

2.C STRATEGY

Since 2005, the Department's strategy for achieving improved financial information and auditability has evolved to be more focused, effective, and consistent across the reporting entities. The FIAR Strategy incorporates refinements and remains:

- Incremental and prioritized;
- Guided by a Methodology (Business Rules);
- Integrated with the requirements of the GAO's Green Book and OMB Circular A-123, Appendix A;
- Integrated with the implementation of the CFO Act and Federal Financial Management Improvement Act (FFMIA) (DoD FMR Vol.1 Chap 3);
- Integrated with the modernization of business and financial systems;
- Based on decentralized, reporting entity-level execution; and
- Comprehensive by focusing improvements on policies, processes and controls, systems and data, audit evidence, and human capital.

A clear, comprehensive strategy for achieving audit readiness is critical to ensuring that limited resources are assigned effectively to facilitate sustained and measurable progress. The FIAR Strategy has provided a critical path for the Department, attempting to balance short-term accomplishments with the long-term goal of achieving an unmodified opinion on the Department's financial statements. While progress has been made, time is of the essence; therefore, the FIAR Strategy has been updated and re-aligned to stress the urgency necessary to achieve full financial statement audits within the Congressionally-mandated timeframe.

Each of the Department's material financial statement line items is affected by unique and complex accounting and auditing challenges that must be overcome to achieve auditability and reliable financial information. **The FIAR Strategy has now shifted focus to SBR balances brought forward, material financial statement line items and financial reporting, and includes proprietary information and valuation as additional priorities for GF and WCF reporting entities. The steps each reporting entity must take to assert audit readiness have not changed.** However, all reporting entities must accelerate their efforts to **achieve** assertion and validation tasks **in Appendix F** that represent the Department's critical path to accomplishing its audit readiness objectives. The updated FIAR Strategy "waves" representing the significant levels of effort and accomplishments are noted on **Figure 2-2**.

Consolidated Audit Strategy

In conjunction with the re-focused FIAR Strategy, the FIAR Directorate has evaluated several considerations that will affect the Department's initial audit of its consolidated financial statements beginning in fiscal year (FY) 2018. This analysis has resulted in the development of a consolidated audit strategy to address these considerations. The consolidated audit strategy facilitates a combination of individual Reporting Entity audits and examinations, which are presently occurring, with OUSD(C) infrastructure and support to sustain a consolidated DoD audit. The consolidated audit strategy is incorporated by reference as a supplement to this FIAR Guidance, and is available at the following website (CAC restricted): https://guidanceweb.ousdc.osd.mil/Audit_Strategy.aspx.

