

**Fiscal Year 2013 Budget Estimates
Defense Finance and Accounting Service**



February 2012

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**Defense Finance and Accounting Service
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2013 Budget Estimates**

Operation and Maintenance, Defense-Wide Summary (\$ in thousands)

Budget Activity (BA) 4: Administration and Service-Wide Activities

	<u>FY 2011</u> <u>Actuals</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2012</u> <u>Estimate</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2013</u> <u>Estimate</u>
DFAS	0	0	11,975	11,975	204	5,334	17,513

I. Description of Operations Financed: The Defense Finance and Accounting Service (DFAS), (<http://www.dfas.mil>) serves as the Executive Agent, responsible for finance and accounting activities within the Department of Defense (DoD). The DFAS provides finance and accounting management and operational support for appropriated, non-appropriated, revolving and trust funds.

The FY 2013 Operation and Maintenance President's Budget request supports the DFAS' on-going audit readiness efforts to ensure appropriate internal controls and processes are in place to comply with applicable U.S. Generally Accepted Accounting Standards, and the requirements of the Office and Management Budget Circular A-136, Financial Reporting Requirements. The DFAS is responsible for implementing effective internal controls and for complying with applicable laws and regulations.

Changes between FY 2012 and FY 2013: Price changes are \$204 thousand. After considering the effects of inflation, the net program change is an increase of \$5,334 thousand. The program increase provides funding to the DFAS for the acceleration of the DoD Audit Readiness initiative as directed by the Secretary of Defense.

In 2009, the Department presented a plan to meet the Congressional deadline for achieving audit ready financial statements by 2017. The plan focused first on achieving audit readiness for the information most used by DoD managers - budgetary information and

**Defense Finance and Accounting Service
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2013 Budget Estimates**

I. Description of Operations Financed (cont.)

counts and location of assets - but sought to achieve full audit readiness by FY 2017 as required by law.

In 2011, the Secretary issued new guidance, accelerating key elements of the audit readiness initiative and placing greater emphasis on the overall effort. The DoD now strives to attain audit readiness of key budget statements (the Statement of Budgetary Resources) by 2014, to increase the emphasis on asset audits, and to provide support to a standard financial training and professional development program, while still achieving full audit readiness by FY 2017.

This strategy offers a more focused approach to achieving audit readiness by: concentrating on the information most used in managing the Department; providing managers auditable general-fund information to track spending and identify waste; and improving the way the Pentagon does business sooner, with greater efficiency.

This approach requires the DoD to increase funding support for additional actions vital now to achieve the accelerated audit readiness goals. These actions include:

- 1. Process Review and Remediation: Assess and Improve Internal Controls and Data in Existing Processes and Systems.** The DFAS currently conducts a substantial amount of accounting rework because of errors and mis-posting of information. The DoD anticipates that the improved controls necessary for auditability, along with the targeted system improvements will reduce this rework and create efficiencies for the Department. Under prior plans, these improvements were coincident to new system implementations and other business process improvement efforts; the Department will now move forward with increased data cleansing and aggressively improving internal controls to provide

**Defense Finance and Accounting Service
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2013 Budget Estimates**

I. Description of Operations Financed (cont.)

auditable information both in existing systems and as DoD transitions to modern, improved systems.

- 2. Financial Management Certification Program: Provide a standard training and professional development program for the DoD financial management workforce (with a focus on auditability).** The FY 2013 President's Budget request provides the funding necessary to establish a standardized financial management training and professional development program designed to support the Under Secretary of Defense (Comptroller)'s goal to maintain a capable financial management workforce. The certification program will increase the workforce's capabilities in audit readiness and analytics and will comply with FY 2010 National Defense Authorization Act congressional direction.

- 3. Internal Audits: Utilize internal audit agencies and services to assess and improve financial controls.** The Department manages financial improvement activities through the Financial Improvement and Audit Readiness (FIAR) Plan, which provides the strategy, methodology, and means for monitoring progress to achieve Congress' audit readiness requirement. The FIAR Plan also advances the Department's fiscal stewardship and improves the financial information needed to manage the Department.

