

TAB B

Internal Controls over Non-Financial Operations (ICONO) Material Weaknesses

TAB B is used to identify internal controls weaknesses over nonfinancial operations, identify new material weaknesses and provide a status update on prior year weaknesses.

Reporting Material Weaknesses. Material weaknesses should be reported to Headquarters, Department of the Army (HQDA) through command channels in a timely manner; however, the frequency of reporting is a command prerogative. Weaknesses may be reported at any time during the year. New weaknesses identified during the year should be reported before the submission of the statement of assurance to ensure the complete staffing of a weakness with all functional proponents.

Material Weakness Criteria. Identifying and correcting deficiencies in internal controls is an ongoing responsibility of commanders and managers at all levels. Whether a problem merits reporting as a material weakness is a management judgment. There are two **essential criteria** for a material weakness:

- It involves a deficiency in internal controls (i.e., they are not in place; they are in place but are not being used; or they are in place and used but are inadequate).
- It warrants the attention of the next level of command, because that next level must take **action** or because it must be **aware** of the problem.

It is usually clear whether a problem involves a deficiency in internal controls or whether the next level of command must take corrective action. Whether the next level of command should be made **aware** of a weakness is a more subjective judgment. The following factors should be considered in making this judgment:

- Actual or potential loss of resources (e.g., magnitude, sensitivity, frequency of loss).
- Current or probable Congressional/media interest (adverse publicity).
- Unreliable information causing unsound management decisions.
- Diminished credibility or reputation of Army management.
- Violation of statutory or regulatory requirements.
- Impact on information security.
- Impaired fulfillment of essential mission or provision of Government services.

Sources for Material Weaknesses. Many sources can be used to identify potential material weaknesses, to include audit or inspection findings, criminal investigation results, internal control evaluations, functional management review processes and management's general knowledge of operational problems. Audit and inspection reports

often will recommend reporting specific problems as material weaknesses. These recommendations should be given careful consideration, but the determination to report a material weakness is ultimately a management judgment.

U.S. Army Audit Agency (AAA) Identified Problems in Weakness Reporting. Some weaknesses lack clear, concise problem descriptions; or lack a comprehensive milestone plan for correcting the weakness. Each HQDA reporting organization should consider material weaknesses from its Army Commands (ACOM), Army Service Component Commands (ASCC) and Direct Reporting Units (DRU) feeder statements as input for the possible identification and inclusion in a broader Army-wide material weakness, as well as unimplemented AAA audit recommendations, particularly those with a defined monetary benefit that are more than 18 months old.

Content of Material Weakness Tabs. Tab B will consist of the following three sections:

- TAB B-1, List of material weaknesses, which provides separate listings for uncorrected and corrected material weaknesses. Each listing should indicate the title of the weakness and the fiscal year it was identified, beginning with the most recent weaknesses and working back.
- TAB B-2, Uncorrected material weaknesses, includes separate descriptions of each uncorrected material weakness.
- TAB B-3, Corrected material weaknesses, includes separate descriptions of each corrected material weakness.

Material weaknesses for the Federal Managers' Financial Integrity Act (FMFIA) will be reported in accordance with the format and submission instructions on the following pages (Example).

TAB B-1

Lists of all Uncorrected and Corrected Material Weaknesses

Uncorrected Weaknesses Identified During the Period:

| <u>Title</u> | <u>Quarter (QTR) and Date (FY) Targeted Correction Date</u> | <u>Page #</u> |
|-------------------------|--|----------------------|
| Contingency Contracting | 3rd Qtr, FY 2013 | B-2-1 |

Uncorrected Weaknesses Identified In Prior Periods:

| <u>Title</u> | <u>Year First Reported</u> | <u>Correction QTR and FY Date</u> | | <u>Page #</u> |
|-----------------------------------|---|---|---|----------------------|
| | | <u>Per Last Annual Statement</u> | <u>Per This Annual Statement</u> | |
| Oversight of Service Contracts | FY 2006 | 4th Qtr, FY 2012 | 4th Qtr, FY 2013 | B-2-9 |

Corrected Weaknesses Identified During All Periods:

| <u>Title</u> | <u>Year First Reported</u> | <u>Page #</u> |
|---------------------|---|----------------------|
|---------------------|---|----------------------|

N/A

TAB B-2

Status of Uncorrected Material Weaknesses

Uncorrected Weakness(es) Identified During the Period and In Prior Period

Local ID #:

IC Reporting Category

Title and Description of Material Weakness:

First Year Reported

Target Correction Date:

Corrective Action Summary:

Detailed Corrective Action Plan

Date:

Milestone:

Validation Process:

OSD or HQDA Action Required:

Point of Contact:

Material Weakness (B-2) Format Instructions

This template displays the format for reporting uncorrected material weaknesses and corrective action plans in both “summary” and “detailed” format. Weaknesses identified in the period should be labeled as “Material Weaknesses Identified During the Period” and weaknesses identified in prior periods should be labeled as “Material Weaknesses Identified In a Prior Period.”

