

Strategic Objective: Improve financial processes, controls, and information via audit readiness.

OVERVIEW:

The National Defense Authorization Act of 2010 mandates that the DoD have audit ready financial statements by 2017. Audit ready means the Department has strengthened its internal controls and improved its financial practices, processes, and systems so there is reasonable confidence the information can withstand an audit by an independent auditor. Improving audit readiness across the Department supports improved efficiencies, financial stewardship, and productivity in business operations. The DoD reporting entities and service providers' requirements focus on improving controls and processes to support information that is often used to manage the DoD, while continuing to work towards financial, information technology, and support documentation improvements. Improving audit readiness across the Department's financial entities is a critical step in achieving sustained cost savings and improving business outcomes. A key component of the Department's audit readiness goal is to validate the existence and accountability of "mission critical assets," such as real property, military equipment, general equipment, operating materials and supplies, and inventory balances. Hence, the DoD has expanded its priorities in support of readiness goals to include not only budgetary information, but also proprietary accounting data and information, mission critical asset information, and valuation. The expansion of priorities includes a continued focus on critical capabilities to include critical systems internal controls that impact financial statements, fund balance with Treasury reconciliations, complete universe of accounting transactions, property existence and completeness and property rights, and property valuation, environmental liabilities, and open obligations.

Performance Indicators:

DoD STRATEGIC GOAL #5: REFORM AND RESHAPE THE DEFENSE INSTITUTION			
Performance Goals	Performance Measure Indicators	Prior Year Results	FY15 Results
Strategic Objective (SO) 5.2: Improve financial processes, controls, and information via audit readiness.			
APG FY14-15 5.2.1: By FY 2015, DoD will validate 83 percent of its mission critical assets for existence and completeness; validate audit readiness for 99 percent of the Funds Balance with Treasury (FBwT) for DoD components financed with General Funds; and validate audit readiness for all material Schedules of Budgetary Activity (SBA) for DoD components financed with General Funds. (OUSD(C))	Percent of DoD mission- critical assets (Real Property, Military Equipment, General Equipment, Operating Materials and Supplies, and Inventory balances) validated as audit-ready for existence and completeness.	FY10 Actual: 4% FY11 Actual: 4% FY12 Actual: 41% FY13 Actual: 50% FY14 Actual: 65%	FY15 Target: 83% FY15 Result: 76%
	Percent of DoDs general funds Statement of Budgetary Activity for material Components validated as audit-ready.	FY10 Actual: 14% FY11 Actual: 14% FY12 Actual: 14% FY13 Actual: 19% FY14 Actual: 90%	FY15 Target: 99% FY15 Result: 64%*
	Percentage of DoDs General Funds, Funds Balance with Treasury validated as audit ready.	FY10 Actual: 9% FY11 Actual: 9% FY12 Actual: 9% FY13 Actual: 9% FY14 Actual: 31%	FY15 Target: 47% FY15 Result: 7%*
	Valuation of Mission Critical Assets.	FY10-14: N/A (new metric)	FY15 Target: 18% FY15 Result: 4%

Department of Defense's Data Completeness and Reliability Statement—Fiscal Year 2015 Annual Performance Report

Each Goal Owner has attested the performance results and narrative information included in this report is complete, accurate, and reliable; and that data validation and verification procedures are documented and available upon request.

**The FY15 results included rescinding Component assertions that were accounted for in prior year actual results. Exams performed by the DoD Office of the Inspector General and independent public accounting firms identified deficiencies in these performance areas.*

Measuring our Progress

FY 2015 APR Progress Update:

The Department has collaborated with Independent Public Accountants and the Federal Accounting Standards Advisory Board to issue policies governing Existence, Completeness, and Rights. The DoD will continue to implement and monitor corrective actions for existence, completeness at Reporting Entities.

The Department has issued policies governing valuation baselines for inventory/operating material and supplies, real property assets, and internal use software. Several reporting entities are working to develop valuation methodologies for new acquisitions.

The Department will continue to implement and/or monitor corrective actions to establish for existence, completeness at Reporting Entities; valuing Mission Critical Assets (MCA); auditor identified deficiencies; and analyze Fund Balance with Treasury (FBWT) differences and processes to identify root causes for corrective action. The DoD will continue audits for the Military Services' current year, general fund budgetary activities; examinations for multiple Defense Agencies' current year, general fund activities; and implement corrective actions impacting the Defense Agencies' budgetary activities.

Areas of Challenge:

The size, diverse functional scope of business operations and frequently non-standard, decentralized execution of support operations makes audit readiness an extremely challenging endeavor.

Areas of challenge include:

- Valuation of Assets: Valuation of General Property, Plant, and Equipment and of Inventory and Related Property is critical. Many of the Department's assets were acquired decades ago and before there was a requirement to produce financial statements. As a result, the acquisition and cost documents required for supporting valuation and audit are often no longer available. For these assets, the Department must use alternative valuation methods.
- Fund Balance with Treasury: Due to the size of the Department's budget and the enormous amount of funds expended and collected, the number of accounting transactions that must be reconciled between the Department's accounts and Treasury is very large and the task complex.
- Statement of Budgetary Resources:
 - Universe of Transactions- Providing complete universes of transactions is especially challenging for the Components because of the numerous accounting systems used to initiate and record transactions as well as hundreds of feeder systems where most transactions originate.
 - Beginning Balances-Components must verify that open obligations for all active and expired appropriations are supported before beginning Statement of Budgetary Resources (SBR) audits, and many hundreds of open and expired appropriations must be reviewed.

Mitigation:

A strategy has been implemented that includes close engagement with Standards setters and the larger audit community such as the Department of Defense Office of the Inspector General, the Federal Accounting Standards Advisory Board, and independent public accounting firms to define cost efficient solutions for audit “show stoppers”. As a result, the Department has issued policies, established working groups to address critical capabilities needed for audit, and is in the process of developing detailed implementation plans. The Department will continue to assess risks against these critical capabilities and adjust corrective actions accordingly. The OUSD(C) Financial Improvement Audit Readiness (FIAR) Directorate is revising the FY 2016-2017 APG measurements/goals to provide a more direct focus on progress measures for specific critical path/risk areas aligned to ensuring the Departments’ financial statements are audit ready by 2017.