

2. FIAR GOAL, PRIORITIES, AND STRATEGY

2.A FIAR GOAL

The Financial Improvement and Audit Readiness goal is to improve the Department's financial management operations, helping provide America's Service men and women with the resources they need to carry out their mission and improving our stewardship of the resources entrusted to us by the taxpayers. Success will be demonstrated through a financial statement audit performed by independent auditors resulting in an unmodified audit opinion on the Department's financial statements.

2.B PRIORITIES

The OUSD(C) established the initial FIAR priorities on August 11, 2009. Before establishing the Department's priorities, the OUSD(C) coordinated them with the Deputy Secretary of Defense, reporting entities, Department of Defense Office of the Inspector General (DoD OIG), Office of Management and Budget (OMB), Government Accountability Office (GAO), and Congress, who approved, endorsed or acknowledged these priorities.

The Department has made significant progress in recent years with regard to its audit readiness efforts for General Fund budgetary data (Statement of Budgetary Resources). In January 2015, approximately 91 percent of Fiscal Year (FY) 2015 DoD General Fund budgetary data was under independent audit.

However, there are now less than two years remaining before the DoD must be ready for a full financial statement audit. To achieve this goal, the OUSD(C) has increased the level of urgency by expanding the FIAR priorities and establishing critical capabilities (see Appendix F) that Components must achieve to demonstrate audit readiness.

The OUSD(C) expanded priorities are designed to accelerate achievement of the FIAR objectives. The current priorities are:

- Budgetary information;
- Proprietary accounting and information;
- Mission critical asset information; and
- Valuation.

The OUSD(C) directed the reporting entities to modify and regularly update their Financial Improvement Plans (FIPs) to achieve these objectives and priorities, and this remains an important requirement (DoD leadership is updated every 60 days). Reporting entities should update and submit FIPs regularly and provide assertion documentation to FIAR as each work product is completed, so the FIAR Directorate can assess and monitor interim progress and address impediments early in the process. To reflect the expanded priorities, Appendix F, which aligns with the FIAR Methodology (see Section 4), **emphasizes** critical assertion tasks and related work products.

Furthermore, as fiscal year 2017 approaches, it is critical that the Military Departments and the Other Defense Organizations begin addressing both GF and WCF in the scope of audit readiness activities.

2.B.1 BUDGETARY INFORMATION

The Department's major financial decisions are based on budgetary data (e.g., status of funds received, obligated, and expended). As a result, the initial OUSD(C) priority focused on process improvements, controls, and systems that produce budgetary information. The starting point for achieving auditable financial statements was the Statement of Budgetary Resources (SBR), specifically the Appropriations (discretionary and mandatory) line item. By focusing improvement efforts on budgetary information and the SBR, the Department sought to:

- Improve the visibility of budgetary transactions resulting in more effective use of resources;
- Provide for operational efficiencies through more readily available financial information;

- Improve fiscal stewardship (ensures that funds appropriated, expended and recorded are reported accurately, reliably and timely); and
- Improve budget processes and controls (precludes Anti-deficiency Act violations).

While these objectives have been met to some degree, insufficient progress has been made to achieve auditability of the SBR; rather the scope has been narrowed to current year appropriations reported in a Schedule of Budgetary Activity (SBA). Much work remains with respect to prior year activity. Accordingly, SBR Balances Brought Forward is now a mandated Wave 2 assessable unit for all GF and WCF entities (see Section 5 for more information).

2.B.2 PROPRIETARY ACCOUNTING AND INFORMATION

The second of the expanded priorities focuses improvement and audit readiness efforts on the remaining financial statements. For purposes of this priority, reporting entities should execute the FIAR methodology for material line items in the following financial statements:

- Balance sheet (including related footnotes),
- Statement of Net Cost (and related footnotes), and
- Statement of Changes in Net Position.

Reporting entities should not need to “reinvent the wheel” to address proprietary information. Due to the interrelationship between budgetary and proprietary accounting, reporting entities should have documented and tested many of the processes, controls and transactions affecting the proprietary statements. See section 2.C.4.3 for more information about budgetary and proprietary inter-dependencies.

2.B.3 MISSION CRITICAL ASSET INFORMATION

This priority focuses improvement and audit readiness efforts on information that is essential to the effective management of the Department’s mission critical assets. For purposes of this priority, mission critical assets are:

- Real Property (RP) (e.g., land, buildings, structures, construction in progress, facilities),
- Inventory (INV) (e.g., rations, supplies, spare parts, fuel),
- Operating Materiel and Supplies (OM&S) (e.g., ammunition, munitions, missiles),
- General Equipment (e.g., ships, aircraft, combat vehicles, material handling equipment, training equipment, special tooling, and special test equipment), and
- Internal use software.

