



DCMA Manual 4301-11, Volume 2

Management Controls: Audits and Remediation

**Office of Primary
Responsibility**

Stewardship Capability

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Purpose: This Manual is composed of several volumes, each containing its own purpose. In accordance with the authority in DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," this Manual implements policies and assigns procedures as defined in DCMA Instruction 4301, "Stewardship," and incorporates or assigns responsibility for audits and audit readiness/remediation efforts regarding the Financial Improvement and Audit Readiness mandate to satisfy the Department's objective of achieving and maintaining audit readiness.

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SECTION 1: GENERAL ISSUANCE INFORMATION

1.1. APPLICABILITY. This issuance applies to all DCMA activities, but specifically to the Financial and Business Operations Directorate (FB), the Contract Pay Service Provider Office, the Financial Improvement and Audit Readiness/Remediation (FIAR) Reporting Entity Office, and any other organizational element whose functions might have an impact on DCMA's audit readiness. For the purposes of this Manual, any reference to the term FIAR implies terms for "Readiness" and "Remediation" to be used interchangeably.

1.2. POLICY. It is DCMA policy to:

a. Assign responsibility for FIAR program audit and remediation efforts and adhere to policy issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for the Agency's Service Provider and Reporting Entity roles to satisfy the Department's objective of achieving audit readiness and Statement on Standards for Attestation Engagements (SSAE) 18 compliance. In accordance with the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2010, Section 1003 of Public Law 111-84, the DoD should develop and maintain a FIAR Plan to achieve auditability by September 30, 2017, and maintain semi-annual reporting on the Plan for subsequent years.

b. Execute this Manual in a safe, efficient, effective and ethical manner.

SECTION 2: RESPONSIBILITIES

2.1. DIRECTOR, DCMA. The Director, DCMA will:

- a. Confirm the Agency is in compliance with the FIAR guidance as issued by the OUSD(C).
- b. Be responsible for the overall management of the FIAR Program for the Agency's Service Provider and Reporting Entity roles.
- c. Review, approve, and sign (or delegate Signature Authority as appropriate) final Agency annual assertion for audit readiness responses to draft and final audit reports, and follow-up inquiries.
- d. Appoint FIAR Executive Steering Group (ESG) members.

2.2. DEPUTY DIRECTOR, DCMA. The Deputy Director, DCMA will:

- a. Exercise overall leadership and oversight responsibility over the Agency's FIAR program.
- b. Serve as Chairman of the FIAR ESG.
- c. Provide final concurrence on Notification of Finding and Recommendation (NFR) responses as required for Contract Pay Service Provider roles in the event the Executive Director, FB is unavailable.

2.3. EXECUTIVE STEERING GROUP. The FIAR ESG will:

- a. Serve as the Agency's senior advising entity for FIAR initiatives with the end goal of achieving and sustaining an unmodified audit opinion.
- b. Recommend and monitor measurable goals, objectives, and meaningful metrics for evaluating progress toward achieving and sustaining an unmodified audit opinion.
- c. Provide oversight and direction to audit and remediation efforts regarding OUSD(C) FIAR mandates to Contract Pay Service Provider and Reporting Entity teams.
- d. Champion the FIAR vision, goals, and objectives within DCMA and represent FIAR interests at various Governance Board meetings.
- e. Communicate FIAR ESG activity across all DCMA organizations.
- f. Execute actions and tasks as agreed upon by the FIAR ESG.
- g. Provide FIAR status updates to senior leadership as required.

h. Assist the DCMA Director in fulfilling oversight responsibilities by reviewing Contract Pay Service Provider and Reporting Entity policies and procedures, the effectiveness of internal controls, and internal/external audit results for adherence to laws, regulations, and financial accounting standards, to include changes from SSAE 16 as superseded by SSAE 18.

2.4. EXECUTIVE DIRECTOR, FINANCIAL AND BUSINESS OPERATIONS DIRECTORATE. The Executive Director, FB will:

a. Exercise overall responsibility for audit and remediation efforts regarding the FIAR mandate to satisfy the Department's objective of achieving audit readiness.

b. Assess whether the design of agency-wide operations, performance, administrative processes, and related internal controls and control activities that have an effect on the Agency's financial statements are adequately designed, documented, and operating as intended.

c. Ensure that all corrective actions of Agency systemic issues have been resolved and implemented.

d. Select, appoint, and employ personnel, officials, and representatives as necessary to carry out the functions, powers, and duties of the Contract Pay Service Provider and Reporting Entity role-compliant activities.

e. Provide advice and counsel on all FIAR related matters pertaining to the Agency.

f. Provide final concurrence or non-concurrence signature on NFR responses submitted to auditors.

g. Approve all Corrective Action Plans (CAPs) for submission to OUSD(C).

2.5. CHIEF FINANCIAL OFFICER, COMPLIANCE DIVISION. The Chief Financial Officer, Compliance Division is responsible for operation of the Contract Pay Service Provider Office and will:

a. Lead and manage development and deployment of strategies, policies, and procedures for the Agency's role as a Contract Pay Service Provider under the OUSD(C) FIAR initiative for the following DCMA-owned systems:

(1) Mechanization of Contract Administration Services (MOCAS).

(2) MOCAS Contract Closeout (MCC).

(3) Modifications and Delivery Orders (MDO).

b. Serve as the Office of Primary Responsibility (OPR) for Contract Pay Service Provider efforts for functions that include, but are not limited to:

- (1) Interface with auditors on behalf of the Agency during all examination phases.
 - (2) Advise senior leadership and the FIAR ESG on all aspects of the Contract Pay Service Provider audit status.
 - (3) Interface with OUSD(C) FIAR on Contract Pay Service Provider issues and communicate the Agency's status.
 - (4) Develop the Assertion Package for the Contract Pay Service Provider Assessable Unit.
 - (5) Maintain the DCMA 360 Contract Pay Service Provider site:
<https://360.intranet.dcmamil/directorate/ph-fb/FBL/FIARSP>.
 - (6) Conduct Contract Pay Service Provider internal testing of manual controls.
 - (7) Prepare and conduct training applicable to the Contract Pay Assessable Unit for the DCMA workforce.
 - (8) Facilitate the development of responses to audit findings and corrective action plans.
 - (9) Brief external customers on the status and outcome of the Contract Pay Service Provider examination.
 - (10) Engage with customers and Sub-Service Providers regarding Contract Pay Service Provider efforts.
 - (11) Secure and maintain support from other organizations with interdependencies in the Contract Pay Service Provider's control environment.
 - (12) Acquire necessary services for annual audit and program support.
- c. Review and provide responses to external auditor NFRs that pertain to the Contract Pay Assessable Unit.
 - d. Approve CAPs to progress to remediation efforts and oversee the status of CAP remediation activities to ensure issues are remediated as scheduled.

