Army Audit Readiness:
Where we are &
Where we're going

ASMC Luncheon

19 May 2010

Road to Audit Readiness

1990 - 1995

- CFO Act of 1990
- DFAS Established
- GAO Audit of Army FY 1991 Financial Statements
- GPRA

1995 - 2000

- Federal Financial Management Improvement Act of 1996
- OUSD(C) Implementation Strategies

2000 - 2005

- Financial Management Modernization Program (FMMP)
- OMB Cir A-123, Appendix A
- Business Management Modernization Program (BMMP)
- Business Transformation Agency
- DFAS, DeCA, DCAA, MRF & OIG Audits

2005 & 2010

- FIAR Plan
- FIAR Guidance
- DCMO and MILDEP CMOs
- Corps of Engineers Audit
- Marine Corps SBR Audit

2010 - 2017

- FIAR Priorities (SBR and E&C)
- Incremental Audit Readiness Progress
- ERPs Deployed
- Full Auditability

DoD IG General Audit Findings

❖ Internal Control
  ➢ Non-compliant financial management systems
  ➢ Unsupported accounting adjustments
  ➢ Unverifiable intragovernmental transactions and improper support for eliminations
  ➢ Irreconcilable cash balances with U.S. Treasury
  ➢ Unsupported adjustments in Accounts Receivable
  ➢ Improper method of accounting used for inventory and related property
  ➢ Unable to accurately depreciate general property, plant and equipment

❖ Material weaknesses exist in numerous areas

SOURCE: DoD IG Report No. D-2007-018

DoD IG General Audit Findings

❖ Compliance with laws and regulations
  ➢ Not compliant with CFO Act
  ➢ Not compliant with FFMIA
  ➢ Not compliant with GPRA

❖ Future compliance
  ➢ Business Transformation Agency developed the Business Enterprise Architecture to guide future systems development and integration across DoD
    • Provides a blueprint of DoD business management systems and processes to initiate a comprehensive financial management reform effort

  ➢ DoD IG released draft audit report (December 2009) detailing the Army's non-compliance with its own Joint Reconciliation Program.
    • DoDIG identified $4M in invalid and $11M in validity unknown unliquidated obligations at one command.
    • Establishes need for implementation of internal controls over review process and guidance for appropriate source documentation procedures to support transactions.

SOURCE: DoD IG Report No. D-2007-018

Goals of Financial Improvement

- ❖ Provide timely, reliable, accurate and relevant financial information to decision makers.

- ❖ Sustain improvements through an effective internal control program.

- ❖ Produce auditable financial statements.

New Direction: USD(C)

- ❖ USD(C) memorandum, dated 11 August 2009, required DoD Components to:
  - ➢ *Improve information and processes supporting auditable financial statements*
  - ➢ *Primarily focus on improving budgetary information and processes that impact the Statement of Budgetary Resources (SBR)*
  - ➢ *Secondary goal to verify existence and completeness (E&C) of mission critical assets*
- ❖ OUSD(C) FIAR Guidance changed to reflect new priorities
- ❖ Army Financial Improvement Plan is Army portion of the OUSD(C) FIAR Plan

Recent Army Actions

- ❖ Under Secretary of the Army
  - ➢ Memorandum signed 10 March 2010
  - ➢ Supports USD(C) priorities and tasks ASA(FM&C) with developing plan
- ❖ Assistant Secretary of the Army (Financial Management & Comptroller)
  - ➢ Memorandum signed 30 April 2010
  - ➢ Identifies DASA(FO) as lead
  - ➢ Directs Army RM community to support efforts
- ❖ SBR Audit Plan and E&C Plan Developed, Funded and Implemented

Reporting Documents

Army Annual Report
Army-wide Annual Financial Statement

Statement of Assurance on Internal Controls
Army-wide assessment of internal controls

Army Financial Improvement Plan (FIP)
Army roadmap to reach favorable audit opinion and produce quality information
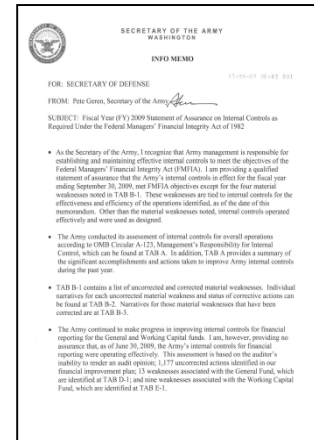
Financial Improvement and Audit Readiness (FIAR) Plan
DoD-level plan to reach favorable audit opinion