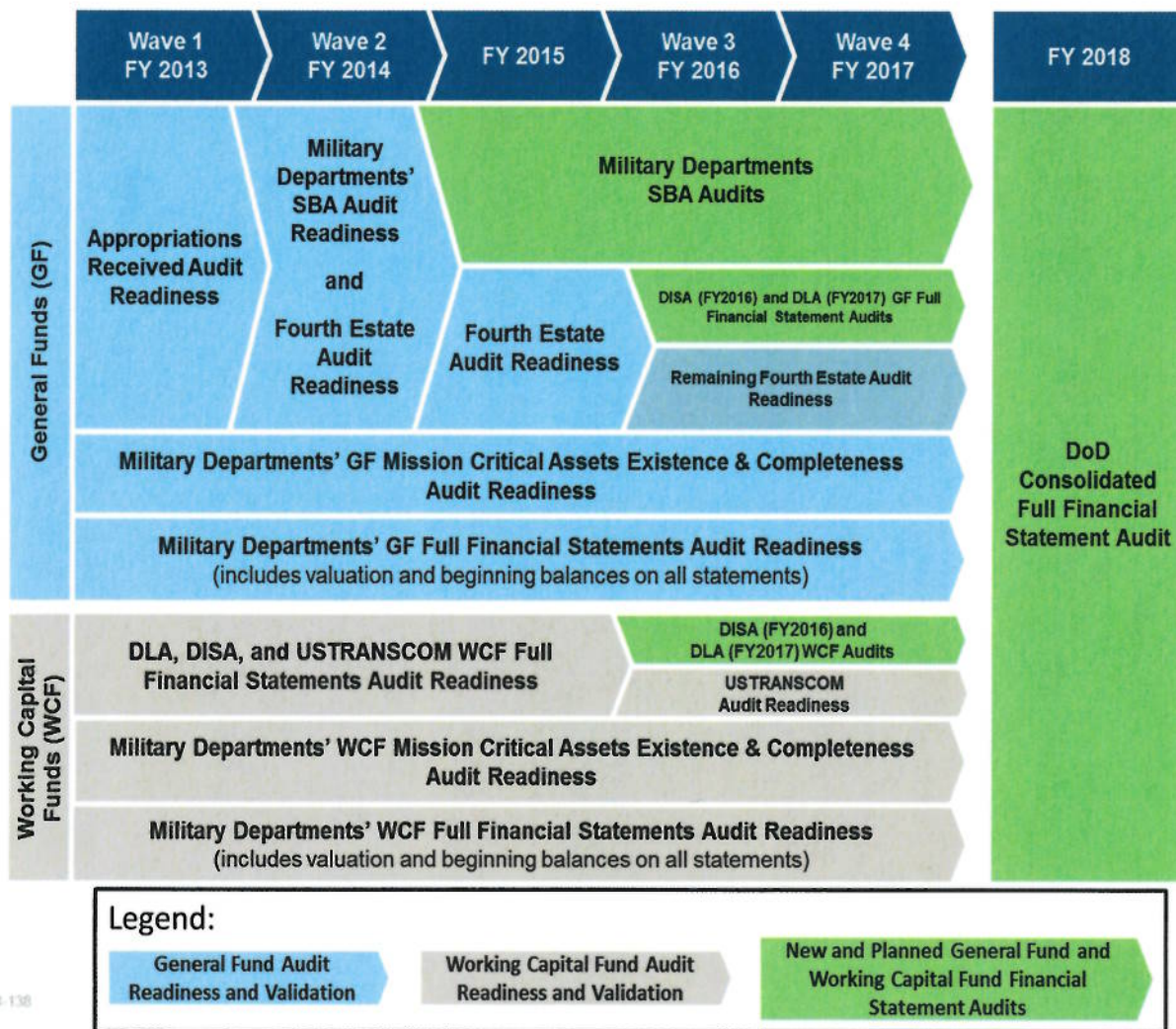


Figure 2-2. FIAR Strategy includes Four Prioritized Waves to Achieve Full Financial Statement Audit⁵

During its initial development, the Department's FIAR Strategy drew from the strengths of several alternative approaches, and grouped individual end-to-end processes into one or more waves. It sought to provide coverage of all financial statements, while prioritizing and improving information most often used by DoD management and the warfighter. Furthermore, as depicted in **Figure 2-2**, the four waves created interim audit-ready milestones, while moving the Department toward a full-scope financial statement audit. As the Department approaches the Congressionally-mandated FY 2017 deadline, reporting entities must intensify their efforts to identify and implement a combination of control activities and supporting documentation to demonstrate that the FROs relevant to the subject matter, assertion, processes (e.g., financial reporting) or line item have been achieved. At this stage of the audit readiness process, Waves 1 and 2 should be substantially complete as the Services prepare for their initial SBA audits, which do not include SBR balances brought forward. This 2016 edition of the FIAR Guidance continues to emphasize urgency, and focuses on critical capabilities that must be demonstrated in order to achieve the ultimate goal of full auditability.

The following sections discuss critical aspects of the remaining waves.

2.C.1 Wave 1 – Appropriations Received Audit

This wave is substantially completed.

⁵ Note: This figure does not present DoD Reporting Entities that are currently under full financial statement audit.

2.C.2 Wave 2 – SBA/SBR Audit

The SBR presents all budgetary resources that a reporting entity has available, the status of those resources at period end, a reconciliation of changes in obligated balances from the beginning to the end of the period, and cash collections and disbursements for the period reported. Wave 2 SBR audit readiness efforts should include all processes, internal controls, systems and supporting documentation that will be within the scope of an SBR audit. The November 2013 edition of the FIAR Guidance shifted the focus of Wave 2 to the Schedule of Budgetary Activity, which reports only current year budgetary funding and execution. **As a result of the FY 2015 SBA examinations, the SBA Instructions have been updated for FY 2016 – FY 2018 to better inform the Components about the form and content of the schedule. For example, non-BRAC no-year funds are excluded from the SBA. The updated SBA instructions are located on the FIAR website at**

http://comptroller.defense.gov/Portals/45/documents/fiar/workproducts/SBA_Instructions.pdf.

To achieve auditability of the full SBR, GF and WCF reporting entities must also demonstrate audit readiness for SBR Balances Brought Forward. Accordingly, reporting entities must now prepare and submit to the FIAR Directorate assertion packages for SBR Balances Brought Forward and the Fund Balance with Treasury (FBWT) line item in accordance with the FIAR methodology and assertion tasks shown in Appendix F.

To successfully complete Wave 2: Statement of Budgetary Resources, reporting entities must assert on SBR balances brought forward, all open appropriations on the SBR, and any remaining budgetary resources on the SBR not previously asserted.

2.C.2.1 SBR KEY CAPABILITIES, CAPABILITY MEASURES, AND SUCCESS CRITERIA

KEY CAPABILITIES AND CAPABILITY MEASURES

The FIAR Directorate has defined key capabilities that reporting entities must achieve to complete Wave 2 with respect to SBR balances brought forward. These are capabilities that reporting entities must achieve and sustain to demonstrate full SBR audit readiness. The key capabilities are aligned with the capability measures, as shown in **Figure 2-3**. These measures, based on audit requirements to evaluate internal controls and supporting documentation, are designed to measure reporting entity progress in achieving these capabilities.