2.6. FINANCIAL IMPROVEMENT AND AUDIT READINESS BRANCH. The FIAR Branch (FBLF) will serve as the OPR for all Reporting Entity efforts and will:

- a. Serve as the primary point of contact (POC) for financial statement audits conducted by independent public accounting firms and serve as the Reporting Entity over FIAR activities.
- b. Implement Reporting Entity efforts to include, but not limited to:

- (1) Interface with auditors on behalf of the Agency during all examination phases.
- (2) Advise senior leadership and the FIAR ESG on all aspects of the Reporting Entity audit status.
- (3) Interface with OUSD(C) FIAR on Reporting Entity issues and communicate the Agency's status.
- (4) Develop DCMA's Assertion Package for Reporting Entity Assessable Unit(s).
- (5) Maintain the DCMA 360 FIAR Reporting Entity Office site:
<https://360.intranet.dcmamil/directorate/ph-fb/FBL/FBLF>.
- (6) Conduct Reporting Entity internal testing of manual controls.
- (7) Prepare and conduct training designed to mitigate NFRs, close CAPs, and establish controls for the workforce.
- (8) Facilitate development of responses to audit findings and CAP activity.
- (9) Monitor results of the examination under the SSAE 18 for Contract Pay Service Providers and Sub-Service Providers.
- (10) Engage with Contract Pay Service Providers and Sub-Service Providers on Complimentary User Entity Controls (CUECs) and develop understanding of Reporting Entity responsibility with regards to these controls.
- (11) Secure and maintain support from other organizations with interdependencies in the Reporting Entity's control environment.
- (12) Acquire necessary services for annual audits and support.

2.7. COMPONENT COMMANDERS/DIRECTORS. The Component Commanders/Directors will:

- a. Serve as focal point and coordinator for all subordinate organization corrective action activities.
- b. Validate subordinate organization corrective actions, determine whether they remain open or can be closed, and provide letter of assurance (LOA) to FBLF to obtain final closure for all corrective actions.
- c. Participate in meetings to status of CAP activity.
- d. Perform corrective action and remediation activities in accordance with approved CAPs.

e. Support FIAR and Contract Pay Service Providers by synchronizing agency initiatives, internal testing, and changes to organizations, processes, policies, and/or tools with a strategy for audit readiness.

2.8. COMMANDERS/DIRECTORS OF ASSESSED ACTIVITY. The Commanders/Directors of assessed activities will:

- a. Ensure the availability, responsiveness, and cooperation of personnel during the audit/assessment.
- b. Ensure requests for data, entrance conferences, responses, and other administrative matters are coordinated with FBLF prior, during and after audits and assessments.
- c. Perform corrective action and remediation activities in accordance with approved CAPs.

SECTION 3: FINANCIAL AUDIT

3.1. AUDIT READINESS BACKGROUND. Audits provide reasonable assurance that internal controls are suitably designed, operating effectively, and that the financial statements are presented fairly and free of material misstatements due to error or fraud in accordance with the U.S. Generally Accepted Accounting Principles (GAAP). As mandated by the Chief Financial Officers Act of 1990 and the FY 2010 NDAA, DoD is required to audit internal controls over financial reporting. In preparation for the audit, DoD implements audit readiness efforts in accordance with FIAR guidance, the DoD Financial Statement Audit Guide, and any subsequent issuances issued by the OUSD(C).

a. DCMA is a component of the DoD consolidated audit along with other Fourth Estate entities and therefore, does not undergo a standalone audit. Under the DoD consolidated audit, the DoD Inspector General (DoDIG) performs internal control and substantive testing over activities and balances reported by DCMA on an annual basis.

b. Auditors use their conclusions to form an audit opinion using the descriptions as reflected in Table 1. Audit Opinions. The primary goal is to obtain an Unmodified audit opinion for the Agency.

Table 1. Audit Opinions

Opinion	Description
Unmodified	Auditor concludes that the financial statements are presented fairly, in all material respects, and in accordance with U.S. GAAP.
Modified	Auditor concludes that misstatements, individually or in aggregate, are material but not pervasive to the financial statements.
Adverse	Auditor obtains sufficient evidence and concludes that misstatements, individually or in aggregate, are both material and pervasive to the financial statements.
Disclaimer of Opinion	Auditor is unable to obtain sufficient audit evidence on which to base an opinion, and concludes that possible misstatements, individually or in aggregate, could be both material and pervasive.

3.2. SUPPORT ROLES. DCMA will support audits as a Contract Pay Service Provider and as a Reporting Entity.

a. **Service Provider.** Service Providers are also known as service organizations. The American Institution of Certified Public Accountants defines a service organization as “an organization or segment of an organization that provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting.”

(1) As a Contract Pay Service Provider, DCMA is responsible for the oversight of systems, data, processes, internal controls, and supporting documentation that affects the audit readiness of their user Reporting Entities as outlined in Section 4 of this Manual.

(2) Contract Pay systems (MOCAS, MCC, and MDO) will undergo an annual examination under the SSAE 18. This examination requires an annual risk assessment to ensure the organization's controls are regularly reviewed and that risks are adequately addressed or adjusted as needed. The risk assessment is outlined in the System and Organization Control Report (SOC-1 Report), which accounts for management's description of DCMA as a service organization and the suitability of the design and operating effectiveness of controls.

b. Reporting Entity. Reporting Entities are also referred to as customers, and Reporting Entities of DCMA-owned systems rely on results of the risk assessment. A Reporting Entity is a component with an obligation to prepare external financial reports. As a Reporting Entity, DCMA must give an account of how taxpayer dollars are used to operate the Agency and assert that internal controls are in place to provide reasonable assurance that financial statements are presented correctly.

c. DoD Consolidated Audit Provided By Client (PBC) Support. The DCMA Contract Pay Service Provider Office and Reporting Entity teams coordinate heavily with respective DCMA activities and functions that are under audit. FIAR teams have full access to the FIAR Audit Response Center (ARC), a tool used to manage workflow for PBC requests from DoD Consolidated Auditors.