Army FIP Structure

```
                         ┌ Air Force
  ┌──────────────┐       │ Navy
  │ OUSD(C)      │ ◄----- │ DLA
  │ FIAR Plan    │       └ DFAS
  └──────────────┘
         ▲
         │
  ┌──────────────────────────────┐
  │ Army Financial Improvement   │
  │ Program                      │
  │                              │
  │ - FIP tasks                  │
  │ -Tactical plan tasks         │
  │ - OMB Circular A-123,        │
  │   Appendix A                 │
  └──────────────────────────────┘
         ▲
         │
  ┌──────────────────────────────┐
  │ Business Process Owners      │
  └──────────────────────────────┘
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Gen. Equip (GE, IUS, GFE)	Military Equipment	Environ. Liabilities	Real Property	Inventory	OM&S	A/R & A/P	SBR
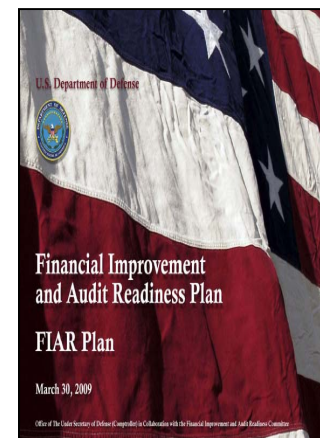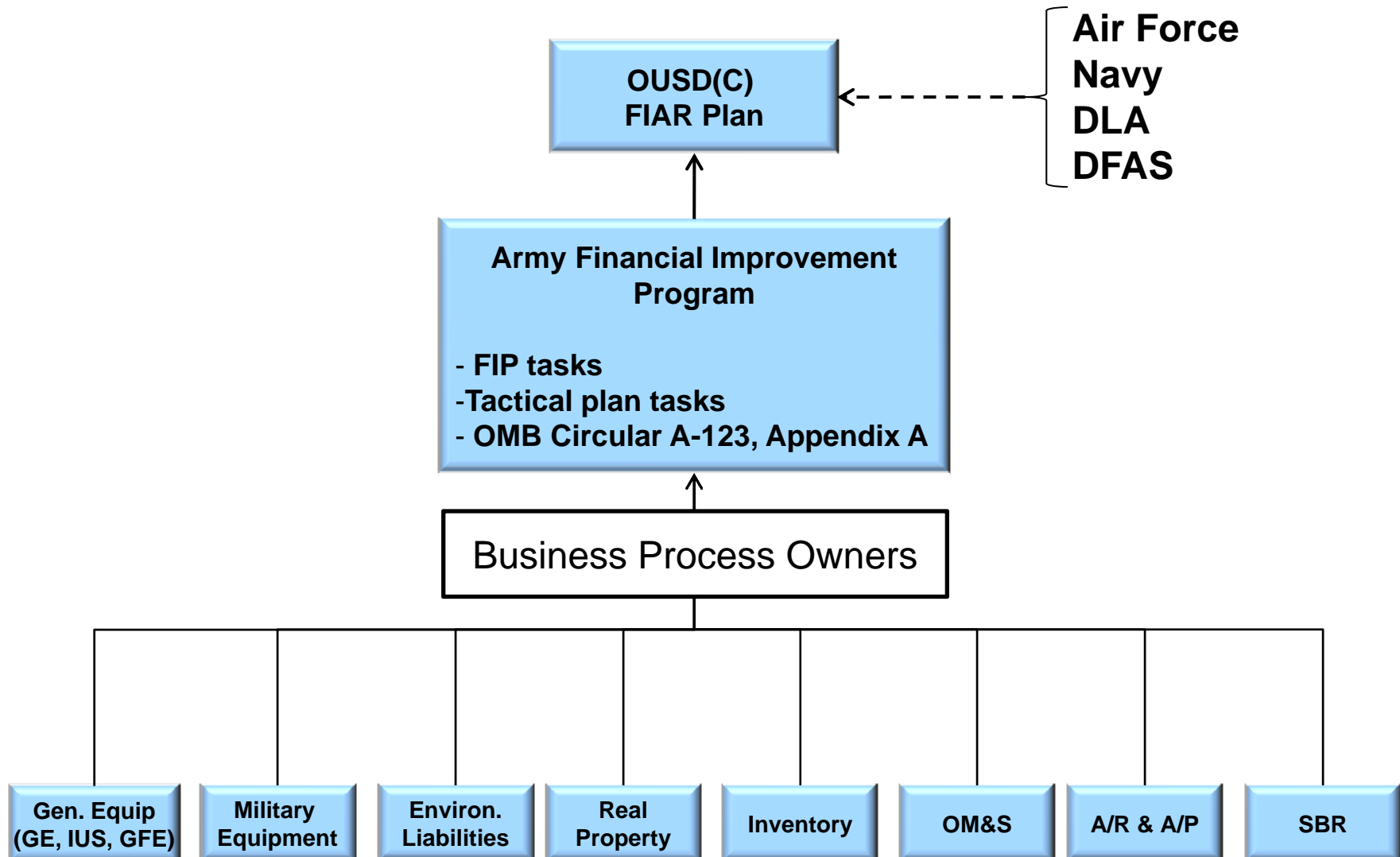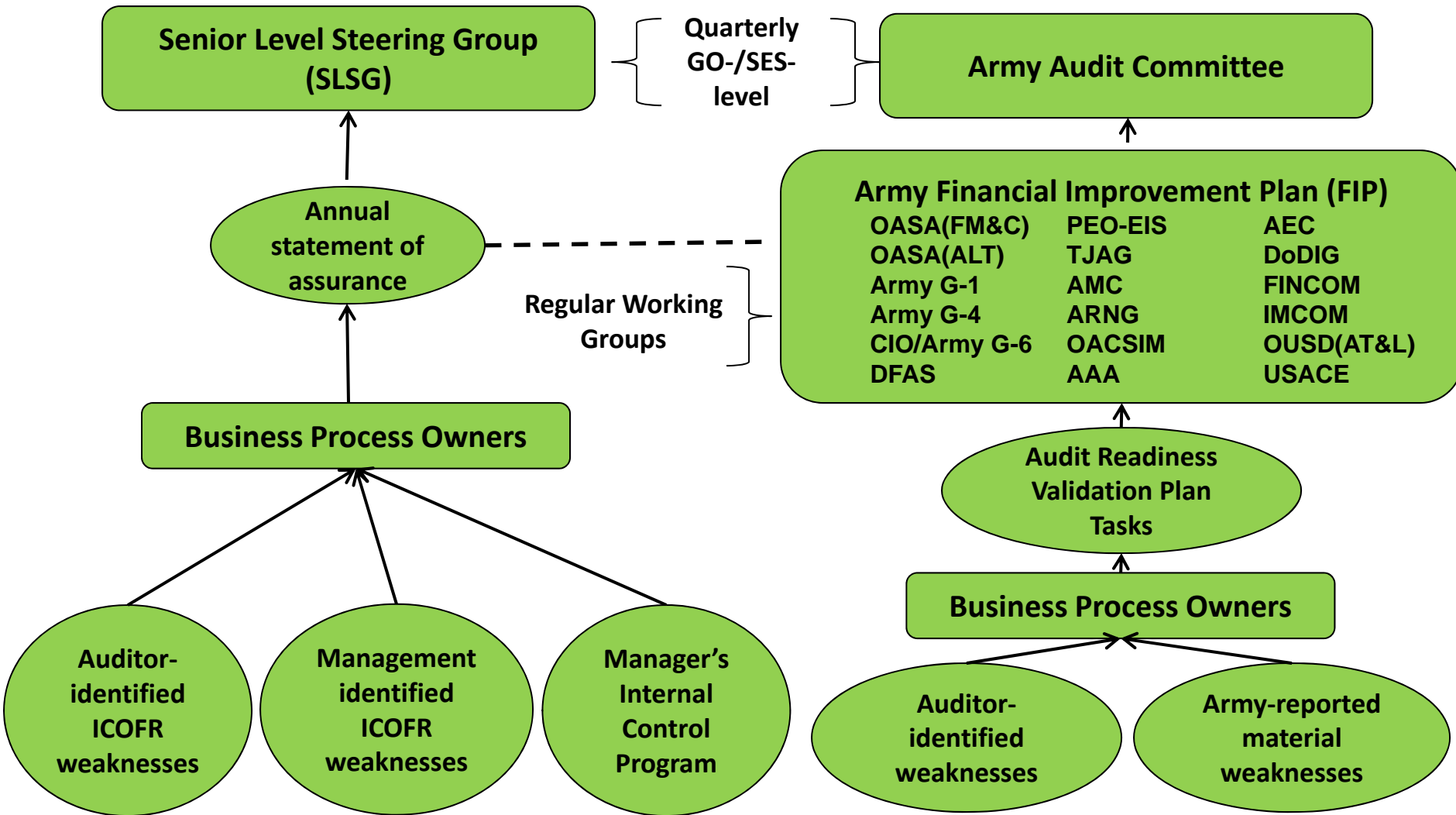
Army FIP Governance

Army GF SBR Timeline
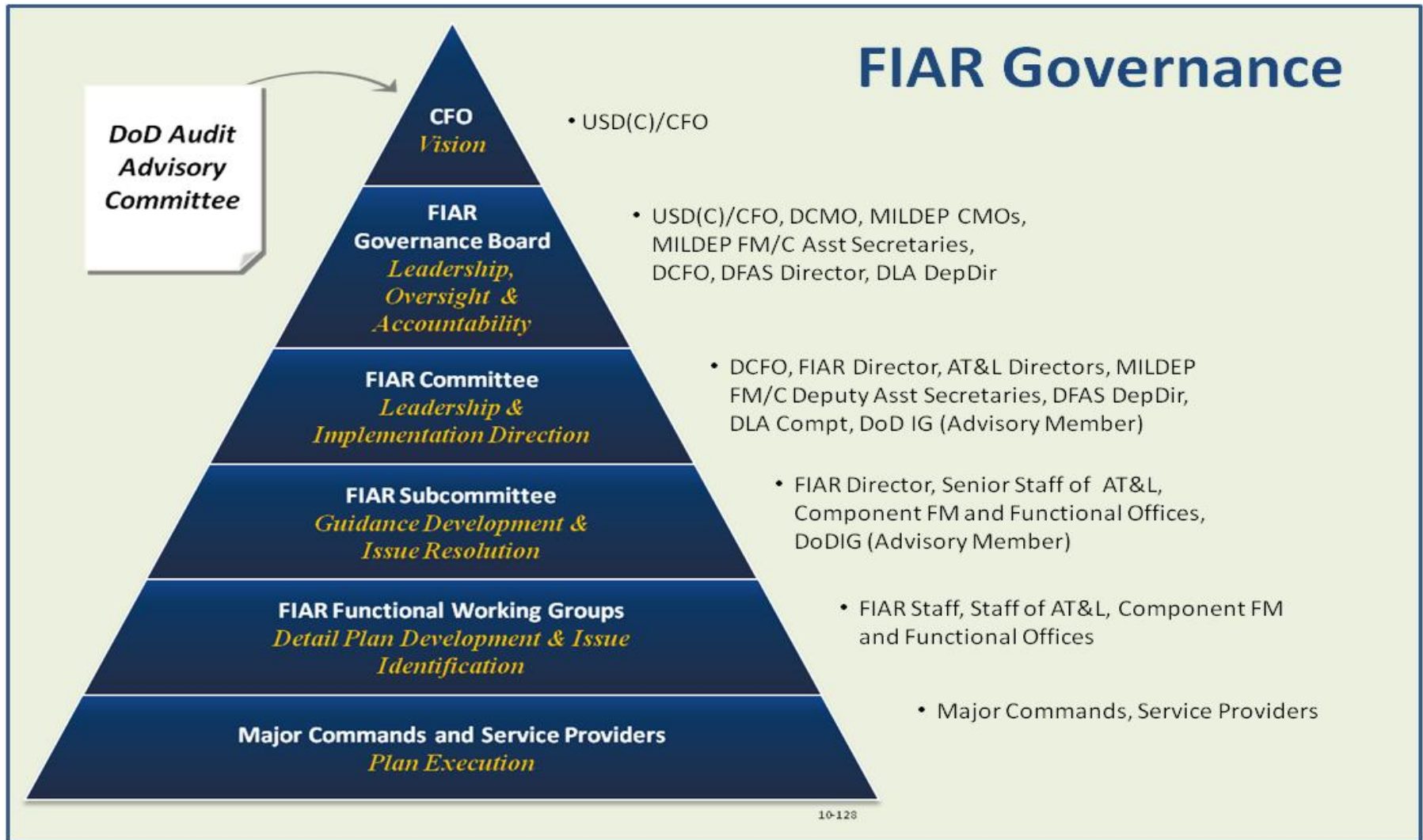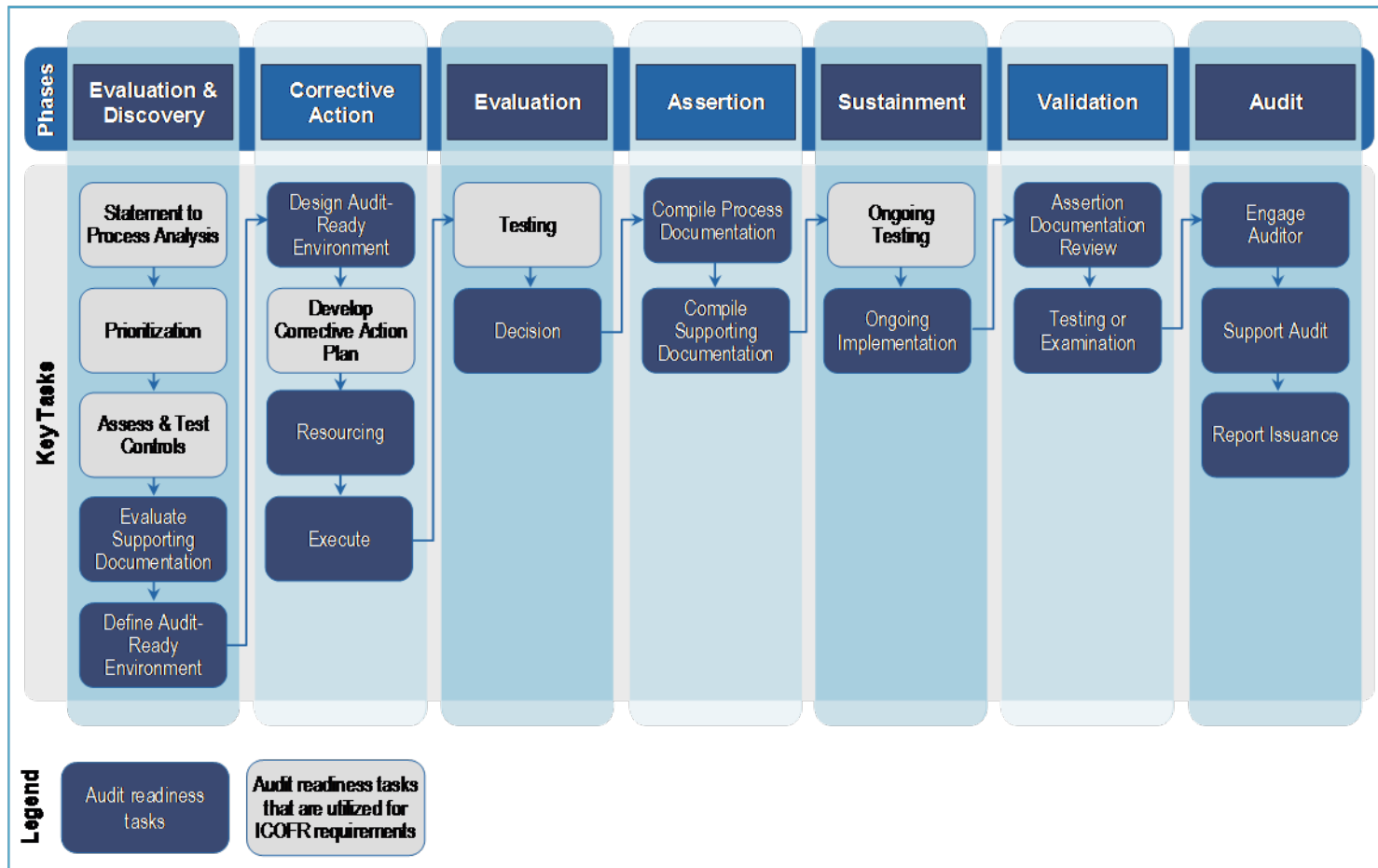
	Evaluation & Discovery	Corrective Action	Evaluation	Assertion	Sustainment	Validation	Audit
Complete	3/31/11	9/30/12	9/30/12	10/1/12* 10/1/13* 10/1/14		10/1/13* 10/1/14* 10/1/15	Begins: 10/1/12

SBR Discovery Effort Details

❖ Begin mapping the budgetary execution lifecycle:

➢ Budget / reimbursable authority, including allotments

➢ Obligations

➢ Disbursements

➢ Financial reporting

❖ Identify risks, controls, & potential weaknesses

❖ Using past GAO, DoD IG, and AAA audit reports to guide our work

❖ Leveraging lessons learned from other Services and DoD components (USACE, Marine Corps, Department of the Navy)

SBR Process Interviews

- ❖ Conduct interviews to obtain details of the budget execution processes
  - ➢ Identify documents used in supporting obligations
  - ➢ Gain an understanding of and document the processes
    - Identify various systems involved in each process
    - Capture 'screens' or 'modules' from the systems
- ❖ Review, collect, and scan supporting documentation
- ❖ Examine supporting documentation for a limited number of transactions to understand accuracy of system data

