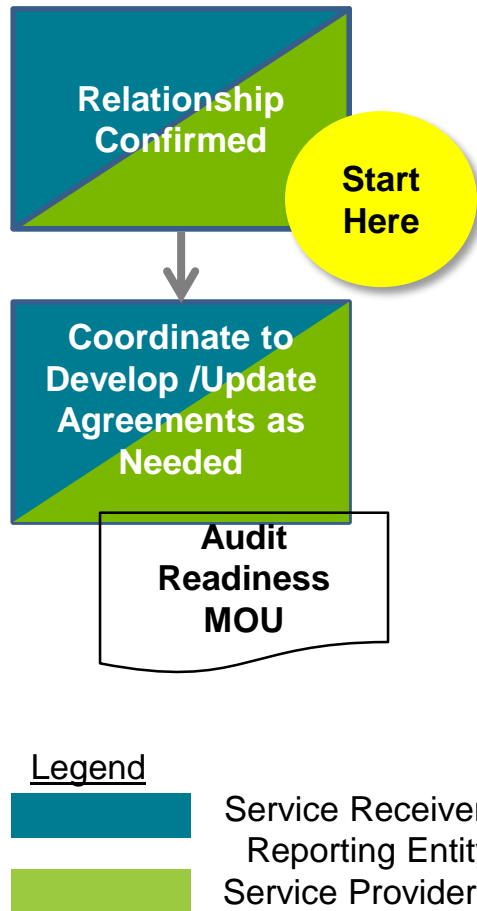
Develop mitigating controls if reliance cannot be obtained

