TI-97 Audit Strategy and Plan of Execution

American Society of Military Comptrollers (ASMC) – PDI
June 2, 2016

Mobola Kadiri
Assistant Director, FIAR Directorate, Office of the Deputy Chief Financial Officer, OUSD(C)

James Likes
Director, Audit Readiness Office, DFAS-CO

Simone Reba
Deputy Director, DLA Finance, Defense Logistics Agency

Johanna Sears
Manager, PwC Public Sector
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

1% DoD Designated Self-Assessments
- WHS (Pentagon admin)
- MDA (missile defense)
- DSCA (security cooperation)
- DoDEA (education)
- DARPA (R&D)
- Many others

4% DoD Designated Examinations
- Defense Logistics Agency
- USTRANSCOM (transport)
- DISA (IT / communication)
- DHA (healthcare)
- USSOCOM (special ops)
- Others already under audit

21% DoD Designated 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

74% OMB Designated Entity Audits
- Military Retirement Fund (MRF) Trust Fund
- U.S. Army Corps of Engineers (USACE)–Civil Works
- Others already under audit

Entities in red are currently under audit
The five TI-97 reporting entities below will move towards stand-alone financial statement audits.

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

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

<table>
<thead>
<tr>
<th>Tier 3: Small Cap Reporting Entities</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019 Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHS</td>
<td>Examination – SBA</td>
<td>CAP Remediation</td>
<td></td>
<td>SBR* Examinations</td>
<td>Annual Full Financial Statement** Examinations</td>
</tr>
<tr>
<td>MDA</td>
<td>Examination – SBA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DSCA</td>
<td>Mock Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DoDEA</td>
<td>Mock Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DARPA</td>
<td>Examination – SBA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ChemBio</td>
<td>Examination – SBA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DTRA</td>
<td>Examination – SBA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DCMA</td>
<td>Mock Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JCS</td>
<td>Mock Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*SBR + Select Material Balance Sheet items as applicable)

(** Assessment required; however, the goal is full financial statement examination for each reporting entity)
TI-97 Plan of Execution
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

**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
# Fourth Estate Internal Control Program

## DCFO’s Role & Plan of Execution

### OUSDC 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

---

<table>
<thead>
<tr>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>21% Budget 15% Assets (e.g. DLA, USSOCOM, DISA)</td>
<td>4% Budget 2% Assets (e.g. WHS, DARPA, DTRA)</td>
<td>1% Budget 1% Assets (e.g. DHRA, DSS, DFAS GF)</td>
</tr>
<tr>
<td>DoD Designated Audits</td>
<td>DoD Designated Examinations</td>
<td>Immaterial Entities</td>
</tr>
</tbody>
</table>

### 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

---

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

### DoD Designated Examinations
- Tier 2: 4% Budget, 2% Assets (e.g. WHS, DARPA, DTRA)
- Tier 3: 1% Budget, 1% Assets (e.g. DHRA, DSS, DFAS GF)
**Fourth Estate Substantive/Supporting Documentation**

**Tier 2**
- 21% Budget
- 15% Assets
- (e.g. DLA, USSOCOM, DISA)
- DoD Designated Audits

**Tier 3**
- 4% Budget
- 2% Assets
- (e.g. WHS, DARPA, DTRA)
- DoD Designated Examinations

**Tier 4**
- 1% Budget
- 1% Assets
- (e.g. DHRA DSS, DFAS GF)
- Immaterial Entities

**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**
- 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**
- 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
- 21% Budget
- 15% Assets
- (e.g. DLA, USSOCOM, DISA)
- DoD Designated Audits

Tier 3
- 4% Budget
- 2% Assets
- (e.g. WHS, DARPA, DTRA)
- DoD Designated Examinations

Tier 4
- 1% Budget
- 1% Assets
- (e.g. DHRA DSS, DFAS GF)
- Immaterial Entities

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

Audit Liaison Process and Tools

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

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
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.

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

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

<table>
<thead>
<tr>
<th>Working Group</th>
<th>Highlighted Accomplishments</th>
</tr>
</thead>
</table>
| 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
## TI-97 Plan of Execution

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

<table>
<thead>
<tr>
<th>Document</th>
<th>GE</th>
<th>RP</th>
<th>IUS</th>
<th>I&amp;RP</th>
<th>E&amp;DL</th>
<th>Opening Balance</th>
<th>Go-Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Published Memorandum</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy and Implementation Guidance for General Equipment Valuation</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Alternative Valuation Methodology for Establishing Opening Balances for Buildings Structures and Linear Structures</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting Policy Update for Financial Statement Reporting for Real Property Assets</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Strategy for Internal Use Software Audit Readiness</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Alternative Valuation Methodologies for Establishing Opening Balances for Inventory, Operating Materials and Supplies and Stockpile Materials</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Accounting Policy Update for the Expense Recognition of Operation Materials and Supplies</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Inventory and Related Property Policy Requirements</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Strategy for Environmental &amp; Disposal Liabilities Audit Readiness</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Draft Memorandum</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Accounting Policy for Real Property Outside of the United States, Real Property Estimated Useful Lives and Land Valuation</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Accounting for Pooled Assets</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Long Range Ballistic Missile Classification</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Assets in the Custody of Others</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
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
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
1. Identify all Service Organizations (Service Providers) that impact the Reporting Entity’s internal controls over financial reporting.


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.