3.3. INTERNAL REPORTING TO MANAGEMENT. The Contract Pay Service Provider Office and the FIAR Reporting Entity Office are required to report their activities and audit outcomes to the DCMA Audit Committee and FIAR ESG. These groups provide oversight, feedback, and direction on DCMA's audit readiness and remediation efforts.

3.4. ENTITY LEVEL CONTROLS. Entity level controls (ELCs) apply to Contract Pay Service Provider and Reporting Entity roles. ELCs have a pervasive effect on an entity's internal control system and may include controls related to the entity's risk assessment process, control environment, service organizations, management override, and monitoring. ELC deficiencies or gaps may impact DCMA's internal control system as a whole. DCMA FIAR teams will complete a matrix to identify ELCs that require testing during internal control assessments.

SECTION 4: CONTRACT PAY SERVICE PROVIDER

4.1. CONTRACT PAY ASSESSABLE UNIT. DCMA provides contract administration services to the DoD Acquisition Enterprise and its partners to ensure timely and cost-effective delivery of products and services to the warfighter. Before contract award, DCMA will provide feedback to effectuate solicitations, identify potential risks, and develop decision criteria on historically best-performing contractors to shape contracts that will meet the needs of the buying Agency and their warfighting customers. After contract award, DCMA will monitor contractor performance and management systems to verify that expenditures, delivery schedules, and products/services are in compliance with contract terms and conditions. Contract Pay Service Providers are responsible for their systems, data, processes, internal controls, and supporting documentation that affect a Reporting Entity’s auditability. Customers rely on DCMA to have reliable internal controls in place to ensure contract administration services are provided completely and accurately. When key controls have been properly designed and are functioning effectively, customers and their auditors can place a greater reliance on the Agency’s Contract Pay system.

a. Contract Pay Service Provider Office. The Contract Pay Service Provider Office may be staffed with matrixed personnel from varied functional areas, or with permanent staff that possess functional competencies representing contracting, quality, and information technology (IT). The Contract Pay Service Provider Office is responsible for executing and overseeing all Contract Pay Service Provider audit readiness efforts for the agency.

b. Contract Pay End-to-End Process. The Contract Pay End-to-End Process diagram located on the Resource Page for this Manual reflects the specific processes, sub-processes, and areas of FIAR related responsibilities provided by DCMA to the contract payment services.

c. Contract Pay Control Objectives. The controls identified in Table 2. Contract Pay Control Objectives are comprised of automated and manual controls. For further information on the control activities, please refer to the most recent Contract Pay SOC-1 examination report.

Table 2. Contract Pay Control Objectives

Control Objective	Description
CO1: SECURITY PROGRAM MANAGEMENT	Controls provide reasonable assurance that an enterprise-wide security program has been established and approved by management, is being monitored, tested and maintained.
CO2: ACCESS	Controls provide reasonable assurance that logical access to MOCAS, MCC, and MDO, as well as physical access to MCC and MDO hardware, is restricted to authorized individuals.
CO3: CONFIGURATION MANAGEMENT	Controls provide reasonable assurance that changes to MOCAS, MCC and MDO, application programs and database structures are authorized, tested, implemented and documented.

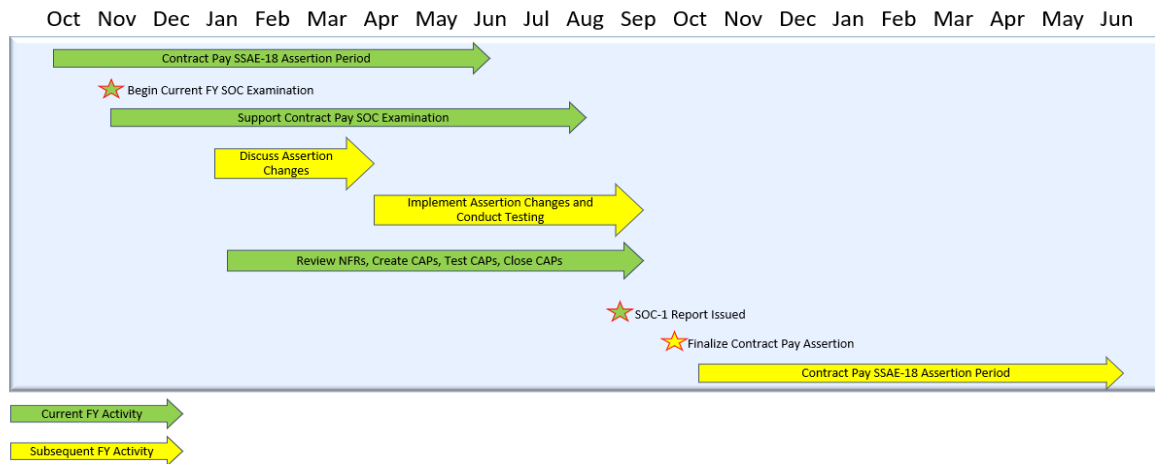
Table 2. Contract Pay Control Objectives, Continued

Control Objective	Description
CO4: SEGREGATION OF DUTIES	Controls provide reasonable assurance that management has identified, provided periodic reviews, and mitigated risks of incompatible duties across business and IT operations within the Contract Pay process (MOCAS and other relevant key systems).
CO5: CONTINGENCY PLANNING	Controls provide reasonable assurance that back-up procedures exist for MCC and MDO.
CO6: SETUP	Controls provide reasonable assurance that MCC and MDO data requirements are defined and documented for transactions which update the MOCAS database.
CO7: INPUT	Controls provide reasonable assurance that contracts are received from authorized sources and input into MOCAS completely and accurately.
CO8: PROCESSING	Controls provide reasonable assurance that contract transactions (e.g., receipts and acceptance of goods and services, disallowed costs, invoice processing, contract closeout, refunds) are authorized and processed completely and accurately.
CO9: OUTPUT	Controls provide reasonable assurance that contract actions and outputs are authorized, and transmitted completely and accurately. Controls around contract and transaction reviews are defined and assessed under Control Objectives 7 and 8.

4.2. PRE-EXAMINATION. The Contract Pay process is cyclical and many pre-examination activities for the following FY occur simultaneously with activities for the current FY examination as depicted in the example timeline in Figure 1. Service Provider Exam and Planning. For example, the current FY examination starts around November of each year and during this time, the Contract Pay Service Provider Office supports the audit while discussing, implementing, and testing changes for the next FY.