SBR Internal Controls Analysis

❖ Conduct preliminary risk and internal controls analysis during site visits

❖ Prepare process narratives, flowcharts, and risk and control assessments for the various budget execution lifecycle events at installations

❖ For control activities found to be designed appropriately and in place, SBR teams may execute developed test plans for the budget execution processes

E&C Evaluation Overview

❖ **Ensure all assets that are reported exist and all reportable assets are reported**

  ➢ Existence – "Book to Floor"

  ➢ Completeness – "Floor to Book"

  ➢ Generally validated by some type of inventory process
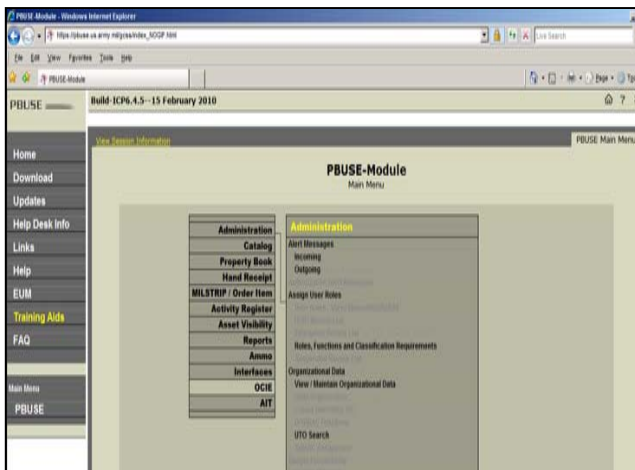
Existence
From PBUSE
to end item

Completeness
From end item back
to PBUSE

E&C 'Quick Wins'

- ❖ **OASA(FM&C) and Army G-4 determined initial 'Quick Wins' for E&C:**
  - ➢ **Apache Longbow AH-64D**
  - ➢ **All Source Analysis System**
  - ➢ **Aircraft Utility UC-35A**
  - ➢ **Small Tug 900 Class**
- ❖ **Expanded list of E&C "Quick Wins" include:**
  - ➢ **Apache AH-64A**
  - ➢ **CH-47F/MH-47G Chinook**
  - ➢ **OH-58D Kiowa Warrior**
  - ➢ **UH-60L Blackhawk**
  - ➢ **UH-60M Blackhawk**
  - ➢ **Light Utility Helicopter**

ERP Relationship to FIAR

❖ **Current business systems support mission requirements, but the ERPs are needed to achieve and sustain auditability**

❖ **Effective ERP implementations should eventually improve business environment**

➢ ERPs provide improved financial controls

➢ Business events captured and recorded properly

➢ In some cases, financial auditability depends on new, more capable systems

CMO's Role is Critical

❖ **Implementation issues may temporarily worsen financial management information**

➢ Management attention diverted

➢ Conversion impact on data quality

➢ Change management maturity

❖ **Implementation scheduled over the next five years… expect delays**

ERPs Offer Promise… But Also Pose Interim Challenges

ERP Facts & Benefits

- ❖ Key enabler for auditability and visibility/transparency
- ❖ Improves reliability and availability of information for decision making