Legend

Service Receiver/ Reporting Entity

Service Provider

Case Study:
General Fund Schedule of Budgetary activity

Relationship Confirmed

Start Here

Coordinate to Develop /Update Agreements as Needed

Audit Readiness MOU

Legend

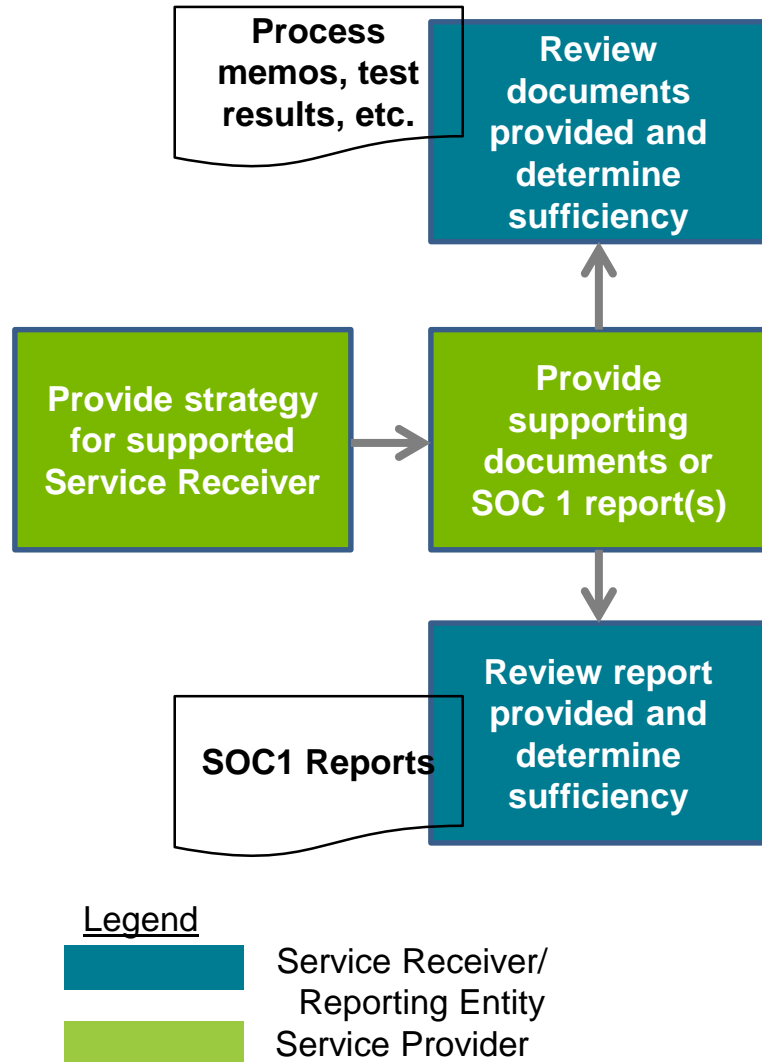Service Receiver/ Reporting Entity

Service Provider

- DLA determined reliance on DFAS for processes supporting GF SBA

- DLA participated in walkthroughs with DFAS to identify specific points of reliance

- DLA and DFAS updating agreements to address audit readiness support

MWA
Agreement between DLA and DFAS

Case Study:
General Fund Schedule of Budgetary Activity

Process memos, test results, etc.

Review documents provided and determine sufficiency

Provide strategy for supported Service Receiver

Provide supporting documents or SOC 1 report(s)

Review report provided and determine sufficiency

SOC1 Reports

Legend

(teal)	Service Receiver/ Reporting Entity
(green)	Service Provider
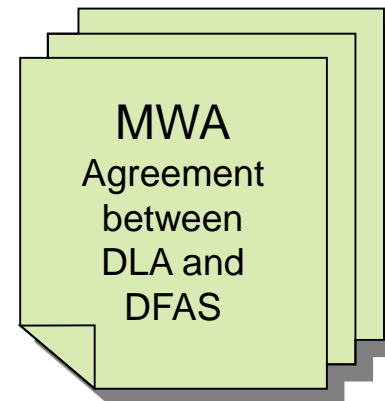
- DFAS provided strategy on which systems & processes would be self reviewed and which would be SSAE 16

Process	System	Review Type
Financial Reporting	DDRS	SSAE 16
Contract Pay	MOCAS	SSAE 16
FBwT/Cash Accountability	CMR	Self Review
Civilian Pay	DCPS	SSAE 16

- DLA/DFAS conducted walkthroughs and documented DLA business processes

- DLA/DFAS conducted internal control test of design/effectiveness

- DLA/DFAS jointly developed Corrective Action Plans and implemented

Case Study:
General Fund Schedule of Budgetary Activity

- DLA/DFAS identified additional systems & micro-applications not included initially included in DFAS test strategy

Discuss Control Failures, mitigation strategy, etc.

↓

Develop mitigating controls if reliance cannot be obtained

Process	Micro-Application
FBwT/Cash Accountability	Check Collections Database
FBwT	IPAC Wizard (Columbus)
	EART Database
	Electronic 110 Access Database
	Cash Management Report

- DLA requested additional testing of business processes not in current DFAS scope

- Requested Notice of Findings so DLA could develop compensating/mitigating controls

- Testing may not be complete in time for DLA assertion; alternative assertion strategy developed

Legend

Service Receiver/ Reporting Entity

Service Provider

Service Provider/Receiver Lessons Learned

- **REALIZE the need**
  - What made sense operationally (e.g., BRAC) has created financial governance and audit readiness challenges

- **BE PROACTIVE AND INCLUSIVE**
  - Don't wait…begin evaluating relationships now
  - Bring all required parties to the table
  - Timing is key: know your own/customer (i.e., Service Receiver) audit readiness timelines

- **UNDERSTAND relationships with other organizations**
  - Service Receiver? Service Provider? Both???
  - Receivers: Don't assume your Service Provider does everything!

- **COMMUNICATE early and often**
  - Discuss relationships, dependencies, responsibilities

- **DOCUMENT roles and responsibilities**
  - FIAR Guidance requires that audit readiness responsibilities be defined in a MOU/analogous document!

Stay Connected

- **Visit the FIAR website**
  http://comptroller.defense.gov/FIAR.aspx

- **Read the FIAR Plan Status Report**
  http://comptroller.defense.gov/fiar/plan.aspx

- **Subscribe to the DCFO's 'Defense Audit Readiness News'**
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