Figure 1. Service Provider Exam and Planning

FIAR SP Office – Contract Pay Examination and Future Planning Timeline



a. Internal Testing. DCMA is responsible for the design and effectiveness of controls related to MCC and MDO and specific controls related to MOCAS. Defense Finance and Accounting Service (DFAS) and DCMA share responsibility for maintaining all aspects of MOCAS under the direction of the MOCAS Joint Program Management Office, which is comprised of employees from both agencies.

(1) The Contract Pay Service Provider Office is responsible for overseeing internal testing efforts related to the Contract Pay control objectives.

(2) The Contract Pay Service Provider Office is responsible for managing the monthly testing process. A monthly timeline for testing manual controls is provided on the Resource Page. The DCMA Contracting Directorate, Contract Pay Service Provider Office, and operational units are involved in the monthly testing process and have responsibilities that are included in the timeline.

b. Reporting. Results from monthly testing of manual controls are compiled and uploaded to the DCMA 360 Contract Pay Service Provider Office site.

4.3. EXAMINATION. Each FY, an independent public accountant (IPA), also referred to throughout the document as “external auditor,” is contracted to perform the SOC examination based on DCMA’s assertion. The assertion period is 1 October to 30 June each FY, and the auditor’s examination report must be completed by 14 August and submitted to the OUSD(C) by 15 August.

a. Entrance Conference. When a contract for IPA services has been awarded, the Contracting Officer’s Representative (COR) will provide notification to DCMA with the awardee’s contact information. Usually an entrance conference is required soon after award as a contract deliverable. If not contacted by the IPA within two to three business days, the Contract Pay Service Provider Office should reach out to the IPA and begin scheduling the conference with the OUSD(C) FIAR COR and senior leadership.

b. Site Visits. The Contract Pay Service Provider Office is notified by the external auditor of all potential site visits so DCMA may coordinate with the responsible POCs regarding dates, space, and technology needs. The Contract Pay Service Provider Office will notify Contract Management Offices (CMOs) of the planned visits, as well as any other planning information or requirements that are needed. This information will be forwarded to the CMO Commander/Director in a written memorandum or by email. The external auditors will be accompanied on all site visits by the Contract Pay Service Provider Office and/or other designated representative(s).

c. PBC. The Contract Pay Service Provider Office will receive any PBC requests or equivalentents from the external auditor's SharePoint site. The Contract Pay Service Provider Office reviews PBC requests for clarity and completeness and notifies responsible directorates to support completing the requests. PBC responses are uploaded to the applicable FY Evidentiary Folder on the DCMA 360 Contract Pay Service Provider Office site. Once the PBC is accepted by the Contract Pay Service Provider Office, the PBC is moved to the applicable FY Auditor Folder and a notification is sent to the external auditor that the PBC response was uploaded. In order to protect sensitive information, DCMA is responsible for indicating whether each PBC item is "releasable" versus "non-releasable."

d. NFR. Throughout the duration of the examination, deficiencies identified may result in the issuance of NFRs by the external auditor. Once DCMA leadership and the Contract Pay Service Provider Office receive the draft NFRs, internal meetings are held with responsible parties to discuss the NFRs and validate that the condition, cause, effect, and criteria are accurately stated. DCMA management will draft general comments on the findings and address and develop planned corrective actions to remediate the deficiencies. Official responses are consolidated and distributed to all customers and respective auditors and all NFR responses must be approved by the Contract Pay Service Provider Office. During the SOC-1 examination, the external auditor may also identify deficiencies that require management's attention, but do not rise to the level of an NFR. These deficiencies are called Management Letter Comments (MLCs) and they appear in the Management Letter, which must be completed by mid-August. The Contract Pay Service Provider Office tracks and monitors MLCs and NFRs.

e. CAP. As indicated in paragraph 4.3.d., deficiencies in any of the control activities that affect the Contract Pay Service Provider audit readiness are formally documented in an NFR. A CAP is created to address each deficiency identified in a NFR. Once the CAP is drafted, it must be approved by the Contract Pay Service Provider Office or the Executive Director, FB. The Contract Pay Service Provider Office is responsible for completing the CAP template, executing CAP remediation, and tracking and monitoring CAP completion. CAP status updates will be discussed during weekly Contract Pay Service Provider Office status meetings and follow-up meetings with the Directorates will be conducted based on these discussions, as necessary. The status of open CAPs will be briefed at monthly DCMA FIAR ESG meetings. When all the corrective actions identified in the CAP have been completed, the Contract Pay Service Provider Office must verify completion before recommending the CAP be closed. The Contract Pay Service Provider Office will verify completion by obtaining all required supporting documentation and perform sufficient testing to ensure remediation of the deficiency. Test

results will be maintained and be made available for review for a full FY following CAP closure. All externally identified CAPs relating to the Contract Pay Service Provider control activities will be officially closed by the IPA in the OUSD(C) NFR Database.

f. Exit Conference. The exit conference is the final official meeting between the external auditor, Contract Pay Service Provider Office, and Agency leadership. This meeting occurs prior to the external auditor completing the SOC-1 report.

4.4. POST-EXAMINATION. Numerous actions must take place following the conclusion of the audit:

a. After Action Meeting. The Contract Pay Service Provider Office will hold an after action meeting to gather lessons learned from all participants in the engagement.

b. Deactivate IPA System Access. Any access that was established for the IPA system at the beginning of the engagement will be deactivated upon delivery of the final SOC-1 report.

c. Submit SOC-1 Report. The SOC-1 report will be received by the OUSD(C) FIAR Directorate and distributed to corresponding agencies, as required, and uploaded to the DCMA 360 Contract Pay Service Provider site.

d. Records Naming and Retention. The Contract Pay Service Provider Office POC will name and archive all records uploaded to the DCMA 360 Contract Pay Service Provider Office site and retain source documents according to established timeframes. Records will be stored on the DCMA 360 site for two years, and then copied onto a disk.

e. Monitor CAPs. CAPs will be monitored to completion and closed prior to the start of the next FY examination.

4.5. COMMUNICATION.

a. POCs. The Contract Pay Service Provider Office POCs are listed in the “Service Provider Program Management Office Members” section of the DCMA 360 Contract Pay Service Provider site.

b. Email Inboxes. The Contract Pay Service Provider Office will manage an internal and external inbox for tracking and responding to communications.

(1) Internal. The Contract Pay Service Provider Office manages an inbox for internal testing inquiries: dcma.lee.hq.mbx.fiar-sp-help@mail.mil.

(2) External. The Contract Pay Service Provider Office manages an inbox for customer inquiries and responding to communications: dcma.lee.hq.mbx.fiar-sp-in-box@mail.mil.