Local ID #: Indicate your local identification number for the material weakness.

IC Reporting Category: The Internal Control Reporting Category used as defined in Enclosure 5 of DODI 5010.40.

Title and Description of Material Weakness: Provide a brief description of the overall weakness and the impact to the organization. This shouldn’t be more than a paragraph in length.

First Year Reported: Enter the fiscal year in which this material weakness was first reported in your SOA. This date will not change once the weakness has been identified.

Target Correction Date: This is the expected date of resolution. If this date changes, Corrective Action Summary provide a brief explanation on why this date changed.

Corrective Action Summary: Describe, in summary, the steps necessary to correct the deficiency. Ensure you explain how you will validate the deficiency no longer exists. The validation may either be a documented independent audit review or the accomplishment of a pre-established reported metric. **This shouldn’t be more than a paragraph in length.**

Detailed Corrective Action Plan: All reporting organizations must submit detailed corrective action plan(s), so that they can properly oversee and monitor the status. An example of the detail to include in a corrective action plan is shown below:

(EXAMPLE)

| Date | Milestone |
|------------------|--|
| 4th Qtr, FY 2012 | Review policies to support standardizing data and processes established across the Command. |
| 1st Qtr, FY 2013 | Identify two programs for implementation of revised processes and begin tracking compliance and use. |
| 2nd Qtr, FY 2013 | Develop and deploy a formal training program. |
| 3rd Qtr, FY 2013 | Training curriculum developed and deployed. |
| 3rd Qtr, FY 2013 | Surveillance/oversight in place to support annual report of compliance to the expected standard. |
| 4th Qtr, FY 2013 | Implement recommended changes for centralization of the process ownership and consistent support for programs. |
| 4th Qtr, FY 2013 | Implement recommended changes for staffing levels and oversight of processes. |

| | |
|------------------|---|
| 4th Qtr, FY 2013 | Implement recommended changes to address shipbuilding program office capability and support. |
| 1st Qtr, FY 2014 | Policy compliance meets target level. |
| 4th Qtr, FY 2014 | Validate corrective action plan effectiveness by testing shipbuilding program office compliance with the program changes. |

Validation Process: The effectiveness of corrective actions must be validated before a material weakness is closed (this is important especially when corrective actions focus on policy changes). Indicate the method that will be used to validate the material weakness and the date this will occur. For any Army-level material weakness, validation must be accomplished by the USAAA.

OSD or HQDA Action Required: (For HQDA statements) If correction of this material weakness requires action by OSD or by another HQDA staff agency, indicate the office and the action you believe it should take; include a point of contact with phone number or email address, if possible. If you are reporting the material weakness for "information only," annotate "N/A."

Point of Contact: The name, office symbol, telephone number and e-mail address of the individual in your organization who can respond to inquiries about this material weakness.

TAB B-3

Corrected Material Weaknesses

Identified In All Periods

Local ID #: (a)

IC Reporting Category: (b)

Title and Description of Material Weakness: (c)

First Year Reported: (d)

Correction Date: (e)

Corrective Action Summary: (f)

OSD or HQDA Action Required: (g)

Point of Contact: (h)

NOTES:

- a. Indicate your local identification number for the material weakness.
- b. The Internal Control Reporting Category (as defined in Enclosure 5 of DODI 5010.40.)
- c. Provide a title and a brief description of the overall weakness and the impact to the organization. This shouldn't be more than a paragraph in length.
- d. Enter the fiscal year in which this material weakness was first reported in your SOA. This date will not change once the weakness has been identified.
- e. This is the expected date of resolution. If this date changes, then below the Corrective Action Summary provide a brief explanation on why this date changed.
- f. Describe, in summary, the steps necessary to correct the deficiency. Ensure you explain how you will validate the deficiency no longer exists. The validation may either be a documented independent audit review or the accomplishment of a pre-established reported metric. This shouldn't be more than a paragraph in length.
- g. OSD or HQDA Action Required: For HQDA statements: If correction of this material weakness requires action by OSD or by another HQDA staff agency, indicate the office and the action you believe it should take; include a point of contact with phone number or email address, if possible. If you are reporting the material weakness for information only, indicate "N/A."
- h. Point of Contact: The name, office symbol, telephone number and email address of the individual in your organization who can respond to inquiries about this material weakness.