Key Capabilities	Definitions/Capability Measures
1. Identify a complete beginning balance population, which is reconciled to the general ledger and financial statements	Reporting entities must prepare a detail listing supporting the balances brought forward line items on the SBR and demonstrate that the sum of the detail agrees to the general ledger, trial balance, and/or financial statement balance for the assertion period. Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries.
2. Effective controls over recording and maintaining open obligations	Reporting entities must be able to demonstrate that control activities for maintaining open obligations were suitably designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved. See Wave 2 SBR Balances Brought Forward Table in Section 5 for a complete listing of FROs relevant to the obligations incurred. • % of obligation financial reporting objectives assessed • % of obligation control activities determined effective
3. Retain and make available supporting documentation to meet audit standards	Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all balances brought forward line items. See Wave 2 SBR Balances Brought Forward Table in Section 5 for minimum documentation requirements. • % of supporting documents assessed • % of supporting documents determined sufficient (adequately retained and readily available)

Figure 2-3. SBR Balances Brought Forward Key Capabilities

SUCCESS CRITERIA

To achieve full SBR audit readiness, a reporting entity, in coordination with its service provider(s) must demonstrate an effective combination of control activities and supporting documentation that limits the risk of material misstatements by meeting the FROs defined in Section 5 for the SBR Balances Brought Forward line items. Reporting entities must address the following:

- For FROs where control activities are used to achieve audit readiness, reporting entities must be able to demonstrate that the control activities were suitably designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved.
- Reporting entities must be able to support balances brought forward with sufficient, relevant and accurate audit evidence defined as KSDs in Section 5, supplemented with the reporting entity's own documentation requirements.

2.C.2.2 SBR COMMON CHALLENGES

Each wave contains accounting and auditing issues that must be resolved for reporting entities to progress towards audit readiness. For example, during Wave 2, for SBR balances brought forward, reporting entities must address:

- Account balances brought forward for SBR line numbers 1000, 3000 and 3060⁶. Given the long life of Federal appropriations, reporting entities are required to support affected material unobligated balances, undelivered orders and uncollected Federal payments for as long as they are reported on the SBR
- Documentation supporting the SBR Balances Brought Forward line items may not be available. Reporting entities should test these line items to determine gaps, and design and implement corrective action plans
- Lack of control over sub-allotted funding resulting in an inability to reconcile detail transactions to financial statements and provide documentary evidence of execution of sub-allotted funds
- Lack of invoices, receiving reports and other supplemental documentation backing transactions supported by Military Interdepartmental Purchase Requests (MIPRs) or other interagency agreements. While MIPRs or other interagency agreements might be available to support aged obligations, other documentation is necessary from an audit perspective to support the account transaction
- Dependencies on service provider(s) processes and controls for efficient and effective execution of its end-to-end business processes

Reporting entities need to consider the longevity of beginning balance transactions and how far back the reporting entity must go in order to provide transactional support. An initial analysis of beginning balance transactions is critical to making this determination. While appropriated funds generally have limited periods of availability, "no-year" and working capital funds must consider whether supporting documentation is readily available for all transactions. As reporting entities identify documentation gaps, they should coordinate with the FIAR office and the DoD OIG to develop an appropriate strategy for coverage of significantly aged transactions and balances.

As reporting entities continue to work on SBR Balances Brought Forward, additional accounting and auditing issues may be identified. Reporting entities should report issues in their FIPs as they are identified, allowing them (and FIAR) to track progress for resolution and assign resources and dependencies based on related key tasks.

⁶ These line numbers correspond to unobligated balance, unpaid obligations balance and uncollected payments brought forward; see SBR Balances Brought Forward table in Section 5 for details.

2.C.3 Wave 3 – Mission Critical Asset Existence & Completeness (E&C) Audit

Mission Critical Asset E&C Audit focuses primarily on the E&C financial statement assertions, but also includes the rights assertion and portions of the presentation and disclosure assertion. That is, **reporting entities must ensure that all assets recorded in their APSR or equivalent exist (existence), all of the reporting entities' assets are recorded in their system (completeness), reporting entities have the right to report all assets (rights), and assets are consistently categorized, summarized, and reported period to period (presentation and disclosure). The asset categories included in this wave are INV, OM&S, RP, IUS and GE. Due to the shortness of time, reporting entities should incorporate asset valuation for these categories concurrently within this wave. Wave 3 assertion tasks should be completed and submitted to FIAR in accordance with due dates reported in the FIAR Plan Status Report (FPSR).**

2.C.3.1 E&C KEY CAPABILITIES, CAPABILITY MEASURES, AND SUCCESS CRITERIA

KEY CAPABILITIES AND CAPABILITY MEASURES

The FIAR Directorate has defined key capabilities that reporting entities must achieve to demonstrate E&C audit readiness and successfully complete Wave 3. The key capabilities are aligned with the capability measures, as shown in **Figure 2-4**. These measures, based on audit requirements to evaluate internal controls and supporting documentation, are designed to measure reporting entity progress towards achieving these capabilities.

