



DEPARTMENT OF THE ARMY
WASHINGTON DC 20310

INFO MEMO

FOR: SECRETARY OF DEFENSE

FROM: R. L. Brownlee, Acting Secretary of the Army *Brownlee* OCT 8 2004

SUBJECT: FY 2004 Statement of Assurance on Management Controls

- The Federal Managers' Financial Integrity Act (FMFIA) requires the Department of Defense (DoD) and other Federal Agencies to assess their management controls and submit an annual Statement of Assurance. Statements from DoD Components support the DoD statement.
- The Army's FY 2004 Statement of Assurance is attached. All available information indicates Army's management controls provide reasonable assurance, as specified in the FMFIA, with the exception of material weaknesses identified in this report.
- Three concerns were identified within the Army during FY 2004. While none of the concerns are being reported as a material weakness, they do represent issues that are being forwarded for your information and awareness. (Attachment)
- The Army's management control program and the process used to conduct this evaluation are described at Tab A.
- Information on Army material weaknesses is also attached. Tab B-1 provides a list of the material weaknesses being reported. Tab B-2 and Tab B-3 provide descriptions of uncorrected and corrected material weakness. Tab B-4 provides examples of management control accomplishments.
- The Army Auditor General's independent assessment of the Army's management control process is at Tab C.

COORDINATION: NONE

Attachments:
As Stated

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AREAS OF CONCERN

First, attention is needed regarding intelligence oversight responsibilities of Headquarters, Department of the Army in relation to the Combatant Commands (COCOMs) in light of the Goldwater-Nichols Act of 1986. While not an Army reportable material weakness, reporting and investigations surrounding the abuse allegations at detention centers in the U.S. Central Command and U.S. Southern Command areas of operations have highlighted a lack of intelligence oversight for COCOMs. Existing policies are not written as clearly as they could be; Army personnel passed allegations through a system they understood, via Service channels. These allegations should also have been reported to the COCOMs for investigation and resolution. Given the Service responsibility for policy and training, and the COCOM responsibility for command and control of assigned forces, neither can resolve questionable intelligence activities without the other's involvement. Recommend DoD and the Joint Staff clarify oversight responsibilities within the COCOMs and Joint Task Forces, and the relationship to Service oversight responsibility.

Second, based on a weakness first reported by the U.S. Army Reserve Command, the Office of the Surgeon General reported an issue about significant numbers of Army Reservists that are mobilized, but are not deployable until they receive medical or dental treatment. Some preliminary information gathered reveals that during the of period December 1, 2003 to February 28, 2004, approximately 21 percent of all Army Reserve Soldiers reporting for mobilization received treatment to correct Dental Class 3 (DC3) conditions. DC3 dental conditions must be corrected prior to a Soldier's deployment. A Task Force, reporting to the Army Reserve Forces Policy Committee, is currently reviewing the issue - its results are then subject to review by the Reserve Component Coordination Council before a presentation of results to senior Army leadership. The Health and Medical Care Subcommittee of the Assistant Secretary of the Army (Manpower and Reserve Affairs) / G-1 Reserve Component Optimization Task Force is also reviewing the issue.

Third, the Army is not using existing statutory and DoD guidance to properly manage Soldiers who fail to meet their Selected Reserve service requirements. Present statutory authority and DoD Instructions allow the Secretary of the Army to involuntarily activate statutorily obligated Soldiers who are determined to be unsatisfactory participants and who have not served on Active Duty for a total of 24 months. However, the Army has not enforced these statutory and regulatory provisions essentially allowing these Soldiers to perform the Reserve Component equivalent of absent without official leave with no penalty clause. Guidance implementing the statutory and DoD guidance was removed from Army regulatory guidance approximately 20 years ago as it was determined too costly to mobilize the volume of unsatisfactory participants.

In June 2004, the U.S. Army Audit Agency reported that the Army is not effectively managing non-participating Soldiers. According to the report, the Army

Reserve has continuously had a high level of non-participant Soldiers on its personnel rosters. Although the non-participants weren't paid for the drills missed, the Army incurs both medical care and life insurance expenses for these Soldiers. Based on the cost estimates from this report, non-participants are costing the Army about \$2,750 per year per Soldier (\$240 for life and \$2500 for medical care insurances) for a total cost of over \$46 million per year. The Army also present a false strength picture by continuing to carry non-participating Soldiers on its rolls even though they are not viable assets. At the time of transition from active service, the requirements for service in the Selective Reserve (SELRES) and Individual Ready Reserve (IRR) must be reinforced and solidified. The expectation must be set and explained to the Soldier when he or she contracts with the Army and makes a commitment to serve. And most importantly, an unprecedented level of energy needs to be brought to a plan to restore the IRR to its intended purpose--a manageable inventory of Soldiers to match critical demands. The Army Reserve has requested permission, in coordination with U.S. Army Human Resources Command, to involuntarily assign obligated Soldiers from the IRR to the SELRES under special considerations. Approval of this request will demand that the Army rethink policy and process to change existing culture.