Financial management information necessary for the management of the Department’s mission critical assets is also required to support future financial statement audits. This financial management information includes:

- Individual Item Identifier (e.g., unique item identifier, aircraft bureau number, ship number, and real property unique identifier),
- Category/Asset Type (e.g., aircraft – airlift fixed-wing),
- Location (e.g., military installation/organization),
- Operational Status (e.g., active, closed, disposed),
- Item Description (e.g., building headquarters, base library), and
- Controlling/Financial Reporting Organization (e.g., Air Force, Defense Logistics Agency).

This information, as well as other management and financial information, is recorded in official systems of record, which are referred to as “Accountable Property Systems of Record” (APSRs). Ensuring that asset

accountability and important management information relevant to mission critical assets is accurately recorded in each reporting entity's APSRs is the objective of this priority. Please see the FIAR Guidance website for the [Existence and Completeness Financial Management Data Fields Definitions and Supporting Documentation requirements](#) document.

Accomplishing this priority will improve important management information about mission critical assets and move the Department closer to achieving financial statement auditability and reliable financial information. The existence and completeness (E&C) of assets are two of the four financial statement assertions that financial statement auditors will test in Wave 3. **Reporting entities must ensure that all accountable assets recorded in their APSRs, general ledgers and financial statements exist (Existence), all of the reporting entities' accountable assets are recorded in their APSRs, general ledgers and financial statements (Completeness), reporting entities have the right to report these assets (Rights) and assets are consistently categorized, summarized and reported period to period (Presentation and Disclosure).** The fifth financial statement assertion (and final priority), Valuation is addressed in Wave 4, but reporting entities should commence efforts in this area concurrently.

2.B.4 VALUATION

The final priority focuses on valuation of assets, liabilities, revenues and costs reported in the financial statements. The amounts reported in each reporting entities' financial statements must be accurate and supportable. Valuation methodologies (e.g., in calculating environmental liabilities or valuing cost of historical assets) should be appropriate, reasonable and well-documented. Management estimates should be justifiable in the circumstances, supportable and thoroughly documented as well. Effectively designed controls should be implemented to ensure all transactions are recorded in the appropriate amounts.

2.B.5 WORKING CAPITAL FUNDS

DoD Working Capital Funds (WCFs) operate under a different business model than DoD general funds. WCFs operate similar to commercial businesses, charging customers in exchange for providing goods and services. In recognition of this different operating model, the Department has established a different audit readiness prioritization for the WCFs. While the same FIAR Methodology activities must be executed, resulting in the preparation of the same FIAR Methodology work products, the prioritization of efforts should center on WCF's proprietary view of business operations.

In determining how to support SBR balances brought forward line items as well as Fund Balance with Treasury (FBWT) balances, WCFs must analyze their universe of transactions. WCFs must determine gaps in documentation for transactions occurring several years in the past, including the original appropriation that established the corpus of the WCF. Because WCF spending authority is not appropriated and thus, does not expire, it is likely that a significant portion of activity will not be adequately supported; WCFs (as well as reporting entities receiving no-year appropriations) must determine at what point sufficient documentation is not available to support historical transactions, and coordinate with the FIAR office and the DoD OIG to develop an appropriate strategy for asserting audit readiness with respect to the unsupported activity.

As WCFs are primarily financed by exchange revenue (instead of appropriations for general funds), WCFs typically use proprietary (rather than budgetary) information to manage their operations. Since the Department's audit readiness strategy includes focusing on improving information most used by decision makers managing the Department's operations and executing the mission, WCFs should prioritize their audit readiness efforts on proprietary information first. Specifically, WCFs should identify and define their assessable units using the balance sheet or statement of net cost (revenue and/or expenses). For example, a WCF typically has various "lines of service", or "lines of business" so it likely would want to align its business model to form assessable units along those same lines of service/business.

In recognition of this proprietary focus, WCFs are not subject to the examination of the Schedule of Budgetary Activity deadline that applies to general funds. WCFs should work toward asserting full financial statement audit readiness by the Department-wide FY 2017 deadline. However, in instances where a WCF activity supports or impacts the financial reporting or control environment of a general fund