- ❖ Implements a standard financial information structure enabling interoperability between ERPs and other systems
- ❖ Improves funds control and management
- ❖ Standardizes business and financial processes
- ❖ Automates manual processes
- ❖ Improves internal controls
- ❖ Replaces hundreds of legacy systems
- ❖ Deployments are scheduled over the next four years

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Back-Up

Benefits of Reforms

- ❖ Improved information for decision-making
- ❖ Improved cost visibility for decision making
- ❖ Improved internal controls
- ❖ Increased opportunity to focus on results – outputs and outcomes
- ❖ Better approach to public expenditure
- ❖ Better basis on which to allocate resources
- ❖ More financially-aware managers
- ❖ Improved credibility with the Congress, OMB and the public

Systems Roadblocks

- ❖ Maintain necessary historical data
- ❖ Single standard transaction-driven general ledger system
- ❖ Produce account-oriented subsidiary ledgers
- ❖ Integrate feeder and accounting systems
- ❖ Feeder systems meet financial reporting requirements
- ❖ Produce sufficient audit trail
- ❖ Record accrual transactions

DoD Initiatives

- ❖ Business Transformation Agency (BTA)
  - ➢ Previously the Business Management Modernization Program (BMMP)
  - ➢ Secretary of Defense's initiative to streamline operations across the military services and defense agencies
  - ➢ Introduces the Business Enterprise Architecture, the transition plan and architecture guidance for acquisition programs
- ❖ Business Enterprise Architecture (BEA)
  - ➢ Defines DoD's business transformation priorities and the requisite business capabilities and systems to support these priorities
  - ➢ Review 1,000+ feeder systems
  - ➢ Replace with enterprise view of standard, integrated business processes and systems technology capabilities

DoD Initiatives

❖ **Wide-Area Work Flow (WAWF)**
  ➢ Workflow managed software application that enables vendors to submit and track invoices and receipt/acceptance documents via the web
  ➢ Enables the government to electronically view and process data