**ARMY'S CONCEPT OF REASONABLE ASSURANCE AND
HOW THE EVALUATION WAS CONDUCTED**

(TAB A)

ARMY'S CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

(TAB A)

Determination of Reasonable Assurance

The Army has an active, aggressive management control process that has been thoroughly institutionalized at all levels. Education of those in leadership positions and training of all commanders and managers is given high priority. Administration of the process stresses accountability for establishing effective management controls, for conducting formal evaluations of these controls, and for ensuring that management control deficiencies are reported and corrected. The U.S. Army Audit Agency (USAAA) routinely assesses the effectiveness of management controls in the course of every audit, explicitly addressing management control deficiencies in their reports as a means of ensuring managerial accountability. In addition, USAAA annually conducts a review of the Army management control process, to include preparation and support of the Secretary's annual statement, and publishes an independent assessment that is presented to the Secretary along with his annual statement. That independent assessment is included at Tab C of this annual statement.

The Army has periodically reassessed the effectiveness of its management control process and initiated improvements when needed. In addition, the Army's senior leadership has voiced strong support for an aggressive management control orientation, placing heavy emphasis on the importance of management controls and requiring the active involvement of Army commanders in the process. The positive response of commanders and managers throughout the Army demonstrates their strong commitment to strengthening management controls as a means of promoting mission accomplishment and sound stewardship of public resources. Finally, to ensure that the Army's annual statement reflects a fair assessment of its management controls and discloses fully its management control deficiencies, the Army's Senior Level Steering Group (SLSG), representing all functional areas, conducts a final corporate review of this statement prior to its submission to the Secretary for approval and signature.

Guidelines and Objectives

The Army's management controls in effect during the fiscal year (FY) ending September 30, 2004, were evaluated in accordance with the Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government. These guidelines were issued by the Director of the Office of Management and Budget (OMB), in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act of 1982 (the Integrity Act). Included here is an evaluation of whether the Army's system of internal accounting and Administrative controls are in compliance with standards prescribed by the Comptroller General. The objectives of the Army's system of management controls are to provide management with reasonable assurance that:

-- Obligations and costs comply with applicable law;

-- Assets are safeguarded against waste, loss, unauthorized use, and misappropriation;

-- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained; and

-- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

The following sections describe the Army's concept of reasonable assurance; how the Integrity Act has been implemented in the Army; how the Army's management control process functions to ensure that managers are trained and held accountable; and how management control deficiencies are identified, tracked through to correction, and reported.

The Army's Concept of Reasonable Assurance

The Army's concept of reasonable assurance recognizes that the cost of management controls should not exceed the expected benefits, and that these benefits consist of reductions in the risks of failing to achieve stated objectives. The expected benefits and related costs of management control measures should be addressed using managerial judgment. Furthermore, management control problems may occur and not be detected because of inherent limitations in any system of management controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, the projection of any evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or the degree of compliance with procedures may deteriorate. Therefore, our statement of reasonable assurance is provided within these limitations.

How the Integrity Act Has Been Implemented by the Army

Even before the Integrity Act, the Army's inherent complexity and discipline required a broad range of management control mechanisms to ensure accomplishment of basic missions. Army regulations and other formal directives define the standard actions that must be accomplished by Army commanders and managers. Standard organization structures for Army garrisons and tactical units serve to separate essential duties, pinpoint policy and oversight responsibility, and create checks and balances that reduce the risk of errors and omissions. Other common management control mechanisms include weekly staff meetings, quarterly review and analysis sessions and various in-process reviews and status briefings tailored for decision-making. Additional prevention and detection measures are provided by internal Army organizations performing extensive audits, inspections, investigations, and quality reviews of every Army activity. Confidence about the readiness posture of tactical unit personnel, equipment and training is derived from Unit Status Reports submitted by unit commanders and forwarded through channels to Headquarters, Department of the Army (HQDA). In a similar fashion, confidence about garrison functions is derived from

the Installation Status Report. These examples clearly illustrate that the Army's commitment to effective management controls has been, and continues to be, an inseparable element of day-to-day operations.

