

## TAB C

### Internal Controls over Financial Systems (ICOFS)

**Federal Financial Management Improvement Act (FFMIA) Compliance.** Substantial compliance is achieved when an agency's financial management systems routinely provide reliable and timely financial information for managing day-to-day operations as well as to produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements. FFMIA substantial compliance will be determined annually at the department-wide or agency-wide level for the 24 major Chief Financial Officers (CFO) Act agencies. Agencies can determine whether the requirements are being met by applying the FFMIA Risk Model as referenced in the Office of Management and Budget (OMB) Circular A-127.

**Federal Financial Management System Requirements.** The Federal Financial Management System Requirements consist of three parts: (1) computer security requirements; (2) internal controls; and (3) Financial System Integration Office (FSIO) core financial system requirements. Army organizations required to provide annual certifications of internal control over financial systems (ICOFS) are to follow requirements stipulated in Department of Defense Instruction (DoDI) number 8510.01, DoDI 5010.40, DoDI 5118.03, OMB Circular A-123, OMB Circular A-127, Department of Defense (DoD) 7000.14-R Volume 1, Chapter 3, Federal Information Security Management Act of 2002, DoD IT Defense Business Systems Investment Review Process, Army Office of Business Transformation Business System Information Technology Strategy, and Army Knowledge Management and Information Technology Army Regulation 25-1.

The reporting entity should provide an overall introductory summary statement to accompany and explain the below table regarding its compliance with FFMIA. Instructions for completing the table are provided below.

<b>Compliance with Federal Financial Management Improvement Act</b>			
<b>Substantial Compliance Requirements</b>	<b>Reporting Entity</b>	<b>Auditor</b>	<b>Reason for Non-Compliance</b>
<b>1. System Requirements</b>			
<b>2. Accounting Standards</b>			
<b>3. U.S. Standard General Ledger (USSGL) at Transaction Level</b>			

**Actions to Achieve FFMIA Compliance.** The reporting entity should describe, as prescribed in the below instructions, its ongoing actions and/or plans to achieve FFMIA compliance. In addition, the reporting entity should provide the date when FFMIA compliance is expected to be achieved.

## Instructions for TAB C Format

This guidance provides direction for conducting the Federal Managers' Financial Integrity Act (FMFIA) Internal Controls over Financial Systems (ICOFS) process and reporting the results annually in Tab C of the Statement of Assurance (SOA). This guidance is consistent with the FFMIA of 1996 (Section 801 of title 31, U. S. Code); OMB Circular A-127, "Financial Management Systems"; and DoD Financial Management Regulation (DoDFMR) Volume 1, Chapter 3, "Federal Financial Management Improvement Act of 1996 Compliance, Evaluation, and Reporting." Preparers of the annual SOA should be thoroughly familiar with the FFMIA, OMB Circular A-127, and DoDFMR Volume 1, Chapter 3.

**Applicability.** Establishing a FMFIA ICOFS process and annual SOA reporting is mandatory for DoD Reporting Entities listed in Volume 6B, Chapter 1, paragraphs 010601, 010602, and 010605 of the DoDFMR.

### **Reporting Requirement.**

- The Head of each Reporting Entity is responsible for reporting the compliance of the entity's Integrated Financial Management System (IFMS) with the FFMIA, OMB Circular A-127, and Chapter 3 of Volume 1 of the DoDFMR. IFMS is defined in the last section of these instructions. The FFMIA requires the entity's IFMS to be substantially compliant with:
  - Federal system requirements,
  - Federal accounting standards, and
  - U.S. Standard General Ledger (USSGL) at the transaction level.
- Compliance is to be reported in the table in the format section above. Specific guidance for completing the table is provided below.
  - Reporting Entity and Auditor Columns of the Table. Enter either "Yes" or "No" for each compliance requirement. Use "Yes" to report substantial compliance, and use "No" to indicate non-compliance. The Reporting Entity column is used to report the entity's compliance determination. Determination is accomplished in accordance with the next section. The Auditor column is used to report the auditor of entity's financial statements determination of compliance. Financial statement audit reports are required to provide the auditor's determination of the entity's FFMIA compliance. If the entity's financial statements have not been audited, then "N/A" (not applicable) is to be reported.
  - Reason for Non-Compliance Column of the Table.
    - If the entity's IFMS is reported as not substantially compliant ("No") for any of the three compliance requirements, complete the Reason for Non-Compliance column, as described in the next subsection, and accompany the table with a narrative explanation to explain why the IFMS is not substantially

compliant and what is planned to achieve compliance, as well as the fiscal year that the IFMS is expected to achieve substantial compliance.

