

Financial Reporting Risks		Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
General Equipment				
GE.5	IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)	All material systems achieve the relevant FISCAM IT general- and application-level general control objectives.	See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities	

Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **General Property, Plant and Equipment, Net** footnote disclosures included in **Note 10** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for General Property, Plant and Equipment, Net footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

5.D.1.5.2 Real Property

Real Property is included as General Property, Plant & Equipment (G-PP&E) on the Balance Sheet and includes Land, Buildings, Structures, Facilities, and Leasehold Improvements. Real Property also includes Stewardship Land that includes both land and land rights owned by the Department, but not acquired for, or in connection with, items of G-PP&E. All land provided to the Department from the public domain or at no cost, regardless of its use, is classified as Stewardship Land. Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with Real Property, including acquisitions, capitalization, depreciation, general ledger recording, and **financial reporting**.

Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Real Property are contained in the following table.

Financial Management and Accounting Guidance	Record Retention Policies
- SFFAS No. 6 - DoD FMR: Volume 4, Chapter 11; Volume 6B, Chapter 4 - DoD Instruction 4165.14, <i>Real Property Inventory (RPI) and Forecasting</i> - DCFO Policy Memoranda: <i>Accounting Policy Update for Financial Statement Reporting for Real Property</i> issued 09/30/2015; <i>Alternative Valuation Methodology for Establishing Opening Balances for Buildings, Structures and Linear Structures</i> issued 01/19/2016 - DCFO Memorandum: <i>Accurate and Reliable DoD Component-level Financial Management Trial Balances</i>	- National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1 - FMR: Volume 1, Chapter 9

Balance By Reporting Entity

The following reporting entities comprise the Real Property line item.

Reporting Entities	FY 2015 Balance	% of Total
OMB Designated Audit		
Army GF	\$ 63,178,312,326	31.7%
Air Force GF	41,087,713,357	20.6%

Reporting Entities	FY 2015 Balance	% of Total
Navy GF	28,916,603,706	14.5%
Marine Corp GF	10,366,807,656	5.2%
Navy WCF	1,389,547,022	0.7%
Air Force WCF	585,346,026	0.3%
Army WCF	914,125,712	0.5%
Marine Corp WCF	47,878,837	0.0%
USACE – Civil Works Program	28,788,167,910	14.4%
Subtotal - OMB Design. Audit	\$ 175,274,502,551	88.0%
DoD Designated Audit		
DHA - USUHS	8,069,440	0.0%
DHA - SMA/Army	3,179,508,872	1.6%
DHA - SMA/Navy	1,322,758,862	0.7%
DHA - SMA/Air Force	1,556,883	0.0%
DLA WCF	2,486,663,849	1.2%
DLA GF	979,561,695	0.5%
DoD Component Level Accounts	2,383,975,347	1.2%
U.S. Special Operations Command	2,845,771,817	1.4%
DISA WCF	65,638,255	0.0%
DISA GF	83,084,109	0.0%
TRANSCOM - Air Mobility Command	289,068,512	0.1%
TRANSCOM - Military SDDC	20,114,773	0.0%
TRANSCOM - Command Staff	121,784,617	0.1%
TRANSCOM - Defense Courier Division	1,530,079	0.0%
DeCA WCF	35,722,752	0.0%
DeCA GF	713,790,192	0.4%
DFAS WCF	125,394,308	0.1%
Subtotal - DoD Design. Audit	\$ 14,663,994,363	7.4%
DoD Designated Examination		
Washington Headquarters Services (WHS)	\$ 124,132,923	0.1%
WHS - Office of the SecDef	3,123,707,083	1.6%
WHS - Pnt Res Mtn Rev Fund & PFPA	3,049,412,361	1.5%
Missile Defense Agency	1,643,218,572	0.8%
DoD Education Activity	414,639,821	0.2%
Other TI-97 Funds - Army	684,562,337	0.3%
Chemical Biological Defense Program	1,991,229	0.0%
Defense Threat Reduction Agency	82,077,181	0.0%
Subtotal - DoD Design. Exam	\$ 9,123,741,507	4.6%
DoD Non-material Reporting Entities		
Other Reporting Entities	216,630,162	0.1%
Total	\$ 199,278,868,583	100.0%

Source: FY 2015 Reporting Entity DDRS-AFS Footnote Data

As noted, the balances above were reported in the **FY 2015** reporting entity balance sheets and footnotes. A policy memorandum regarding reporting of real property within the Department was issued on September 30, 2015 that may significantly impact the balances reflected in the table.