Key Capabilities	Definitions/Capability Measures
1. Identify a complete transaction population, which is reconciled to the general ledger and financial statements	Reporting entities must prepare a listing of transactions for the assessable unit for the assertion period and demonstrate that the sum of the transactions agrees to the general ledger, trial balance, and/or financial statement balance for the assertion period. For example, if a reporting entity is asserting audit readiness of its General Equipment for FY 2015, the reporting entity must complete a reconciliation of the General Equipment assets recorded in its APSR to its general ledger and amounts reported in the financial statements. Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries.
2. Effective physical inventories that meet audit standards	Reporting entities must design and implement physical inventory count procedures and documentation that will withstand audit scrutiny. See DoDI 4140.01, 4000.25-M, 4000.25-2M, 5100.76-M, 4165.14, and 5000.64 for the Department's instructions for physical inventory counts. % of assets subject to physical inventory within the required time span
3. Effective controls over recording asset acquisitions, disposals and transfers	Reporting entities must demonstrate that control activities for recording asset acquisitions, disposals, and transfers were suitably designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved. Adjustments to physical inventory counts are an indication of the effectiveness of controls over recording acquisitions, disposals, and transfers of assets. % of physical inventory adjustments
4. Retain and make available supporting documentation to meet audit standards	Reporting entities must ensure that sufficient, relevant and accurate supporting documentation is readily available for an E&C audit. See KSD requirements in the INV, OM&S, RP, IUS and GE tables in Section 5 for minimum documentation requirements. % of supporting documents assessed % of supporting documents determined sufficient (adequately retained and readily available)
5. Effective controls over financial and management data in the APSR	Reporting entities must ensure the sufficiency and accuracy of Financial and Management data in preparation for an E&C audit. See sub-section 2.C.3.3, Financial Management Data, below for more information. # of data fields "blanked" out of total data fields

Key Capabilities	Definitions/Capability Measures
6. Effective processes, controls and system improvements	Reporting entities must design and implement corrective actions to remediate weaknesses in processes, internal controls, and supporting financial related systems. • % of corrective actions complete (per FIPs) • % of assessable units validated

Figure 2-4. Mission Critical Asset E&C Key Capabilities

SUCCESS CRITERIA

To achieve E&C audit readiness, a reporting entity, in coordination with its service provider(s) must demonstrate that an effective combination of control activities and supporting documentation exists to limit the risk of material misstatements by meeting the FROs defined in Section 5. Reporting entities must address the following:

- For FROs where control activities are used to achieve audit readiness, reporting entities must be able to demonstrate that the control activities were suitably designed and operating effectively to provide reasonable assurance that the FROs in Section 5 were achieved.
- Reporting entities must be able to support account transactions, and balances with sufficient, relevant and accurate audit evidence, defined as KSDs in Section 5, supplemented with the reporting entity's own documentation requirements.

2.C.3.2 E&C COMMON CHALLENGES

Each wave is subject to accounting and auditing issues that must be resolved to progress towards audit readiness. For example, during Wave 3 reporting entities must address:

- **Units of Measure** – Implementing standard definitions for units of inventory and assets to ensure that item counts are accurate (e.g., will airframes be separately counted from engines or the two items together comprise one asset record within the APSR?)
- **Rights to Assets** – Working with leading OSD offices to implement business rules around co-located facilities (joint basing) and assets purchased by others (e.g., **contractor-acquired property**)
- **Reworked Assets** – Implementing a standard and consistent method for tracking and reporting assets that are removed from a larger asset, reworked or otherwise modified and then integrated into a different asset (e.g., aircraft engines)
- **Physically Isolated Assets** – Implementing techniques and methods for demonstrating the existence of assets that are not easily inspected (e.g., assets located in space or underwater)
- **Government Furnished Property (GFP)** – Implementing a strategy for tracking and reporting assets in the possession of, or directly acquired by, the Government and subsequently furnished to a contractor for the performance of a contract⁷
- **Dependencies** – Consideration of dependencies on service provider(s) processes and controls for efficient and effective execution of end-to-end business processes

⁷ USD Acquisition, Technology and Logistics (AT&L) issued a memorandum, "Standard Equipment Data Elements for Government Furnished Property Baseline Establishment", dated January 7, 2012, which provides a methodology to be used by all Components in establishing a validated GFP baseline. See also DoDI 4161.02, *Accountability and Management of Government Contract Property*, and DCFO policy memorandum *Strategy and Implementation Guidance for General Equipment Valuation*, issued March 14, 2016.