The FIAR Plan organizes and prioritizes the financial improvement efforts of the Military Departments and Defense Agencies. It ensures the Components' Financial Improvement Plans are aligned with business transformation initiatives and systems modernization efforts necessary for successful audit readiness.

Internal audits conducted will assess whether Components and Defense Agencies are achieving established milestones set through the FIAR plan to improve financial controls and achieve the Department's audit readiness goals.

**Defense Finance and Accounting Service
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2013 Budget Estimates**

I. Description of Operations Financed (cont.)

- 4. External Audits: Utilize external audit firms to validate progress with formal examinations and commence audits as DoD achieves audit readiness.** The DFAS plans to contract with an independent public accounting firm to (1) assess DoD information technology systems for compliance with audit readiness requirements, rules, and regulations; and (2) assist with preparation of a single-audit under Statement on Standards for Attestation Engagement (SSAE 16). These efforts benefit DoD customers by ensuring accurate financial data and preparing the finance and accounting systems to support clean audits.

The increased resources, along with leadership involvement and oversight from the Secretary and Deputy Secretary of Defense, will enable the DoD to achieve the aggressive audit acceleration schedule for the Statement of Budgetary Resources and meet the Congressional and Department's intent to obtain full audit readiness for all DoD financial statements by 2017.

II. Force Structure Summary:

N/A

Defense Finance and Accounting Service
 Operation and Maintenance, Defense-Wide
 Fiscal Year (FY) 2013 Budget Estimates

III. Financial Summary (\$ in thousands)

	FY 2012							FY 2013 <u>Estimate</u>
	FY 2011 <u>Actuals</u>	Budget <u>Request</u>	<u>Congressional Action</u>			Current <u>Estimate</u>		
			<u>Amount</u>	Percent	Appropriated			
A. BA Subactivities								
Audits	0	12,000	-25	-0.2	11,975	11,975		6,621
Financial Management Certification Program	0	0	0	n/a	0	0		5,125
Process Review and Remediation	0	0	0	n/a	0	0		5,767
Total	0	12,000	-25	-0.2	11,975	11,975		17,513

Funding for conducting audit readiness initiatives for the Defense Finance and Accounting Service are further defined in stated categories for FY 2013 in accordance with new audit readiness acceleration initiatives directed by the Secretary of Defense.

Defense Finance and Accounting Service
 Operation and Maintenance, Defense-Wide
 Fiscal Year (FY) 2013 Budget Estimates

III. Financial Summary (\$ in thousands)

B. Reconciliation Summary

	Change FY 2012/FY 2012	Change FY 2012/FY 2013
Baseline Funding	12,000	11,975
Congressional Adjustments (Distributed)		
Congressional Adjustments (Undistributed)	-20	
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)	-5	
Subtotal Appropriated Amount	11,975	
Fact-of-Life Changes (2012 to 2012 Only)		
Subtotal Baseline Funding	11,975	
Supplemental		
Reprogrammings		
Price Changes		204
Functional Transfers		
Program Changes		5,334
Current Estimate	11,975	17,513
Less: Wartime Supplemental		
Normalized Current Estimate	11,975	

Defense Finance and Accounting Service
 Operation and Maintenance, Defense-Wide
 Fiscal Year (FY) 2013 Budget Estimates

III. Financial Summary (\$ in thousands)

	Amount	Totals
C. Reconciliation of Increases and Decreases		
FY 2012 President's Budget Request (Amended, if applicable)		12,000
1. Congressional Adjustments		-25
a. Distributed Adjustments		
b. Undistributed Adjustments		
1) Unobligated Balances	-20	
c. Adjustments to Meet Congressional Intent		
d. General Provisions		
1) Mitigation of Environment Impacts	-5	
FY 2012 Appropriated Amount		11,975
2. War-Related and Disaster Supplemental Appropriations		
3. Fact-of-Life Changes		
FY 2012 Baseline Funding		11,975
4. Reprogrammings (Requiring 1415 Actions)		
Revised FY 2012 Estimate		11,975
5. Less: Item 2, War-Related and Disaster Supplemental Appropriations and Item 4, Reprogrammings		
FY 2012 Normalized Current Estimate		11,975
6. Price Change		204
7. Functional Transfers		
8. Program Increases		10,892
a. Annualization of New FY 2012 Program		
b. One-Time FY 2013 Increases		
c. Program Growth in FY 2013		
1) Process Review and Remediation	5,767	
Provides audit readiness funding to assess and improve internal controls and data in existing processes and systems. Required to meet Secretary of Defense and Congressional intent for improved audit readiness by 2017. (FY 2012 Baseline \$0)		
2) Financial Management and Certification Program	5,125	