4.6. CUSTOMERS. DCMA partners with other DoD entities to provide contract payment services. A DCMA customer (user entity) is any DoD agency in which contract administration services are delegated to DCMA.

a. Service Level Agreement (SLA)/Memorandum of Understanding (MOU). The SLA/MOU is a formal agreement between DCMA and its customers describing the type of service(s) that DCMA provides for audit readiness, remediation, and sustainment. The purpose of Contract Pay SLAs/MOUs are to outline business processes and sub-processes performed by DCMA for its customers in the contract pay end-to-end cycle. The SLAs/MOUs are managed by the Contract Pay Service Provider Office.

b. CUECs. The Contract Pay controls were designed with the assumption that certain controls would be placed in operation by user entities. The implementation and application of such internal controls are the responsibility of the user entities and are necessary to achieve certain Contract Pay control objectives. The user entities and user entity auditors are responsible for determining the applicability of the CUECs to the user entity and identifying CUECs relevant to the user entity financial statement audit. For a listing of the CUECs, please refer to the most recent Contract Pay SOC-1 examination report.

c. Customer Audit/Auditor Support. The Contract Pay Service Provider Office manages customer audit/auditor inquiries through the external customer email inbox. The Contract Pay SOC-1 examination often satisfies audit/auditor inquiries; however, the Contract Pay Service Provider Office will engage in Contract Pay related conversations to ensure all parties have confidence in the services DCMA provides to its customers.

4.7. SUB-SERVICE PROVIDERS. To achieve control objectives for the Contract Pay Assessable Unit, DCMA relies on the design and operating effectiveness of control activities performed at sub-service organizations. Control activities performed by subservice organizations are documented in mutual agreements with DCMA and periodically monitored through meetings, reports, or status updates.

a. Complementary Sub-service Organization Controls (CSOCs) and Monitoring. The Contract Pay controls were designed with the assumption that certain controls would be placed in operation by sub-service organizations. The application of sub-service organization internal controls is necessary to achieve certain Contract Pay control objectives. When developing CSOCs, management will review and consider CUECs, other SOC examination reports (if available), SLAs, and MOUs. Interagency discussions will be held to determine control effectiveness and to assess risks; and CSOCs will be individually monitored based on the level of risk. If an issue is discovered during monitoring and risk assessment, DCMA will partner with the applicable agency to determine the root cause and develop a remediation plan. For a listing of the sub-service organizations, related CSOCs, and monitoring controls, please refer to the most recent Contract Pay SOC-1 examination report.

b. Agreements. Service Agreements are in place to outline expectations between DCMA and sub-service organizations such as Defense Information Services Agency (DISA), DFAS, U.S.

Bank, and the Defense Logistics Agency (DLA). These Agreements are to be reviewed annually and updated as needed.

SECTION 5: REPORTING ENTITY

5.1. BUSINESS PROCESSES. The FIAR Reporting Entity Office is responsible for reviewing and documenting end-to-end business processes such as those reflected in Table 3. Reporting Entity Business Processes. These business processes are also known as assessable units. The FIAR Reporting Entity Office must also create a crosswalk between DoD standard end-to-end business processes and their own end-to-end business processes which cover all financial transactions of DCMA.

Table 3. Reporting Entity Business Processes

End-to-End Business	Impacted DCMA	Process Description
Appropriations Received	FB - Budget	Receipt and distribution of funds appropriated by the President’s Budget.
Hire to Retire/ Civilian Pay	FB – Payroll, Human Capital, Army Service Team, and DFAS	Civilian payroll processed in the Defense Civilian Pay System (DCPS).
Procure to Pay	Financial & Business – Defense Agencies Initiative (DAI), Travel/Defense Travel System (DTS), General Services Administration (GSA), Washington Headquarters Services (WHS), Government Purchase Card (GPC)	Business functions necessary to obtain goods and services including: all Contract Pay and Vendor activities, specifically Invoicing, Receipt, Acceptance and Property Transfer/Syncada, GSA and WHS Facility Rental Payments, Government Vehicles, GPC, DTS, Permanent Change of Station, and Reimbursable Work Order – Grantor.
Order to Cash	FB –Reimbursables and Accounting	Business functions necessary to accept and process customer orders for services and/or inventory. Reimbursable Work Orders – Acceptor.
Acquire to Retire/ Property, Plant and Equipment	FB and IT	Business functions necessary to obtain, manage, and dispose of DoD accountable and reportable property through the entire life-cycle.

Table 3. Reporting Entity Business Processes, continued

End-to-End Business Process/Assessable Units	Impacted DCMA Directorates or External Service Providers	Process Description
System Generated Journal Voucher Entries	FB - Accounting	Entries created in the Defense Departmental Reporting System (DDRS) to bring General Ledger (GL) accounts into balance at specified periods of times during the financial reporting process.
Financial Reporting/Balance Brought Forward/Year End Entries	FB - Accounting	Entries created in the source accounting system to bring GL accounts into balance at year-end during the financial reporting process includes Fund Balance with Treasury (FBWT).

a. Assessable Unit. The FIAR Reporting Entity Office is organized by assessable unit. Each assessable unit is assigned a lead to perform activities before, during, and after the annual audit. These activities include managing PBCs, samples, walkthroughs, Subject Matter Experts, process narratives and flowcharts, NFR reviews and approvals, and managing comments/concurrence.

b. Process Narratives. The FIAR Reporting Entity Office must document each end-to-end process in a narrative which provides an independent auditor not familiar with DCMA a thorough understanding of all activities, transactions, systems, and related controls for each process. The document identifies the DCMA directorates and Service Providers involved in the end-to-end process. The process narrative, which is updated annually, must describe the actual process as it exists and include an overview, flowchart(s), key internal control listing, key supporting document listing, and key IT system listing for systems used in the process and CUECs. Relevant DCMA directorates and external Service Providers are frequently consulted to ensure the completeness and accuracy of the narratives and to ensure key controls are properly identified.

5.2. COMPLEMENTARY USER ENTITY CONTROLS. CUECs are controls that Service Providers provide to Reporting Entities for implementation by the Reporting Entity. Management for the FIAR Reporting Entity is responsible for implementing internal controls over their financial information and therefore, must ensure that they fully understand what pecuniary significant activities are outsourced to Service Providers and the effectiveness of the Service Providers’ related internal controls.

a. The DCMA FIAR Team will coordinate with Service Providers to develop a good understanding of the Service Provider’s user control assumptions and to test the controls to ensure they are operating effectively. This includes reviewing SSAE 18 audit reports and related training provided by OUSD(C). CUEC considerations should relate to the control objectives

specified in management’s description of the Service Provider system. DCMA uses the non-owned systems such as those identified in Table 4. Non-Agency Owned Systems for its business processes.