  ➢ One of the key components of the end-to-end procurement/financial processes implemented under the Paperless Acquisition initiative

❖ **Item Unique Identification (IUID)**
  ➢ Managed by the OUSD(AT&L), Defense Procurement and Acquisition Policy Office
  ➢ A DoD serialized asset management program that will enable easy access to information about DoD possessions and improve the acquisition, repair, and deployment processes

Army Initiatives

- ❖ Logistics Modernization Program
- ❖ General Fund Enterprise Business System
- ❖ Global Combat Support System - Army
- ❖ Property Book Unit Supply Enhanced
- ❖ Integrated Facility System
- ❖ AESIP

- ❖ Army Environmental Database Restoration (AEDB-R)
- ❖ Army Environmental Database Compliance Cleanup (AEDB-CC)
- ❖ Installation Management Command
- ❖ Army FIP
- ❖ Army Audit Committee
- ❖ Funds Control Module

Army Assertion Schedule

	Assessable Units	Sub-assessable units	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Statement of Budgetary Resources	Budget Authority	Appropriations Received			9/30/10																			
	Budget Authority	Reimbursable Authority					3/31/11							10/1/12				10/1/13				10/1/14		
	Obligations	TDY					3/31/11							10/1/12				10/1/13				10/1/14		
	Obligations	PCS					3/31/11							10/1/12				10/1/13				10/1/14		
	Obligations	Contracts					3/31/11							10/1/12				10/1/13				10/1/14		
	Obligations	Civilian Pay			9/30/10									10/1/12				10/1/13				10/1/14		
	Obligations	Military Pay					2/28/11							10/1/12				10/1/13				10/1/14		
	Disbursements	FBWT												12/28/12				12/31/13				10/1/14		
	Financial Reporting – Pre-departmental						3/31/11							10/1/12				10/1/13				10/1/14		
	Financial Reporting – Departmental						3/31/11							10/1/12				10/1/13				10/1/14		
E&C	Military Equipment	Quick Wins					3/31/11																	
	General Equipment	Quick Wins					3/31/11																	
E&C	Mission Critical Assets													10/1/12										
Assertion	General Equipment																				9/30/14			
	Real Property													12/31/12										
	Environmental Liabilities													12/31/12										