**Defense Finance and Accounting Service
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2013 Budget Estimates**

III. Financial Summary (\$ in thousands)

C. Reconciliation of Increases and Decreases	Amount	Totals
Provides funding to support a standard training and professional development program for the DoD financial management workforce. Required to meet Secretary of Defense and Congressional intent for improved audit readiness by 2017. (FY 2012 Baseline \$0)		
9. Program Decreases		-5,558
a. Annualization of FY 2012 Program Decreases		
b. One-Time FY 2012 Increases		
c. Program Decreases in FY 2013		
1) Audits	-5,558	
Realigns audit readiness funding to further define activities required to meet the Secretary of Defense and Congressional intent to improved audit readiness by 2017. (FY 2012 Baseline \$11,975)		
FY 2013 Budget Request		17,513

**Defense Finance and Accounting Service
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2013 Budget Estimates**

IV. Performance Criteria and Evaluation Summary:

The Secretary of Defense accelerated the Department's audit readiness initiative to achieve audit readiness of the Statement of Budgetary Resources by 2014 and full compliance with the Chief Officer's Act of 1990 by FY 2017. The Secretary of Defense appointed the Under Secretary of Defense, Comptroller (OUSD(C)), the day-to-day responsibility for managing the audit readiness program. To successfully meet these goals, the OUSD(C) utilizes the Financial Improvement and Audit Readiness (FIAR) plan.

The FIAR plan, developed in 2005, is an ever evolving document, established to chart a course for sound financial management by improving internal controls, resolving material weaknesses, and advancing the Department's fiscal stewardship. The FIAR Plan details an integrated path for DoD financial improvement for the Military Services and Defense-Wide Agencies and to confirm these improvements with favorable financial audits.

The FIAR plan was employed as the strategy set by the Department to meet the Secretary's goals for audit readiness. The FIAR Plan sets milestones for resolving problems affecting the accuracy, reliability, and timeliness of financial information. The Plan describes major impediments identified by auditors and management and projects actions and target dates for resolving problems.

The DFAS, as the Executive Agent responsible for finance and accounting activities within the DoD, is a key component of the audit readiness initiative. The DFAS is currently revising its' audit readiness plan to meet the new goals directed by the Secretary of Defense. These new goals and milestones will be published in the biennial FIAR PLAN Status Report.

Defense Finance and Accounting Service
 Operation and Maintenance, Defense-Wide
 Fiscal Year (FY) 2013 Budget Estimates

<u>V. Personnel Summary</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	Change FY 2011/ FY 2012	Change FY 2012/ FY 2013
<u>Contractor FTEs (Total)</u>	<u>0</u>	<u>59</u>	<u>87</u>	<u>59</u>	<u>28</u>

Defense Finance and Accounting Service
 Operation and Maintenance, Defense-Wide
 Fiscal Year (FY) 2013 Budget Estimates

VI. OP 32 Line Items as Applicable (Dollars in thousands):

<u>OP 32 Line</u>	Change			Change			FY 2013 <u>Estimate</u>
	FY 2011	FY 2011/FY 2012		FY 2012	FY 2012/FY 2013		
	<u>Actuals</u>	<u>Price</u>	<u>Program</u>	<u>Estimate</u>	<u>Price</u>	<u>Program</u>	
989 Other Services	0	0	11,975	11,975	204	5,334	17,513
999 Total Other Purchases	0	0	11,975	11,975	204	5,334	17,513
Total	0	0	11,975	11,975	204	5,334	17,513