The Army's initial effort to implement the Integrity Act was a largely decentralized approach. Operating managers throughout the Army were provided with broad OMB Guidelines and Comptroller General Standards and were made responsible for assessing risk, identifying the controls to evaluate, and conducting these evaluations. This approach resulted in excessive workload and considerable confusion. In FY 1984, the Army's program was redirected to a highly centralized approach. HQDA functional proponents identified the management controls to be evaluated, and did so in the form of a checklist that also served as the required tool for conducting these evaluations. The HQDA functional proponents also conducted Army-wide risk assessments of their functional areas and, based on these assessments, determined the frequency for conducting these required evaluations. Based on their input, the Army's management control staff published these checklists in a series of Department of the Army Circulars and published a single Army-wide Management Control Plan listing the areas to be evaluated, the schedule for doing so, and the officials responsible for ensuring that these evaluations were conducted.

This more centralized approach continued unchanged for the most part through FY 1994, and was successful in standardizing the evaluation process throughout the Army. However, when the Government Accountability Office (formerly known as General Accounting Office) (GAO) conducted its major review of Army financial management operations and controls in FY 1991-1992, it found numerous management control failures. While the audit report indicated that the Army had a good management control policy and program framework, they were often not being used by managers in the field. As a result of this and other audit reports, the Army initiated a self-assessment of its management control process. This included sessions with Army managers and an independent assessment by a private accounting firm. The result of this self-assessment confirmed the GAO's findings and pointed out several specific problems with the management control process: it was too heavily centralized, with HQDA making too many of the key decisions (e.g., what to evaluate, how to evaluate and when); it provided little flexibility to commanders and managers, and resulted in their having little sense of ownership of the process; and the checklists that identified the management controls to be evaluated were excessive in number and in length, were confusing in format and style, and were filled with questions about minor procedural requirements.

Based on this self-assessment, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA (FM&C)) restructured the management control process effective October 1, 1994. This restructured process reduces workload and promotes ownership and accountability for effective management controls by limiting required evaluations to key management controls, by providing maximum flexibility to commanders and managers on how and when they conduct these evaluations, and by raising the level of responsibility for certifying these evaluations. HQDA functional proponents still determine which management controls must be evaluated, but they are now much more selective, thus allowing managers to focus their limited resources on higher priority areas. Key management controls that

must be evaluated are being identified in Army regulations, along with simple, streamlined checklists or other suggested evaluation methods. Commanders and managers develop their own management control plans to cover both the required evaluations and those additional areas that they choose to evaluate. They also determine which senior officials, generally Colonels or GS-15s and above, will be designated as the Assessable Unit Managers responsible for certifying these evaluations.

The Army's Management Control Process

The Army's approach to management control is based on the fundamental philosophy that all commanders and managers have an inherent management control responsibility. HQDA functional proponents are responsible for establishing sound management controls in their policy directives and for exercising effective oversight to ensure compliance with these policies. Commanders and managers throughout the Army are responsible for establishing and maintaining effective management controls to ensure that operations are effective and resources are protected and used appropriately. This philosophy is soundly rooted in the Integrity Act and OMB, DoD and Army policy. The Army's management control process supports commanders and managers in meeting these inherent responsibilities by providing two additional management control mechanisms: a process for periodically conducting detailed evaluations of key management controls and a process for developing and supporting an objective annual statement of assurance for the Secretary of the Army that fully discloses known material weaknesses.

In September 2001, a Management Control Steering Group was chartered by the OASA (FM&C) to assist the Army's management control staff. Composed of senior Management Control Administrators (MCAs) from throughout the Army, this Management Control Steering Group provides advice, identifies areas that need improvement, and initiates or assists in implementing those improvements. While only in existence for three years, this Steering Group has provided valuable insight and advice on areas of improvement and implementing assistance that has benefited the Army through several successful efforts, which are highlighted in the following sections.

The Army's management control policy and process are implemented and emphasized through four key components. First, and foremost, is leadership emphasis. Second is education and training to ensure that commanders and managers understand their management control responsibilities. Third is an evaluation process that clearly defines fundamental requirements and establishes accountability, while minimizing the workload burdens that ultimately detract from enthusiastic acceptance of Integrity Act objectives. Fourth, and the ultimate goal of the Integrity Act, is an effective process to detect, report and correct recurring management control deficiencies.