Definitions of Internal Control Reporting Functional Categories (Reference: Enclosure 5 of DODI 5010.40.)

Group material weaknesses, both uncorrected and corrected, by the functional category designations listed and defined below.

1. Research, Development, Test, and Evaluation. The basic project definition, approval, and transition from basic research through development, test, and evaluation and all DoD and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.

2. Acquisition. The OMB Office of Federal Procurement Policy issued "OMB Guidelines for Assessing the Acquisition Function," in May 2008. Subsequently, on April 6, 2009, OUSD(AT&L) issued, "Guidance on the Assessment of Acquisition Functions under (OMB) Circular A-123," this guidance requires the use of an acquisition assessment template when conducting IC reviews and reporting of IC weaknesses. The purpose of the acquisition template is to assist in the:

- determination of risks related to proper implementation;
- evaluation of existing controls and monitoring activities;
- consideration of corresponding standards and success factors; and
- determination of new material weaknesses.

This applies to all acquisitions, including major acquisitions and items designated as major systems, subject to the procedures of the Defense Acquisition Board, the Military Services Acquisition Review Councils, or the Selected Acquisition Reporting System.

3. Procurement. The decisions to purchase items and services with certain actions to award and amend contracts (e.g., contractual provisions, type of contract, invitation to bid, independent Government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting).

4. Contract Administration. The fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the Government.

5. Force Readiness. The operational readiness capability of combat and combat support (both Active and Reserve) forces which provide the necessary flexibility to deter potential foes and rapidly respond to a broad spectrum of global threats.

6. Manufacturing, Maintenance, and Repair. The management and operation of in-house and contractor-operated facilities performing maintenance and repair and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

7. Supply Operations. The supply operations at the wholesale (depot and inventory control point) level from the initial determination of materiel requirements through receipt, storage, issue reporting, and inventory control (excluding the

procurement of materials and supplies). Covers all supply operations at retail (customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of materiel, equipment, and supplies).

8. Property Management. Construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction) and includes all phases of property life-cycle management. Also covers disposal actions for all material, equipment, and supplies including the Defense Reutilization and Marketing System.

9. Communications. Communication requires a sender, a message, and an intended recipient, although the receiver need not be present or aware of the sender's intent to communicate at the time of communication; thus communication can occur across vast distances in time and space.

10. Intelligence. The plans, operations, systems, and management activities for accomplishing the collection, analysis, processing and dissemination of intelligence in order to provide guidance and direction to commanders in support of their decisions.

11. Security. The plans, operations, systems, and management activities for safeguarding classified resources (not peripheral assets and support functions covered by other reporting categories). Also covers the DoD programs for protection of classified information.

12. Information Technology. The design, development, testing, approval, deployment, use, and security of automated information systems (using a combination of computer hardware, software, data, or telecommunications that performs functions such as collecting, processing, storing, transmitting, or displaying information) and other technologies for processing management information. This includes requirements for justification of equipment and software.

13. Personnel and/or Organization Management. Authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the DoD. Also includes the operations of headquarters' organizations. Contract personnel are not covered by this category.

14. Comptroller and Resource Management. The budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76, "Performance of Commercial Activities", May 29, 2003.

15. Support Services. All support service functions financed from appropriated funds not covered by the other reporting categories such as healthcare, veterinary care, and legal and public affairs services. All non-appropriated fund activities are also covered by this category.

16. Security Assistance. Management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

17. Other (Primarily Transportation). All functional responsibilities not contained in sections 1. through 14., including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.

18. Financial Reporting. Processes, procedures, and systems used to prepare, compile, and generate the DoD's financial statements according to Section 3512 of title 31, United States Code; DoD 8910.1-M, "DoD Procedures for Management of Information Requirements," June 30, 1998; the Federal Accounting Standards Advisory Board (FASAB); the Department of Treasury Financial Manual, Volume 1: the United States Standard General Ledger (USSGL); OMB Circular No. A-136, "Financial Reporting Requirements," June 3, 2008; and DoD 7000.14-R, "DoD Financial Management Regulations."

19. Financial System Conformance. Integrated financial system conformance with the Federal requirements of the Federal Financial Management Improvement Act of 1996 and the OMB Circular No. A-127, and as prescribed by DoD 7000.14-R, Volume 1, Chapter 3, "Federal Financial Management Improvement Act of 1996 Compliance, Evaluation, and Reporting," October, 2008.