Table 4. Non-Agency Owned Systems

No.	Service	SOC-1
DoD Service Providers Used by DCMA		
1	DFAS	DCPS (Civilian Pay)
2	DFAS	MOCAS, Elimination of Unmatched Disbursements, Entitlement Automation System, Pay Pre-Validation Module, Accounting Pre-Validation Module (APVM), Business Activity Monitoring (BAM), Standard Contract Reconciliation Tool (Contract Pay)
3	DFAS	Defense Cash Accountability System - FBWT Distribution
4	DFAS	DDRS (Financial Reporting)
5	DFAS	Automated Disbursing System, Intra-Governmental Payment and Collection, Megawizard (Standard Disbursing Services)
6	DFAS	Computerized Accounts Payable for Windows (CAPS-W), CAPS-W Data Center, Operational Data Store, Defense Corporate Database/ Defense Corporate Data Warehouse, BAM, APVM (Vendor Pay)
7	DISA	Enterprise Computing Service
8	DLA	Defense Automatic Addressing System
9	DLA	DAI
10	DLA	Defense Property Accountability System
11	DLA	Invoices, Receipt, Acceptance and Property Transfer
12	Defense Manpower Data Center (DMDC)	Defense Civilian Personnel Data System
13	DMDC	DTS
14	CitiBank	Travel Card
15	U.S. Bank	Access Online
16	DFAS	Department 97 Reconciliation and Reporting Tool / Cash Management Report (Fund Balance with Treasury Reconciliation)
17	DFAS	Enterprise Local Area Network

b. The FIAR Reporting Entity Office is responsible for monitoring control activities implemented to complement the controls implemented by Service Providers:

(1) Control activities that provide reasonable assurance that any changes to processing options (parameters) requested by the Reporting Entity are appropriately authorized and approved.

(2) Control activities that provide reasonable assurance that output received from the Service Provider is routinely reconciled to relevant Reporting Entity control totals.

(3) Control activities that provide reasonable assurance of password or Common Access Card-enabled access to Reporting Entity controlled computer terminals or networks resides with the Service Provider.

5.3. PRE-AUDIT. For each assessable unit, the FIAR Reporting Entity Office is required to complete narratives, key tasks, and underlying detailed activities as prescribed in guidance issued by OUSD(C). Before the audit, the Reporting Entity completes preparation activities to include remediating prior audit findings and addressing internal control gaps. The Reporting Entity reviews process narratives and flowcharts for each end-to-end process on an annual basis and revises them as necessary.

a. The FIAR Reporting Entity Office is responsible for performing periodic testing of a sample of transactions and corresponding control activities to ensure that processes and controls documented in each end-to-end process narrative are operating as intended. Tests of Design determine if a documented process control is in place and Tests of Effectiveness determine if the controls are working as intended. Tests techniques may include one or more forms:

(1) Inquiry. Conducted by oral or written inquiries of personnel involved in the execution of specific control activities to determine what they do or how they perform a specific control activity. Inquiries provide the least reliable evidence and requires supplementation with other types of control tests.

(2) Observation. Conducted by observing personnel performing control activities in the normal course of their duties. Observations provide sufficient evidence that the control activity is properly applied during the period; however, it provides no evidence that the control was in operation at any other time. Observations require supplementation by corroborative evidence obtained from other tests (e.g., inquiry and inspection) about the operation of control activities at other times.

(3) Examination. Conducted by examining documents and records of evidence (e.g., the existence of initials or signatures) that a control activity was applied to those documents and/or records.

(4) Re-performance. Conducted to obtain sufficient evidence that a control activity is operating effectively.

b. Combining 2 or more of test techniques provides greater assurance than using only 1 test technique. The more significant the account, disclosure, or process and the greater the risk, the more important it is to ensure the evidence extends beyond 1 testing technique.

5.4. DURING THE AUDIT. During the audit, PBCs will be sent by OUSD to the agency with a short suspense date. The FIAR Reporting Entity Office will assist with providing key supporting documents (KSDs) of business processes to address the PBC responses from the agency to OUSD. It is the responsibility of the FIAR team to react quickly and decisively to ensure the process owner or correct POC has all the available time to respond.

a. Once auditors have reviewed PBC responses, KSDs, and any follow-up information on procedures or clarification of processes, they will request a Universe of Transactions to perform a sample selection for testing issued via PBC routed through the FIAR Team.

b. When sample request are issued through the ARC Tool, the FIAR Reporting Entity Office delivers the sample requests to the assessable or sub-assessable unit (depending on the requested documentation) via the ARC tool. As a Key Control, the FIAR Reporting Entity Office will establish a due date for the assessable unit process owner and monitor the completion of all sample requests to ensure KSDs are provided timely.

c. The FIAR Reporting Entity Office receives an auto-generated system notification when process owners have responded with the requested KSDs within the ARC tool. As a Key Control, the FIAR team thoroughly reviews each submitted document for accuracy and to ensure the documents satisfy the request before forwarding them to OUSD(C). In addition, the team ensures there is no Personally Identifiable Information (PII) embedded within the document(s).

d. The FIAR Reporting Entity Team submits files that have possible PII by a secured method determined by OUSD(C).

e. Activities that occur during the phases of an audit:

(1) Planning Phase. The FIAR Reporting Entity Office is the primary POC for all phases of the audit. Table 5. Planning Phase – Key Tasks identifies the key activities for the planning phase of a financial statement audit.

Table 5. Planning Phase - Key Tasks

Task	Description
Entrance Conference	The entrance conference will be attended by OUSD(C), the Reporting Entity, Service Provider teams and leadership to kick off the audit to gain an understanding of audit requirements, other relevant information and plans for field and site visits.
Review End-to-End Processes	The Reporting Entity and Service Provider teams should review the Reporting Entity and Service Provider end-to-end process documentation. The review should ensure that process narratives and flowcharts are both current and accurate before being provided to the audit team.
Onboarding Training/ Initial Requests	As applicable, the FIAR Reporting Entity Office in coordination with the Program Office, will provide onboarding training to assist the audit team in gaining an understanding of the Reporting Entity. The training will explain the organization structure, describe the various Service Providers that are relevant to the Reporting Entity under audit, and outline the SOC-1 examination reports that are available.