Leadership Emphasis

The Army's senior leadership has consistently demonstrated strong support for the management control process in two ways:

-- The Army's senior leadership has issued a series of memoranda emphasizing the importance of effective management controls and sound stewardship of public resources. The most recent of these – developed by the new Management Control Steering Group – was signed jointly by the Secretary of the Army and the Chief of Staff, Army in February 2002 and was addressed to all major Army commanders.

-- The Army uses its SLSG as a “senior management council” (a forum recommended by OMB Circular A-123) to review, discuss and resolve management control issues. This executive body composed of General Officers and Senior Executive Service members meets twice each year: in the spring to review progress in correcting previously-reported material weaknesses and in the fall to review the proposed Army Statement of Assurance before it is sent to the Secretary for approval and signature. In both sessions, the SLSG considers additional management control deficiencies that might merit reporting as Army material weaknesses.

-- Since FY 1996, at the direction of the Under Secretary of the Army, implementation of the management control process has been assessed on an annual basis. This assessment is conducted by a joint panel representing the OASA(FM&C), the Inspector General and the Auditor General, and results in Letters of Commendation from the OASA(FM&C) to deserving organizations.

Education and Training

Educating Army commanders and managers at all levels on the principles and practices of sound management control is central to achieving the objectives of the Integrity Act. It is a continuous process and potentially very expensive. General management control training courses developed by the U.S. Department of Agriculture's Graduate School are offered to all Government managers, but obtaining training solely from external sources would be too expensive and would not address the specifics of the Army's management control process. Instead, the Army's management control staff implemented an Army-wide education and training effort to achieve a basic understanding of management controls and the components of the Army's management control process. This training is provided to the HQDA staff, commanders, managers and MCAs at all levels. The following is a summary of these education and training efforts:

Direct Training Assistance: The Army's management control staff has focused its efforts primarily on embedding management control instruction in the Army's education and training structure, rather than directly providing this instruction itself. This approach has yielded substantial benefits in terms of providing more comprehensive and cost-effective management control training, reaching a wider student population and increasing management's understanding of, and commitment to, effective management controls. Nevertheless, some direct training assistance is provided:

-- Management Control Training Conference. To enhance the ability of MCAs to run their own programs and conduct their own training, the management control staff conducts an annual Management Control Training Conference. The May 2004 conference provided 171 MCAs from major commands (MACOM) and HQDA staff

agencies with information on management control policies and procedures, and provided a forum to discuss current issues and ideas for better program implementation. After the conference a customer survey was sent to all attendees so that valuable feedback could be received ensuring this training meets the needs of the management control community.

-- Management Control Web site. To more effectively communicate management control information to the total Army, the management control staff upgraded its Army management control homepage to ensure that accurate and easily accessible information is rapidly provided in a user-friendly manner to commanders and managers throughout the Army.

Education of Army Leadership: The management control staff strives to ensure that the management control message is included in the curricula of the Army's primary leadership schools, in an effort to make it a part of the professional development of every Army commander and manager. The following leadership schools include management control instruction:

-- Command and General Staff College. The Command and General Staff Officers Course is a ten-month program that prepares 1200 officers for duty as field grade commanders and principal staff officers at division and higher echelons.

-- Garrison Commanders' Course. Designed for Colonels assigned to command Army garrisons and for their civilian Executives Assistants, this course is presented four times a year.

-- General Officer Installation Command Course. Designed for Major Generals assigned to command Army installations, this course is taught four times a year and addresses the topic of management controls.

-- Army Comptrollership Program. This is a 14-month graduate level program for Army military and civilian resource managers at Syracuse University. In addition, management control training has been incorporated into the Professional Resource Management Course, a four-week professional development course for mid-level Army managers that is also taught at the University.

-- Professional Military Comptroller School (PMCS). This is a six-week course for mid-career and senior resource managers in DoD. This course is taught five times a year to over 200 students and develops their capacities to adapt the comptroller's role to the economic, political and social environment of their military organizations.

Training of Army Managers: In addition to direct training assistance to MCAs and efforts to improve leadership education, management control instruction has been incorporated into courses designed to train Army managers. These include:

-- Army Soldier Schools. Instruction in stewardship and management control has been incorporated in Army Soldier schools to include the Officer and Warrant Officer Basic/Advanced courses, the Advanced Non-Commissioned Officer and First

Sergeant courses, and the Combined Arms and Services Staff School.

-- Army Management Staff College. The Sustaining Base Leadership and Management Program is a 12-week resident course designed to provide advanced professional education to selected military and civilian managers across a wide range of functional areas. It is offered three times a year and trains approximately 450 managers and leaders who will advance to fill key positions.