2.C.3.3 FINANCIAL MANAGEMENT DATA

During physical inventory counts, reporting entities must support and verify key data fields in the APSR to ensure that all information required for financial statement and management reporting is recorded and accurate. As part of the physical inventory counts, data should be recorded and testing performed for all selected items to confirm that the information in these data fields is accurate. The specific data fields that will be reviewed during an existence and completeness specified elements audit are summarized in the E&C Financial Management Data Fields table, which can be viewed and downloaded from the FIAR Guidance website at [Existence & Completeness Financial Management Data Fields definitions and supporting documentation](#). The table separates data fields according to those that relate to financial statements, referred to as Financial Statement Data, and those that are primarily used as important management information, referred to as Management and Budget Data.

Both categories of data are mandatory and must be validated in the APSR, because their reliability and accuracy are important for decision making. Prior to an assertion of audit readiness, management must ensure that the data is accurate in the APSR. Note that some data fields may not apply to all asset types within the categories.

2.C.4 Wave 4 – Full Financial Statements Audit

Assertions for this wave include all material reporting entity line items, account balances and financial transactions impacting the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position not covered by the previous waves (e.g., Environmental and Disposal Liabilities, Accounts Receivable- Intragovernmental, Investments, Other Liabilities, etc.). To-date, FIAR priorities have required reporting entities to devote their resources and efforts towards completing Waves 1 through 3 before beginning work on Wave 4. However, much of the work required to complete Waves 1 through 3 impacts the requirements and objectives for Wave 4. **For example, the following interdependencies should be leveraged to accelerate progress in Wave 4:**

- **Delivered Orders, reported on the SBR (covered in Wave 2), equate to a portion of Accounts Payable reported on the Balance Sheet**
- **Spending Authority from Offsetting Collections, reported on the SBR (covered in Wave 2), includes some of the amounts reported in Accounts Receivable – Intragovernmental on the Balance Sheet**
- **Unobligated Balances and Unpaid Obligations, reported on the SBR (covered in Wave 2), correlate to FBWT reported on the Balance Sheet**
- **Obligations Incurred, reported on the SBR (covered in Wave 2), equates to a substantial portion of Gross Costs reported on the Statement of Net Cost**

See subsection 2.C.4.3 for additional information about budgetary/proprietary interrelationships and leveraging previous audit readiness efforts.

Wave 4 requires that the valuation assertion for material financial statement lines items, including property and inventory/OM&S, be achieved. Additionally, presentation and disclosure should be considered in this wave (if not previously covered – see also the Financial Reporting assessable unit table in Section 5). One significant and potentially very costly challenge in Wave 4 is obtaining auditable values for the significant amount of existing DoD assets located worldwide and procured many years ago, well before passage of the CFO Act and other legislation mandating auditability. To address and overcome this impediment to achieving auditability, **OUSD(Comptroller) has undertaken several initiatives over the past few years including:**

- **Joint issuance with Acquisition, Technology and Logistics (AT&L) of a memorandum on September 20, 2013, which eliminated the definition of military equipment and increased capitalization thresholds;**
- **Petitioning the FASAB for consideration of revisions to authoritative federal accounting pronouncements covering the valuation of General Property, Plant and Equipment (G-PP&E); and**

- Issuance of the following additional policy memoranda and guidance to assist reporting entities in valuing and documenting G-PP&E:
 - *Accounting Policy Update for Financial Statement Reporting for Real Property Assets* issued September 30, 2015
 - *Strategy for Internal Use Software Audit Readiness* issued September 30, 2015
 - *Alternative Valuation Methodology for Establishing Opening Balances for Buildings, Structures and Linear Structures* issued January 19, 2016
 - *Strategy and Implementation Guidance for General Equipment Valuation* issued March 14, 2016

Reporting entities must value their assets in accordance with the Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard Number 6 (SFFAS No. 6), *Accounting for Property, Plant and Equipment* and SFFAS No. 10, *Accounting for Internal Use Software*. If existing business processes or systems limit full compliance with SFFAS No. 6 and SFFAS No. 10, reporting entities must report their asset values in accordance with SFFAS No. 35, *Estimating the Historical Cost of Property, Plant and Equipment*, where applicable.

However, the Comptroller has issued these recent policy memoranda, particularly the March 14, 2016 general equipment valuation guidance, anticipating that FASAB will adopt its current exposure draft that rescinds SFFAS No. 35 and establishes "deemed cost" as a one-time alternative approach to general equipment valuation. DoD reporting entities should review the policy memoranda as they begin Wave 4 and develop execution strategies and methodologies to satisfy the reporting requirements and incorporate the activities into their Financial Improvement Plans. All policy memoranda can be found at <http://comptroller.defense.gov/FMR/policymemos.aspx>.

2.C.4.1 WAVE 4 KEY CAPABILITIES, CAPABILITY MEASURES, AND SUCCESS CRITERIA

KEY CAPABILITIES AND CAPABILITY MEASURES

Reporting entities must track and achieve the following key capabilities for the financial statement line items while working to complete Wave 4. These major capabilities demonstrate a reporting entity's full-scope audit readiness. The key capabilities are aligned with the capability measures, as shown in Figure 2-5. These measures will be based on audit requirements to evaluate internal controls and supporting documentation and will be designed to measure reporting entity progress towards achieving these capabilities.