	OM&S																							4/29/15
	Military Equipment																				12/31/14			
	Inventory																							4/29/15
ERPs	GFEBS										1/31/12													
	LMP						3/31/11																	
	GCSS-A																		1/31/14					

Legend:
- Evaluation and discovery
- Corrective action
- Conduct inventories
- Limited assertion - GFEBS sites only
- Assertion
- Sustainment
- System Full Deployment

Army E&C Approach

Preparation
- Confirm E&C assessable units
- Establish E&C FIP tasks (short, medium, and long range tasks)
- Develop test plans
- Complete inventory plans for "Quick Wins"

E&C Execution
- Army execute E&C inventory plans
- Reconcile results to accountable property systems of record

Analysis
- Gather documentation
- Complete test plans and internal control testing
- Produce process flows
- Prepare documentation for assertion
- Outline corrective actions

Coordination
- Work with installation staff to finalize site visit results
- Consolidate Army site visit information
- Assert to "Quick Wins"

Quick Wins Time-line: Q1 FY2010 to Q2 FY2011

E&C Quick Win Categories

General PP&E Category	~ Record Count (All Values)	~Record/Programs Count (> $100K)*	FY 2009 NBV
Military Equipment	N/A	135K+	$96B
General Equipment	6M	25K	$2B

* DoD capitalization threshold varies by General PP&E category

ME Assessable Units	Count	~NBV
Apache AH-64D	581	$7.7B
All Source Analysis System	536	$169M
Aircraft Utility UC-35A	22	$35.7M
TUG Small 900 Class	12	$32.7M

Army E&C Challenges
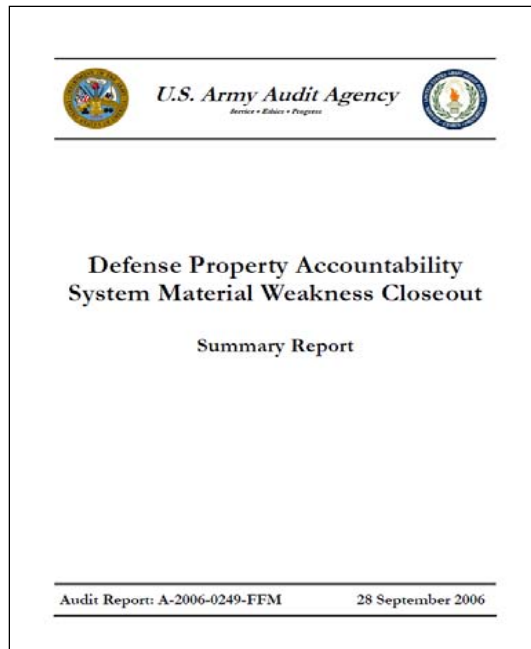
Executive Summary Audit Report
<u>A-2006-0249-FFM, 28 September 2006</u>
….data in DPAS wasn't complete because we found additional assets during our reverse observations that should have been recorded in DPAS but weren't.

…activities didn't have adequate local procedures to conduct a 100-percent physical inventory of general equipment, capture improvement costs, or ensure that all necessary data was entered into the system.
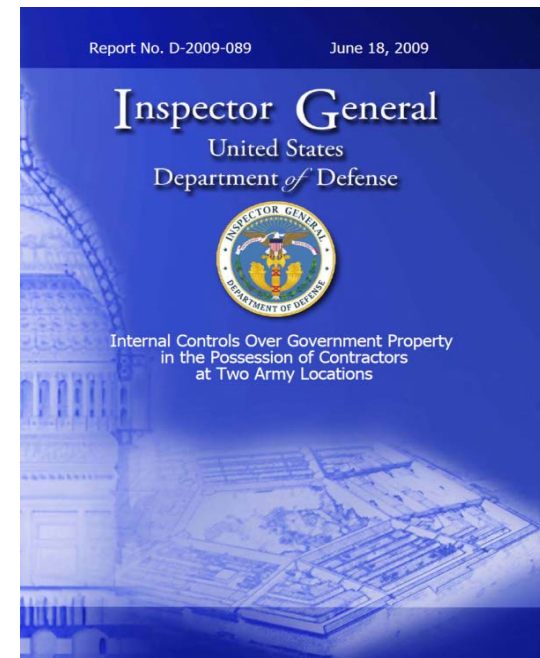
Results in Brief
<u>Report No. D-2009-089, 18 June 2009</u>