- For each “No” indicating that the entity’s IFMS is not substantially compliant, one of the following is to be used in the Reason for Non-Compliance column:
  - “IFMS has not been defined,”
  - “IFMS has been defined, but has not been fully implemented,” or
  - “IFMS has been implemented, but has not been fully tested.”

#### **FFMIA Compliance Determination.**

- FFMIA compliance shall be determined through testing and evaluation by an independent internal or external resource (e.g., DoD Inspector General, Component Audit Agency, or Independent Public Accounting firm). Reporting Entity Heads shall ensure that the internal or external resource is objective and sufficiently qualified to perform the testing and evaluation.
- Compliance testing shall be performed in accordance with the Government Accountability Office (GAO) Financial Audit Manual (FAM). The GAO FAM (section 300 of Volume 1 and section 700 of Volume 2) provides specific procedures auditors should perform when assessing FFMIA compliance.
- FFMIA compliance test results/audit reports shall be retained for no less than three (3) years and be made available to financial statement auditors.

#### **IFMS Improvement Plans.**

- The Head of each Reporting Entity is responsible for preparing, maintaining, and executing an IFMS improvement plan when there is moderate risk of non-compliance. IFMS improvement plans shall be fully integrated with financial improvement plans and preparation plans for future financial statement audits.
  - Departments of the Army, Navy, and Air Force and the Defense Logistics Agency shall maintain their IFMS improvement plans within their Financial Improvement Plans (FIPs) or fully integrate such plans in their FIPs.
  - Reporting Entities, as defined above but not including the Reporting Entities of the Departments of the Army, Navy, and Air Force and the Defense Logistics Agency, shall develop and maintain their IFMS improvement plans internally to their organization utilizing a method (e.g., Microsoft Project) that supports coordination of the plans with the Defense Finance and Accounting Service, Business Transformation Agency, and other DoD organizations, as needed.
- IFMS improvement plans also must:
  - Be integrated with the Reporting Entity’s internal control program and implementation and execution of OMB Circular A-123, Appendix A, and

- Provide assurance to management through control testing that the IFMS is ready for conducting the FFMA compliance determination, as described above.

**Integrated Financial Management System (IFMS) Defined.** The IFMS is a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs. The IFMS has the following characteristics:

- Common Data Elements
- Common Transaction Processing
- Consistent Internal Controls
- Efficient Transaction Entry

**TAB C-1**

**Internal Controls over Financial Systems (ICOFS)  
Lists of all Uncorrected and Corrected Material Weaknesses**

**Uncorrected Weaknesses Identified During the Period:**

<b>Title</b>	<b>Quarter (QTR) and Date (FY) Targeted Correction Date</b>	<b>Page #</b>
Financial Management Systems	3 <sup>rd</sup> Qtr, FY 2014	C-X

**Uncorrected Weaknesses Identified During Prior Periods:**

<b>Title</b>	<b>Year First Reported</b>	<b>Correction QTR and FY Date</b>		<b>Page #</b>
		<b>Per Last Annual Statement</b>	<b>Per This Annual Statement</b>	
Financial Management Systems (The lack of a single, standard transaction-driven general ledger will prevent the Army from preparing auditable financial statements.)	FY 2006	4 <sup>TH</sup> Qtr, FY 2013	4 <sup>TH</sup> Qtr, FY 2013	C-X

**Corrected Weaknesses Identified During All Periods:**

<b>Title</b>	<b>Year First Reported</b>	<b>Page #</b>
None		

**TAB C-2**

**Internal Controls over Financial Systems (ICOFS)  
Status of Uncorrected Material Weaknesses**

**General Fund**

**Uncorrected Weakness(es) Identified During the 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 (C-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 email address of the individual in your organization who can respond to inquiries about this material weakness.

**TAB C-3**

**Internal Controls over Financial Systems (ICOFs)  
Corrected Material Weaknesses**

**General Fund**

**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.