Key Capabilities	Definitions/Capability Measures
1. To identify a complete transaction population, which is reconciled to the general ledger and financial statements	Reporting entities must prepare a listing of transactions or detail balances for the line item for the assertion period and demonstrate that the sum of the transactions agrees to the general ledger, trial balance, and/or financial statement balance for the assertion period. For example, if a reporting entity is asserting audit readiness of its Environmental and Disposal Liabilities line item, the reporting entity must extract a detail listing of all Environmental and Disposal Liabilities balances as of fiscal year end, document which general ledger accounts make up the sum of these balances, and reconcile amounts reported in the general ledger and financial statements to the sum of the individual balances. Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries.
2. To ensure that all key capabilities from Waves 1 through 3 have been met.	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to demonstrate that the FROs for Waves 1 through 3 have been achieved.

Key Capabilities	Definitions/Capability Measures
3. To correctly manage, account for, and report Cash and Other Monetary Assets*	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Cash and Other Monetary Assets. See Appendix B for a complete listing of relevant FROs. • % of Cash and Other Monetary Assets financial reporting objectives assessed • % of Cash and Other Monetary Assets control activities determined effective
4. To correctly manage, account for, and report Investments, including investment purchases, earned interest, and redemptions from the Bureau of Public Debt	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Investments. See Wave 4 Table in Section 5 for a complete listing of relevant FROs. • % of Investment financial reporting objectives assessed • % of Investment control activities determined effective
5. To correctly manage, account for, and report Other Assets	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Other Assets. See Wave 4 Table in Section 5 for a complete listing of relevant FROs. • % of Other Assets financial reporting objectives assessed • % of Other Asset control activities determined effective
6. To correctly value, maintain accountability for, and report all General PP&E, Inventory and Related Property, including the correct recording and reporting of Depreciation and Amortization Expense	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs for valuation of General PP&E and Inventory and Related Property, including associated depreciation and amortization expense. See Wave 4 Tables in Section 5 for a complete listing of relevant FROs. • % of asset category financial reporting objectives assessed • % of asset category control activities determined effective • % of depreciation/amortization expense financial reporting objectives assessed • % of depreciation /amortization expense control activities determined effective
7. To effectively manage, estimate, classify, and report Military Retirement and other Federal Employee Benefits	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Military Retirement and Other Federal Employee Benefits. See Wave 4 Table in Section 5 for a complete listing of relevant FROs. • % of Military Retirement and Other Federal Employee Benefits financial reporting objectives assessed • % of Military Retirement and Other Federal Employee Benefits control activities determined effective
8. To accurately estimate, disburse and report Environmental and Disposal Liabilities	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Environmental and Disposal Liabilities. See Wave 4 Table in Section 5 for a complete listing of relevant FROs. • % of Environmental and Disposal Liabilities financial reporting objectives assessed • % of Environmental and Disposal Liabilities control activities determined effective
9. To correctly estimate, record, and report Other Liabilities*	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Other Liabilities. See Wave 4 Table in Section 5 for a complete listing of relevant FROs. • % of Other Liabilities financial reporting objectives assessed • % of Other Liabilities control activities determined effective

Key Capabilities	Definitions/Capability Measures
10. To correctly record, classify and report Accounts Receivable / Revenue-Non-Intragovernmental	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Receivable / Revenue-Non-intragovernmental. See Wave 4 Tables in Section 5 for a complete listing of relevant FROs. • % of Accounts Receivable/Revenue-Non-Intragovernmental financial reporting objectives assessed • % of Accounts Receivable/Revenue-Non-Intragovernmental control activities determined effective
11. To correctly record, classify and report Accounts Receivable/Revenue-Intragovernmental	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Receivable / Revenue-Intragovernmental. See Wave 4 Tables in Section 5 for a complete listing of relevant FROs. • % of Accounts Receivable/Revenue-Intragovernmental financial reporting objectives assessed • % of Accounts Receivable / Revenue-Intragovernmental control activities determined effective
12. To correctly record, classify and report Accounts Payable-Non-Intragovernmental / Expenses	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Payable-Non-intragovernmental/Expenses. See Wave 4 Tables in Section 5 for a complete listing of relevant FROs. • % of Accounts Payable-Non-Intragovernmental/Expenses financial reporting objectives assessed • % of Accounts Payable-Non-Intragovernmental/Expenses control activities determined effective
13. To correctly record, classify and report Accounts Payable-Intragovernmental / Expenses	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Accounts Payable-Intragovernmental/Expenses. See Wave 4 Tables in Section 5 for a complete listing of relevant FROs. • % of Accounts Payable-Intragovernmental/Expenses financial reporting objectives assessed • % of Accounts Payable-Intragovernmental/Expenses control activities determined effective
14. To correctly record, classify and report Loans Receivable, Guarantees and Related Debt**	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Loans Receivable, Guarantees and Related Debt. See Appendix B for a complete listing of relevant FROs. • % of Loans Receivable, Guarantees and Related Debt financial reporting objectives assessed • % of Loans Receivable, Guarantees and Related Debt control activities determined effective
15. To correctly record, classify and report Imputed Financing Costs	Reporting entities must demonstrate an effective combination of control activities and supporting documentation to meet the FROs related to Imputed Financing Costs. See Wave 4 Table in Section 5 for a complete listing of relevant FROs. • % of imputed financing costs financial reporting objectives assessed • % of imputed financing costs control activities determined effective
16. To retain and make readily available supporting documentation to meet audit standards	Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all line items. See Wave 4 Tables in Section 5 for minimum documentation requirements. • % of supporting documents assessed • % of supporting documents determined sufficient (adequately retained and readily available)
* Other Liabilities includes Advances from Others, Accrued Unfunded Annual Leave, Contingent Liabilities, Custodial Liabilities, Contract Holdbacks, Disbursing Officer Cash, Deposit Funds and Suspense Accounts, and Other Payroll Related Liabilities.	