Line Item Audit Readiness Considerations

The following table presents financial reporting risks, Outcomes Demonstrating Audit Readiness and KSDs specific to Real Property. In order to assert audit readiness for this line item, reporting entities must demonstrate that effective controls are in place to achieve the Outcomes Demonstrating Audit Readiness relative to the risk associated with the assertion (as noted in the table). The suggested test procedures can be used to test key controls operating within the business processes affecting Real Property, and assess the availability of KSDs that support the controls and amounts recorded.

Key Supporting Documentation Types

Within the table, different levels or tiers of KSDs have been identified, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust

documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the KSDs detailed in the table. KSDs for Real Property are also presented in **Appendix B - FIAR Strategy, Risks, Financial Reporting Objectives and Key Supporting Documents**.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
RP.1 WAVE 3 WAVE 4	Recorded Real Property may not exist at given date, does not pertain to the reporting entity, or may be improperly classified and summarized (E) (Wave 3, ROMM #1, #2, #3, #4, #5, and #6; Wave 4, ROMM #17, #19, #20, #21, and #22)	Recorded Real Property exists at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the APSR (Wave 3, FRO #2, #3, #4, #7, and #8)	Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "book" and physically inspected on the "floor"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable requirements (e.g., DoDI 4165.14, Enclosure 3) (Tier 1 Asset Documentation).
		Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, bills of lading, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation). Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset	Physically observe real property asset counts being performed and examine documentation to determine whether: - the real property count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year) - evidence exists to support the review and approval of real property counts and supporting adjusting entries to property records by an authorized official. Select a sample of real property assets from the APSR and physically inspect assets to determine whether: - the selected real property assets physically exist. In cases where assets do not exist, determine whether these assets have been appropriately transferred or disposed of, and sufficient documentation exists to support the transfer/disposal - selected real property is properly classified in the APSR and general ledger. Note: If applicable, this sample should include a sub-sample of real property in the custody of contractors.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
		Documentation). Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as: - Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334) - Declaration of Excess document - approval documentation (to include disposal of land) - documents supporting disposal start date - documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). DD Form 1150 – Request for Issue/Transfer/Turn-In	Select a sample of real property disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether: - the disposal was authorized and approved by appropriate official - the disposal was recorded timely and accurately. Verify that Real Property subledgers reconcile to general ledger (G/L) accounts and G/L accounts agree to the financial statements of the reporting entity.
RP.2 WAVE 3 WAVE 4	Real Property transactions may not be recorded, may not be recorded in the current period, or may be improperly classified and summarized (C) (Wave 3, ROMM #7, #8, and #9; Wave 4, ROMM #40, #42, #43, and #44)	All Real Property transactions are recorded (physical inventory of Real Property assets reconciles to APSR records) and properly classified (Real Property Unique Identifier (RPUID), Facility Number) within the Accountable Property System of Record and general ledger (Wave 3, FRO #1, #6, #9, and #10)	Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the "floor" and traced back to the "book"), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD(AT&L) requirements (Tier 1 Asset Documentation). Asset logs (e.g., maintenance logs or usage logs) that are reconciled to the APSR, demonstrating the completeness of the APSR population (Tier 2 Asset Documentation). Mission-management/logistics data (if different from the APSRs) used by leadership to track, Physically observe real property asset counts being performed and examine documentation to determine whether: - the real property count was conducted at fiscal year-end, or shortly thereafter (within 10 business days of the end of the fiscal year) - evidence exists to support the review and approval of real property counts and supporting adjusting entries to property records by an authorized official. Select a sample of real property assets and determine whether: - real property is appropriately entered in the APSR and general ledger. In cases where assets are not entered in the APSR, review

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
		deploy or distribute assets, reconciled to the APSR demonstrating the completeness of the APSR population (Tier 2 Asset Documentation). Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation). Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation). DD Form 1150 – Request for Issue/Transfer/Turn-In	documentation and perform inquiries of appropriate personnel to determine whether a rational basis exists for the omission - real property is properly classified in the APSR and general ledger. Note: If applicable, this sample should include a sub-sample of real property in the custody of contractors. Select a sample of real property additions (i.e., constructions, transfers in, donations) and examine documentation to determine whether: - construction in progress (CIP) costs were recorded in correct accounts at the correct amounts - all CIP costs were accurately charged to the cost of the asset and CIP accounts were relieved after construction completion - sufficient, accurate, and relevant documentation exists to support all property acquisition costs - real property assets have been capitalized in accordance with the DoD capitalization threshold. Select a sample of real property disposals (i.e., transfers out, donations, demolition) and examine documentation to determine whether: - the disposal was authorized and approved by appropriate official - the disposal was recorded timely and accurately. Select a sample of related expenses and