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 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**
- 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
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
**Service Provider**

**Most critical DLA assertions to the DoD**

**DoD Systems**

**DLA Assertion Timeline**

**2012**

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

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

---

**2013**

**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)

---

**2014**

**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

---

**2015**

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

---

**Sustainment**
Indefinite sustainment of annual auditability

**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

---

*Most critical DLA assertions to the DoD*
DLA IPA Next Steps

Beginning Balance/Inventory June thru Dec 16

Jun thru Dec 16

Jan thru Mar 17

Apr thru Jun 17

Jul thru Nov 17
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 Improv.
- 174900 Depreciation

**Correction Action Plans**
- Proving Assets are Fully Depreciated
- Building and Other Structure Values
- MILCON Construction in Progress
DLA’s Biggest Issues: Inventory

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

Liabilities
- Accounts Payable

Equity
- Appropriations
- Operating Results

Correction Action Plans
- Inventory Reconciliations
- Moving Average Cost

Physical Inventory  Inventory Record  EBS

DLA Assertion Strategy
Auditor Will Work Backwards

**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

**EBS**

**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)

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
DoD Component Transactions

DFAS Audit Support

DoD Auditable Financial Statements

Independent Public Accountant

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

= SSAS 16s + Self-Reviews + System Reviews

- Received 14 favorable SSAS 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

= 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

= 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
## DFAS Service Provider Strategy

### SSAE No. 16s: Past, Present, and Future

<table>
<thead>
<tr>
<th>Service Provider</th>
<th>Assessable Unit</th>
<th>FY 2012 Results</th>
<th>FY 2013 Results</th>
<th>FY 2014 Results</th>
<th>FY 2015 Results</th>
<th>FY 2016 Report Due</th>
<th>FY 2017 Report Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civilian Pay Service</td>
<td>Qualified</td>
<td>Unqualified</td>
<td>Unmodified</td>
<td>Unmodified</td>
<td>Aug 2016</td>
<td>Aug 2017</td>
<td></td>
</tr>
<tr>
<td>Military Pay Service</td>
<td>Qualified</td>
<td>Unmodified</td>
<td>Modified, Qualified</td>
<td>Aug 2016</td>
<td>Aug 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Disbursing Service</td>
<td>Unqualified</td>
<td>Unmodified</td>
<td>Unmodified</td>
<td>Aug 2016</td>
<td>Aug 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Pay</td>
<td>Unmodified</td>
<td>Unmodified</td>
<td>Aug 2016</td>
<td>Aug 2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>Modified, Adverse</td>
<td>Modified, Qualified</td>
<td>Sep 2016</td>
<td>Sept 2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department 97 Reconciliation and Reporting Tool (DRRT)</td>
<td></td>
<td></td>
<td>Aug 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vendor Pay</td>
<td></td>
<td></td>
<td></td>
<td>Aug 2017</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
DLA and DFAS Partnership
Navigating Service Provider/Receiver Relationships

Legend
- Service Receiver/Reporting Entity
- Service Provider

<table>
<thead>
<tr>
<th>Step</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coordinate to Develop /Update Agreements as Needed</td>
</tr>
<tr>
<td>Provide strategy for supported Service Receiver</td>
</tr>
<tr>
<td>Provide supporting documents or SOC 1 report(s)</td>
</tr>
<tr>
<td>Review report provided and determine sufficiency</td>
</tr>
<tr>
<td>Discuss Control Failures, mitigation strategy, etc.</td>
</tr>
<tr>
<td>Develop mitigating controls if reliance cannot be obtained</td>
</tr>
<tr>
<td>Review documents provided and determine sufficiency</td>
</tr>
<tr>
<td>Process memos, test results, etc.</td>
</tr>
<tr>
<td>Audit Readiness MOU</td>
</tr>
<tr>
<td>CUECs</td>
</tr>
<tr>
<td>SOC1 Reports</td>
</tr>
</tbody>
</table>

Start Here
Relationship Confirmed

DLA and DFAS Partnership
### Case Study: General Fund Schedule of Budgetary Activity

- 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

**Legend**
- Service Receiver/Reporting Entity
- Service Provider
DFAS provided strategy on which systems & processes would be self reviewed and which would be SSAE 16.

<table>
<thead>
<tr>
<th>Process</th>
<th>System</th>
<th>Review Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Reporting</td>
<td>DDRS</td>
<td>SSAE 16</td>
</tr>
<tr>
<td>Contract Pay</td>
<td>MOCAS</td>
<td>SSAE 16</td>
</tr>
<tr>
<td>FBwT/Cash Accountability</td>
<td>CMR</td>
<td>Self Review</td>
</tr>
<tr>
<td>Civilian Pay</td>
<td>DCPS</td>
<td>SSAE 16</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Process</th>
<th>Micro-Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>FBwT/Cash Accountability</td>
<td>Check Collections Database</td>
</tr>
<tr>
<td>FBwT</td>
<td>IPAC Wizard (Columbus)</td>
</tr>
<tr>
<td></td>
<td>EART Database</td>
</tr>
<tr>
<td></td>
<td>Electronic 110 Access Database</td>
</tr>
<tr>
<td></td>
<td>Cash Management Report</td>
</tr>
</tbody>
</table>

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

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

• UNDERSTAND relationships with other organizations
  o Service Receiver? Service Provider? Both??
  o Receivers: Don’t assume your Service Provider does everything!

• COMMUNICATE early and often
  o Discuss relationships, dependencies, responsibilities

• DOCUMENT roles and responsibilities
  o 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

- Subscribe to the DCFO’s ‘Defense Audit Readiness News’
  Join the distribution list by emailing AuditReadiness@osd.mil