Key Capabilities	Definitions/Capability Measures
** These line items are immaterial at the consolidated level; reporting entities should consider these line items only if they are material to the reporting entity.	

Figure 2-5. Full Financial Statement Audit Key Capabilities

SUCCESS CRITERIA

To achieve audit readiness for Wave 4, a reporting entity must demonstrate that an effective combination of control activities and supporting documentation exists to limit the risk of material misstatements by meeting the FROs defined in the tables in Section 5. Reporting entities must address the following:

- Reporting entities must be able to demonstrate that the control activities are suitably designed and operating effectively to provide reasonable assurance that the FROs are achieved, for FROs where control activities are used to achieve audit readiness.
- Reporting entities must be able to support business transactions and account balances by maintaining sufficient, relevant and accurate audit evidence, defined as KSDs in the Section 5 tables, supplemented with the reporting entity's own documentation requirements.

2.C.4.2 WAVE 4 COMMON CHALLENGES

During Wave 4 execution, reporting entities are required to properly value and report new asset acquisitions, accepted and placed into service effective October 1, 2013, as well as properly value existing assets that will have a positive net book value on or after September 30, 2017. Establishing historical acquisition costs for existing assets poses a difficult challenge as existing DoD systems and processes were not designed to record, process and report financial transactions accurately and in accordance with GAAP. In addition, the ability to successfully value new asset acquisitions requires the implementation of effective business processes and controls for recording, processing and reporting new asset acquisitions.

Other challenges that must be addressed in coordination with leading OSD offices are:

- Valuing reworked G-PP&E – implementing an appropriate approach to value re-worked and improved assets
- Rights to Assets – work with leading OSD offices to implement business rules around co-located facilities (joint basing) and assets purchased by others (e.g., **contractor-acquired property**)
- Trading partner data – proper identification of federal and non-federal transactions and capturing correct trading partner codes. This will be critical to summarization and reconciliation of activity between trading partners and elimination of trading partner activity in consolidation
- Imputed costs – implementing a reasonable methodology for calculating and recording imputed costs (e.g., occupancy costs for office space on a MilDep facility)
- **Lack of control over sub-allotted funding resulting in an inability to reconcile detail transactions to financial statements and provide documentary evidence of execution of sub-allotted funds**
- Determining environmental liabilities – ensuring completeness and documenting cost-to-complete factors, assumptions and amounts
- Dependencies on service provider(s) processes and controls for efficient and effective execution of its end-to-end business processes

- **Establishing an infrastructure to support a full-scope financial statement audit. This will be important to ensure that resources are available to support auditor requests for information, and to support and resolve audit issues that arise during the course of the audit. As a general rule, reporting entities must ensure they are prepared to respond to audit team provided by client (PBC) requests within 5 business days. Expected response times may vary depending on the nature, timing and extent of the request**

Section 6 of the 2015 FIAR Guidance discusses audit infrastructure and provides guidance for reporting entities to address issues and challenges related to supporting a full-scope audit and achieving sustainability.

2.C.4.3 LEVERAGING PREVIOUS AUDIT READINESS EFFORTS

As reporting entities progress through each wave of the FIAR Methodology, there is an expectation that audit readiness efforts from previous waves should be leveraged in succeeding waves. This in part is due to the interrelationships that exist between financial statements. Through SBA/SBR audit readiness efforts, other financial statements have been addressed indirectly.

Before starting new assertion work, reporting entities should consider audit readiness efforts that have been performed in prior waves. Specifically this should include reviewing process documentation, systems information, internal controls testing and KSD testing and determining how this information could be updated, to incorporate the full end-to-end process from both a budgetary and proprietary perspective, into one set of consolidated audit readiness work products. This planning will enable reporting entities to focus on financial statement line items that have yet to be addressed. A depiction of audit readiness assertions by wave of the FIAR Methodology is presented in **Figure 2-6**.