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
			examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to real property.
RP.3 WAVE 4	Real Property transactions (acquisitions, maintenance, disposals) may be recorded at incorrect amounts, or Real Property assets may be valued on an inappropriate basis (V) (Wave 4, ROMM #62, #64, #65, and #66)	Real Property transactions (all acquisitions, disposals, maintenance) are recorded at correct amounts, and Real Property assets are valued on an appropriate valuation basis (Wave 4, FRO #13 and #14) Obligating documents supporting asset acquisition cost and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Documentation supporting transfer of cost information from Construction in Progress (CIP) accounts to the fixed asset account (DD-1354, "Transfer and Acceptance of Real Property") (Tier 1 Asset Documentation). Documentation supporting "placed-in-service" date (e.g., DD-1354, "Transfer and Acceptance of Real Property," DD-250, "Material Inspection and Receiving Report," receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation). Documentation supporting mathematical calculations for recorded depreciation/amortization (demonstrating that the system is correctly calculating depreciation/amortization expense for a sample of assets, appropriately considering additions/betterments, etc. that may affect useful lives	Select a sample of real property additions (i.e., constructions, transfers in, donations) and examine documentation to determine whether: - all costs to bring real property into service (i.e., freight, installation, moving, and holding costs) were recorded as part of asset - costs to make any enhancement or modification to the property that increased the useful life were appropriately capitalized and added to the full cost of the asset - routine repair or maintenance costs were appropriately and timely expensed (i.e., charged to the correct GL account) - depreciation expense was recorded accurately and timely - CIP costs were recorded in correct accounts at the correct amounts and CIP accounts were relieved after construction completion - all CIP costs were accurately charged to the cost of the asset - sufficient, accurate, and relevant documentation exists to support all property acquisition costs - real property assets have been capitalized in accordance with the DoD capitalization threshold. Select a sample of real property disposals (i.e.,

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
		and acquisition costs over the life of assets) (Tier 1 Asset Documentation). Reconciliation of detailed listing of all assets from APSRs/source systems to trial balance and general ledger (Tier 1 Asset Documentation). Summary schedule reporting the amounts/quantities by class of assets (Tier 1 Asset Documentation). Reconciliation demonstrating how totals in the detail listing agree to the amounts/quantities reported in the summary schedule (Tier 1 Asset Documentation). Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as: - Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334) - Declaration of Excess document - approval documentation (to include disposal of land) - documents supporting disposal start date - documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation).	transfers out, donations, demolition) and examine documentation to determine whether: - the disposal was recorded at the net realizable value (full historical cost – accumulated depreciation) - any loss/gain on disposal was properly and accurately recorded. Verify that all impairments are identified timely and all asset adjustments are recorded accurately and in the correct accounting period. Select a sample of real property assets and verify the following: - the validity of useful life and estimated salvage value for the purpose of calculating depreciation expense - the validity of the depreciation method in conformity with U.S. GAAP - accuracy of recorded current year depreciation expense and accumulated depreciation Select a sample of related expenses and examine documentation to determine whether expenses contain transactions that should be capitalized as current year additions to real property.
RP.4 WAVE 3 WAVE 4	Recorded Real Property assets may not pertain to nor are rightfully owned by the reporting entity (R) (Wave 3, ROMM #13 and #14; Wave 4, ROMM #71)	The reporting entity has rights to the recorded Real Property at a given date (Wave 3, FRO #5)	Contract documentation, including (for base assets and asset modifications): - Statement of Work - Contract clauses that define who owns assets and when the reporting entity takes possession - Purchase Orders - Receiving report or other acceptance document Select a sample of real property assets and determine whether documentation exists (i.e., DD-1354) to evidence ownership/control and the right to report the real property in its financial records. Note: If applicable, this