Table 5. Planning Phase - Key Tasks, Continued

Task	Description
Obtain SOC-1 Reports	All SOC-1 reports must be obtained from the Service Provider audit liaisons and made available for review by the audit team.
Maintain Standard Operating Procedures (SOPs)	The FIAR Reporting Entity Office should maintain and update all SOPs and manuals for key business processes. These SOPs may ultimately be requested by an audit team during the course of an audit.
Obtain PBC List	The Reporting Entity and Service Provider teams should obtain the PBC list from the audit team and/or from OUSD(C).
Identify and Research Significant Account Fluctuation	The Reporting Entity and Service Provider teams should analyze financial statement line items on a comparative basis. Significant year-over-year fluctuations should be identified and underlying causes researched. Documentation should also be obtained to support explanations for significant account fluctuations that are identified (as this information might be requested by the audit team at a later time).
Obtain Intra-Departmental Supporting Documentation	The FIAR Reporting Entity Office should collaborate with other agency Reporting Entity audit liaisons to obtain reconciliations, control documentation, and MOUs to support intra-Departmental funding activity for applicable reporting entities.

(2) Internal Control Phase. During this phase the audit team will perform risk assessment procedures and expand its understanding of internal controls from the planning phase. As part of this phase, the audit team will test the design and operating effectiveness of key internal control activities. Based on the evaluation of the design, implementation of internal controls, and the results of control tests, the audit team will preliminarily assess the effectiveness of the internal controls. The audit team will reevaluate the preliminary assessment at the conclusion of the testing phase. Table 6. Internal Control Phase – Key Tasks identifies key tasks involving the FIAR Reporting Entity Office for the internal control phase of a financial statement audit.

Table 6. Internal Control Phase - Key Tasks

Task	Description
Compile Systems Documentation	The FIAR Reporting Entity Office will obtain and provide the auditors with flowcharts, process narratives, and any relevant SOPs or desktop manuals for systems used by assessable unit processes to ensure they are reviewed, organized and made readily available for the audit team.
Coordinate Systems Compliance Testing	The FIAR Reporting Entity Office will coordinate with Service Providers and the audit team so that tests for compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) can be conducted.

Table 6. Internal Control Phase - Key Tasks, Continued

Task	Description
Coordinate Systems Compliance Testing	The FIAR Reporting Entity Office will coordinate with Service Providers and the audit team so that tests for compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) can be conducted.
Fulfill Ad Hoc Internal Control Requests	The FIAR Reporting Entity Office will obtain various ad hoc requests relating to internal control environment of the Reporting Entity are likely to arise during this phase of the audit.
Coordinate Intra-Departmental Internal Control Review	The FIAR Reporting Entity Office should collaborate with other agency Reporting Entity audit liaisons to provide process flowcharts, narratives and internal control documentation to support intra-departmental funding activity for applicable reporting entities. Process system walkthroughs must also be coordinated with the audit team as requested.

(3) Testing Phase. During this phase, the audit team obtains evidence to report on the financial statements, internal controls, systems compliance, and compliance with significant provisions of laws and regulations. The audit team gathers the appropriate evidence by requesting KSDs which may be in the form of documents used for recording and processing information or procedural (systemic and/or manual) process requirements and provides them to external auditors for testing. Table 7. Testing Phase – Key Tasks identifies key tasks for the testing phase of a financial statement audit.

Table 7. Testing Phase - Key Tasks

Task	Description
Provide Internal Controls Testing Support	The FIAR Reporting Entity Office will coordinate with the respective DCMA Program Office to assist the audit team in the performance of walkthroughs and respond to documentation requests to demonstrate the controls are operating effectively.
Provide Analytical Procedures Response Support	The FIAR Reporting Entity Office should obtain and provide documentation to support explanations for significant account fluctuations that are identified by the audit team.
Provide Detail Testing Support	The Reporting Entity and Service Provider teams should be prepared to fulfill a broad range and high volume of requests for documentation from the audit team. When responding to documentation requests, the FIAR Reporting Entity Office and the DCMA Program Office must ensure that documentation is submitted to the audit team (through OUSD(C)) within the agreed upon timeframes and has undergone a multi-level quality assurance review.
Conduct Regular Status Meetings	The FIAR Reporting Entity Office will attend OUSD(C) hosted status meetings with the audit team to discuss the status of the audit, any challenges encountered, and upcoming deadlines.

(4) Reporting Phase. The DoDIG will provide a draft audit report to OUSD(C) and DCMA leadership prior to issuance. Upon receipt of the draft report, DCMA leadership will review the report and provide written comments back to the audit team regarding the findings, conclusions and recommendations contained in the draft report. If the draft report contains NFRs, OUSD(C) and FIAR Reporting Entity Office will hold meetings internally to discuss the NFRs. Table 8. Reporting Phase – Key Tasks identifies key tasks for the reporting phase of a financial statement audit.

Table 8. Reporting Phase - Key Tasks

Task	Description
Support Overall Analytical Procedures	The FIAR Reporting Entity Office should fulfill documentation requests and provide responses to inquiries arising as the audit team performs overall analytical procedures necessary to complete the reporting phase of the audit.
Coordinate Exit Conference	The FIAR Reporting Entity Office will coordinate the exit conference with the audit team to review the results of the audit and provide feedback on conclusions reached and recommendations made. OUSD(C) and DCMA leadership should be in attendance.
Review Draft Audit Report	The FIAR Reporting Entity Office will review the draft audit report and provide it to the appropriate DCMA officials to provide an opportunity to comment on findings and/or areas of concern.
Provide Responses to Audit Findings	The FIAR Reporting Entity Office will prepare, coordinate, and distribute an official DCMA response from leadership to OUSD(C) and the audit team

5.5. POST-AUDIT.

a. Remediation/Sustainment. DCMA leadership will coordinate with OUSD(C) and respond to audit report findings by concurring or non-concurring to the audit findings. The FIAR Reporting Entity Office will track NFRs to resolution, and meet with assessable unit process owners to develop CAPs with interim milestones. The FIAR Reporting Entity Office will initiate sustainment by integrating FIAR methodology sustainment activities into the Managers Internal Control Program.

b. NFR Database. The NFR database is a centralized system developed by OUSD(C) to track the flow of audit findings and communicate NFRs and corrective actions to internal and external stakeholders. The NFR Database is used by OUSD(C) to track auditor findings and work closely with agencies to ensure CAPs are developed and remedies are made to correct the deficiency. The FIAR Reporting Entity Office is responsible for coordinating activities in response to NFRs:

(1) Distribution and Analysis. When received, NFRs are provided to the owning component of the deficiency for review, research, and analysis.