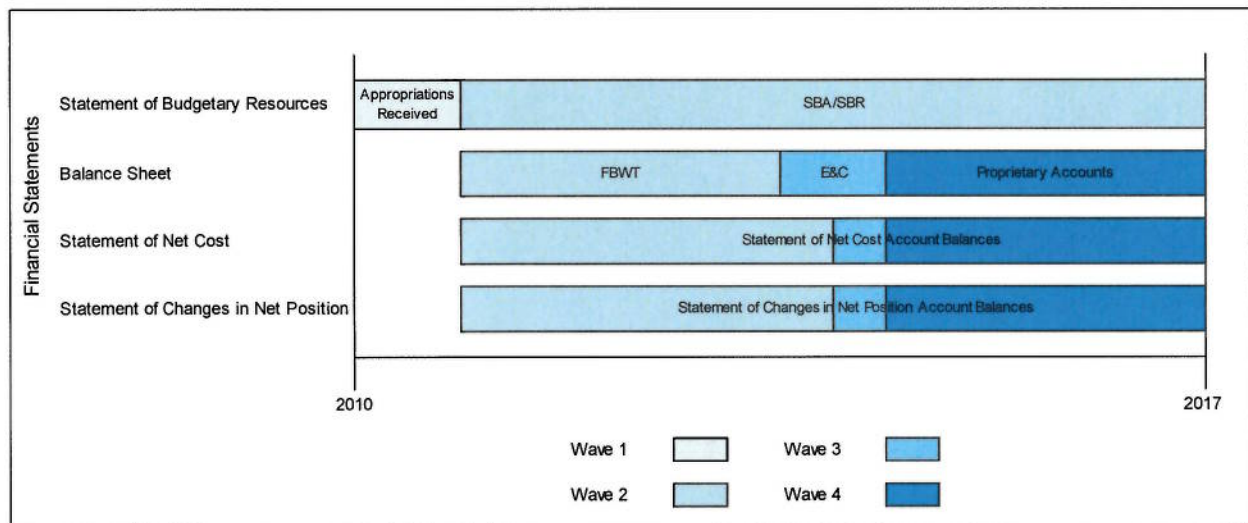


Figure 2-6. Full Financial Statement Audit Key Capabilities

Examples of audit readiness tasks that can be leveraged during subsequent efforts are presented for each principal financial statement:

1. For the **Statement of Budgetary Resources**, a reporting entity would be expected to leverage audit readiness work performed for its Appropriations Received assessable unit during Wave 1, to assert audit readiness for its Appropriations line on the SBR.
2. For the **Balance Sheet**, a reporting entity would be able to leverage Wave 2 work performed for its vendor pay assessable unit to assert to the audit readiness of Accounts Payable on the Balance Sheet. During Wave 4, the reporting entity would be expected to extend its prior efforts to include accruals that are recorded in the Accounts Payable accounts, as well as,

reviewing the posting of proprietary accounts (in addition to the budgetary accounts reviewed during Wave 2).

3. A reporting entity would be expected to draw upon work performed for its FBWT assessable unit from Wave 2 during Wave 4. As the reporting entity prepares to assert to the audit readiness of Accounts Receivable on the Balance Sheet, it should consider whether documentation obtained pertaining to collections for FBWT can be leveraged when evaluating the liquidation of Accounts Receivable as collections are processed.
4. For the **Balance Sheet**, a reporting entity should leverage Wave 3 work completed for E&C to assert to the audit readiness of G-PP&E valuation. During Wave 4, the reporting entity would focus on ensuring the accuracy any asset condition information when verifying the correct valuation of G-PP&E.
5. For the **Statement of Net Cost**, a reporting entity could leverage Wave 2 work performed for its contract pay assessable unit. Wave 2 Contract Pay work, which contributed to asserting the audit readiness of Outlays on the SBR, would also contribute towards establishing the assertion of audit readiness for Gross Costs on the Statement of Net Cost.
6. For the **Statement of Changes in Net Position**, a reporting entity could leverage audit readiness work performed for its civilian pay assessable unit from Wave 2. This civilian pay audit readiness effort would contribute to the reporting entity being able to assert to the audit readiness of its Net Cost of Operations line item on the Statement of Changes in Net Position.

Additional examples of how reporting entities can leverage previous efforts, **on a line by line basis**, are available in the [Crosswalk of Financial Statements to Assessable Units](#) document available on the FIAR Guidance website.

2.C.4.4 SUB-ALLOTMENT ACTIVITY

The DCFO plans to issue a policy memorandum in May, 2016, entitled *Financial Management Requirements for Using Sub-Allotments*. The policy generally prohibits the use of sub-allotments for funding between DoD entities. The memo does allow for exceptions and, in the event that funds are sub-allotted to another Component, contains specific requirements for both the provider and recipient entities to ensure execution of sub-allotted funds is properly reported and supported. The policy memo will be available on the OUSD(C) website (CAC restricted).