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
		(e.g., DD-250, "Material Inspection and Receiving Report" or DD-1354, "Transfer and Acceptance of DoD Real Property") • Deeds/titles (for Land only) • Lease, Occupancy Agreement, Reversion Legal Document, Judgment Legal Document (for condemnation), Letter of Withdrawal (for withdrawal from Public Domain) (Tier 2 Asset Documentation). Tract maps, land plats, space management systems, utilities maps, or facility diagrams that are reconciled to the APSR, demonstrating the completeness of the APSR population (Tier 2 Asset Documentation). Other estimation techniques that can be used to estimate the size of the population with tolerable precision and then compared to the APSR population to demonstrate completeness (Tier 2 Asset Documentation). Documentation of observed physical indicators of ownership rights, including a combination of: • Documentation of assets located on reporting entity facility • Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate reporting entity ownership • Assets are marked with the reporting entity's name (or other coding or naming conventions) that demonstrate the reporting entity's control over the asset • Other evidence of exclusive rights to use assets (Tier 2 Asset Documentation).	sample should include a sub-sample of real property in the custody of contractors.

Financial Reporting Risks	Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property			
		Obligating documents supporting asset acquisition and any related asset improvements, such as contracts/statements of work, work orders, reimbursable agreements, MIPRs, purchase orders, receiving reports and invoices, and appraisal reports for donated assets. Note: Documentation must demonstrate how a modification increases functionality and the estimated useful life of the asset (Tier 2 Asset Documentation). Documentation supporting "placed-in-service" date (e.g., DD-1354, "Transfer and Acceptance of Real Property," DD-250, "Material Inspection and Receiving Report," receiving report), including documentation supporting the useful life estimate for recognition of depreciation expense (Tier 1 Asset Documentation). Documentation supporting any retirements, transfers, sales, or other disposal of idle, excess, obsolete, or otherwise unusable assets such as: • Request for Transfer of Excess Real and Related Personal Property (GSA Form 1334) • Declaration of Excess document • approval documentation (to include disposal of land) • documents supporting disposal start date • documents supporting determination of impairment from performance of physical asset/inventory counts (Tier 1 Asset Documentation). DD Form 1150 – Request for Issue/Transfer/Turn-In	

Financial Reporting Risks		Outcomes Demonstrating Audit Readiness	Key Supporting Documents	Suggested Test Procedures
Real Property				
RP.5	IT General and Application Controls may not be appropriately designed or operating effectively (FISCAM)	All material systems achieve the relevant FISCAM IT general- and application-level general control objectives.	See FIAR Guidance Section 3.D.2, "Systems (IT) Controls," for additional details related to IT General and Application Controls audit readiness activities	

Footnote Disclosures

Reporting entities are responsible for ensuring the completeness and accuracy of data provided to OUSD(C) for the preparation of the **Real Property** footnote disclosures included in **Note 10** of the FY 2014 DoD Agency Financial Report. OMB Circular A-136, *Financial Reporting Requirements*, specifies fundamental requirements for Real Property footnote disclosures that reporting entities must consider in carrying out audit readiness activities. The Financial Reporting assessable unit in the FIAR Guidance provides further details with respect to audit readiness outcomes that address the presentation and disclosure assertion for the financial statement line items.

5.D.1.5.3 Internal Use Software

Internal Use Software is included as General Property, Plant & Equipment on the Balance Sheet and represents the costs of software, whether commercial off-the-shelf (COTS), internally developed or contractor developed, that meet the DoD capitalization criteria.

Reporting entities must be able to assert the audit readiness of all business processes and sub-processes associated with the proper recording and classifying of Internal Use Software, including the proper recognition of full capitalization cost and valuation.

Standards and Guidance

Additional sources of guidance pertaining to financial management, accounting and record retention policies for Internal Use Software are contained in the following table.

Financial Management and Accounting Guidance	Record Retention Policies
- SFFAS No. 6, 10 (and amendments) - Technical Release 16 - DoD FMR: Volume 6B, Chapter 4, 10 - DCFO Policy Memorandum: <i>Strategy for Internal Use Software Audit Readiness</i> issued 09/30/2015 - DCFO Memorandum: <i>Accurate and Reliable DoD Component-level Financial Management Trial Balances</i>	- National Archives and Records Administration (NARA) General Records Schedule (GRS) 1.1 - DoD FMR: Volume 1, Chapter 9

Balance By Reporting Entity

The following reporting entities comprise the Internal Use Software line item.

Reporting Entities	FY 2015 Balance	% of Total
OMB Designated Audit		
Army GF	\$ 295,481,223	8.2%
Air Force GF	193,100,618	5.4%
Navy GF	1,701,224	0.0%
Navy WCF	48,240,096	1.3%
Air Force WCF	46,659,693	1.3%