The Army did not have adequate internal controls for the existence, completeness, and valuation of Government property in the possession of contractors.

… locations may not be able to safeguard Government property from unauthorized use, destruction, or loss.

Financial Improvement Timeline

❖ ## Historical

| Federal Managers Financial Integrity Act – FMFIA – 1982 | Chief Financial Officers Act of 1990 | Government Performance and Results Act – GPRA – 1993 | Government Management Reform Act – GMRA – 1994 | Federal Financial Management Improvement Act – FFMIA – 1996 |

❖ ## Recent

| Under Secretary of Defense (Comptroller) Memo – 11 Aug 2009 | National Defense Authorization Act for FY 2010 – 28 Oct 2009 | Under Secretary of the Army Memo – 10 Mar 2010 | ASA(FM&C) Memo – Apr 2010 |

Army SBR Milestones

Army General Fund		FY10		FY11				FY12				FY13				FY14				FY15				FY16				FY17				Legend
Statement Section	**Assessable Unit**	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
Budgetary Resources																																
	Appropriations	5																														
	Reimbursable Authority				●								▽				▽			5												
	Other Budgetary Resources				●								▽				▽			5												
Status/Change of Budgetary Resources																																
	Military Pay				●								▽				▽			2,3,4,5												
	Civilian Pay				●								▽				▽			2,3,4,5												
	Transportation of People				●								▽				▽			2,3,4,5												
	Contracts				●								▽				▽			2,3,4,5												
Net Outlays (incl. FBWT)																				1,2,4,5												
Financial Statement Compilation & Reporting																				5												
Complete SBR																				5												

Legend
- Audit Readiness Assertion (yellow)
- Validation (green)
- Under Audit or Sustainment (blue)
- Concurrent Corrective Actions Under Limited Assertion * (hatched)
- GFEBS Agreed Upon Procedures (Wave 1) (red circle)
- Limited Assertion on GFEBS (orange triangle)

Success Criteria / Key Capability

1 Implement FBWT reconciliation capability (CCAS, BAM, etc....)
2 Controls over recording obligations are effective
3 Controls over recording receipt of goods or services are effective