(2) Response to External Auditor. After the NFR is thoroughly researched, the Agency prepares a response and addresses auditor recommendation(s). The Agency will either concur or non-concur with the deficiency/recommendation. The NFR must be signed by the FB Executive Director upon concurrence and the process owner is required to develop a CAP to address the finding and correct the problem. All CAP completions must be reported to OUSD(C) within 60 days.

(3) CAPs. A CAP must be developed and tracked for each finding that receives concurrence on the NFR. The CAP status will be briefed at monthly FIAR ESG meetings. Current year assertion packages must include relative CAPs with current status and previous audit findings.

(4) Tracking. External auditor NFRs and CAPs will be tracked in the NFR Database.

c. Corrective Actions. In the Corrective Action process, the FIAR Reporting Entity Office will:

(1) Identify and define deficiencies in internal controls and supporting documentation.

(2) Develop CAP(s) to resolve each deficiency identified during the Testing Phase, to include budget estimates of required resources (e.g. funding and staffing) to execute CAPs.

(3) Implement and execute CAP milestones and confirm that all audit readiness critical capabilities have been addressed.

(4) Close the CAP in the NFR database when all corrective actions have been completed and verified by FIAR Reporting Entity Office. All CAPs relating to Service Provider assessable unit control activities will be officially closed by the Contract Pay Service Provider Office, or designee. Prior to recommending closure, the OPR must obtain required documentation and/or perform sufficient testing to ensure remediation of the deficiency. Results of testing and validation must be maintained by the OPR and be available a full FY following CAP closure. The CAP POC will update the internal CAP Tracker and external NFR Database.

d. Status Reporting. The FIAR Reporting Entity Office will report remediation progress to the OUSD(C) FIAR Directorate every 60 days via the NDAA Scorecard and an interim milestone tracking chart, as applicable. The FIAR Reporting Entity Office will also perform detailed NFR/CAP status reporting to the OUSD(C) FIAR Directorate using the NFR Database each month. The FIAR Reporting Entity Office is responsible for preparing and/or updating assessable unit process documentation (e.g., process narratives and flowcharts), assessing the design, and testing the operating effectiveness of its internal controls. As part of sustainment, the FIAR Reporting Entity Office is also responsible for identifying and resolving internal control deficiencies noted during testing in a timely manner (e.g., before the next annual reporting cycle). The FIAR Reporting Entity Office does so by implementing concrete, measurable and attainable CAPs.

GLOSSARY

G.1. DEFINITIONS.

Assertion. A management assertion letter declaring that a financial statement/selected elements of the financial statement are audit ready in conformity with the internal control and supporting documentation criteria.

Assessable Unit. A process that is capable of being evaluated or audited. Functions include documentation, identification, and insertion of controls associated with a specific sub-functions in order to mitigate identified risks.

Assessments. Encompasses inspections, evaluations, assistance, and teach and train functions of the identified entity.

CAP. The detailed plan identifying management controls, tactics, techniques, procedures, training, resources, and working environment changes likely to preclude future non-compliance.

ELC. Established internal guidelines around governance that sets forth an organization's values through policies and procedures to provide reasonable assurance that objectives related to the entity as a unit are met.

FIAR Guidance. A document that defines the Department's goals, strategy and methodology for becoming audit ready, including roles and responsibilities, and processes for reporting entities, Service Providers, and executive agents.

Finding. Areas that are non-compliant with a regulation or policy/instruction requirement. Any finding will have a recommendation associated with it. Each finding will also quantify whether it is systemic in nature or a one-time occurrence.

Key Control. The policies, procedures (manual and automated) and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Line of Accounting. A document that captures the component's level of assurance over internal controls over reporting, internal controls over operations, and internal controls over compliance. The lines of accounting must take one of the following forms: Unmodified (no material weaknesses); Modified (one or more material weaknesses identified), Adverse (one or more misstatements are both material and pervasive), and Disclaimer of Opinion (auditor unable to provide sufficient audit evidence on which to base an opinion). Letter of Assurance is also known as Statement of Assurance.

NFR. Document issued by the auditors indicating there is a potential audit finding.

PBC. A request for information or documentation from the auditors which allows them to perform testing of management assertions in the financial statement audit.

Reporting Entity. A unit where it is reasonable to expect that there are users dependent on a general purpose financial report to gain an understanding of the financial position and performance of the unit, and to make decisions based on this financial information and other information contained in the financial report.

Service Provider. An agency that provides other organizations with accounting, consulting, legal, education, communications, storage, processing, or other services.

Universe of Transactions. The entirety of underlying, individual, and accounting actions that support a financial statement line or balance. Accounting actions that support a financial statement.

GLOSSARY

G.2. ACRONYMS.

APVM	Accounting Pre-Validation Module
ARC	Audit Response Center
BAM	Business Activity Monitoring
CAP	Corrective Action Plan
CAPS-W	Computerized Accounts Payable for Windows
CMO	Contract Management Office
COR	Contracting Officer's Representative
CSOC	Complementary Sub-service Organization Control
CUEC	Complementary User Entity Control
DAI	Defense Agencies Initiative
DCPS	Defense Civilian Pay System
DDRS	Defense Departmental Reporting System
DFAS	Defense Finance and Accounting Service
DMDC	Defense Manpower Data Center
DTS	Defense Travel System
ELC	Entity Level Controls
ESG	Executive Steering Group
FB	Financial and Business Operations Directorate
FBLF	Financial Improvement and Audit Remediation Branch
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Readiness/Remediation
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GL	General Ledger
GPC	Government Purchase Card
GSA	General Services Administration
IPA	Independent Public Accountant
IT	Information Technology
KSD	Key Supporting Document
MCC	MOCAS Contract Closeout
MDO	Modification and Delivery Order
MLC	Management Letter Comments

MOCAS	Mechanization of Contract Administration Services
MOU	Memorandum of Understanding
NDAAs	National Defense Authorization Act
NFR	Notification of Finding and Recommendation
OPR	Office of Primary Responsibility
OUSDC	Office of the Undersecretary of Defense – Comptroller
PBC	Provided by Client
PII	Personally Identifiable Information
POC	Point of Contact
SLA	Service Level Agreement
SOC 1 Report	System and Organization Controls Report
SOP	Standard Operating Procedure
SSAE	Statement on Standards for Attestation Engagements
WHS	Washington Headquarters Services

REFERENCES

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