4 Controls over recording disbursements are effective
5 Supporting documentation is retained and available to meet audit standards
Blank rows indicate either no FIP submitted or no assertion date given for an assessable unit.

Army GF SBR Assessable Units

Assessable Unit	Lead
Civilian Pay	OUSD(C)
Military Pay	OUSD(C)
Budget Authority – Appropriations Received	OUSD(C)
Budget Authority – Reimbursable Authority	OASA(FM&C)
Obligations – Contracts	OASA(FM&C)
Obligations – TDY	OASA(FM&C)
Obligations – PCS	OASA(FM&C)
Disbursements – (FBWT)	OASA(FM&C) / DFAS
Financial Reporting – Departmental	OASA(FM&C) / DFAS
Financial Reporting – Pre-Departmental	OASA(FM&C) / DFAS

Army E&C Milestones

Army General Fund	FY10		FY11				FY12				FY13				FY14				FY15				FY16				FY17			
Assessable Unit	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Military Equipment																														
Apache AH-64A			5																											
Apache AH-64D			5																											
900 Series Small Tug			5																											
Aircraft Utility UC-35C			5																											
CH-47F/MH-47G Chinook			5																											
OH-58D Kiowa Warrior			5																											
UH-60L Blackhawk			5																											
UH-60M Blackhawk			5																											
Light Utility Helicopter			5																											
Final Assertion																														
General Equipment																														
Fire & Rescue			5																											
Final Assertion																														
Inventory																														
OM&S																														
Real Property																														

Legend
- Audit Readiness Assertion
- FIAR/IG Validation
- Under Audit or Sustainment

Success Criteria / Key Capability

1 Physical inventories meet audit standards

2 Controls over recording asset acquisitions, disposals and transfers are effective

3 Supporting documentation is retained and available to meet audit standards

4 Financial and management data is reliable and accurate in system of record

5 Implement process, control, and system improvements