-- Government Audit Training Institute (GATI). The management control staff has worked with GATI (a part of the U.S. Department of Agriculture's Graduate School) to develop two courses that are tailored specifically to the Army's management control process. First, there is a basic one-day on-site course for managers; during FY 2004, GATI taught fifteen classes reaching 309 students, a increase of 142 students over FY 2003 attendance. Secondly, there is a two-day course specifically designed to train MCAs; during FY 2004, this course was offered 14 times reaching 363 Army students. This represents an increase of 115 students taught in FY 2004 over FY 2003 totals.

-- Auditor Training. The USAAA has incorporated instruction on the Army's management control process into its training courses for both USAAA and Army Internal Review evaluators, with separate courses provided for basic, intermediate and senior auditor levels.

Administration of the Management Control Process

A vital element in the Army's management control process is the Management Control Plan. This management tool defines the functional areas where key management controls must be evaluated, the five-year schedule for conducting these evaluations, the officials responsible for ensuring that these evaluations are conducted and for certifying the results. By pinpointing the responsibility for these evaluations, the Management Control Plan provides support for the assurances reflected in the Secretary of the Army's annual statement and the supporting annual statements from the Army's reporting organizations and commands. Under the restructured management control process, the Army's reporting organizations and commands, and their assessable unit managers have established their own Management Control Plans. While these plans will contain the same basic information and provide the same measure of accountability, commands and assessable unit managers can now achieve economies by developing their own schedules for conducting management control evaluations.

In order to streamline the management control process and reduce the workload associated with it, the required management control evaluations have become more selective, focusing on key management controls. HQDA functional proponents have revised their regulations to identify the key management controls that must be evaluated and to provide guidance on how evaluations may be conducted. The Army management control staff maintains an inventory of all required evaluations and makes this available Army-wide through its management control web site, which is updated annually. Managers select those evaluations that are applicable to their organization and choose how the evaluations will be done, using either a new streamlined checklist

or some existing management review process. This approach ensures that key management controls are updated when policies are revised, that managers have the flexibility to conduct their evaluations in the most efficient manner, and that they can concentrate their scarce resources on higher priority areas.

Under the management control process, MACOMs and HQDA staff agencies segment themselves along organizational lines into assessable units, which must be headed by no less than a Colonel or GS-15 (at garrison/activity level, where the grade structure is lower, the Assessable Unit Manager may be the senior functional manager, regardless of grade). While most of the detailed work associated with a management control evaluation continues to be done by personnel at lower levels, the certification has been raised to a substantially higher level ensuring that mid-to-upper level managers are involved in, and accountable for, the evaluation of their management controls.

As indicated, USAAA plays an active role in this process. USAAA looks at the effectiveness of management controls during audits and annually conducts a review of the Army's management control process, resulting in an independent assessment from the Auditor General to the Secretary of the Army. In addition, based on its audit work, USAAA also identifies functions that it believes merit the identification of key management controls in Army Regulations. Finally, USAAA Program Directors identify potential Army material weaknesses for consideration by HQDA functional proponents and the Army's SLSG.

Army Management Control Weaknesses

The Army employs comprehensive means for detecting and correcting management control weaknesses, and for identifying and reporting those weaknesses that are considered material. In addition to external coverage of Army operations by the GAO and the DoD Inspector General, the Army scrutinizes itself through continuing and repetitive reviews by the USAAA, the Army Inspector General organization, installation-level Internal Review and Inspector General operations, a broad array of specialized functional review groups, and other standard evaluations. Army systems and procedures have been in place for many years to record, monitor and achieve resolution of all detected deficiencies, most of which involve management control weaknesses.

In determining which management control weaknesses should be reported as material by the Army, HQDA functional proponents consider all sources of information to include: their overall awareness of the situation in their areas of responsibility; the views of major field commanders as expressed in their supporting annual statements; DoD systemic material weaknesses identified by the OSD staff; all significant audit and inspection reports; and suggestions by the DoD Inspector General, Army Auditor General and Army Inspector General on reports or findings which they believe merit serious consideration for reporting as Army material weaknesses. In addition, the Army uses its SLSG to conduct both a mid-year review of selected and potential Army material weaknesses and a final corporate review of the Army statement prior to submitting the statement to the Secretary for approval and signature. This SLSG functions as the Army's Senior Management Council, an approach recommended by OMB that the Army strongly supports and has integrated into its management control

process.

Ultimately, however, the Army's final determination on material weaknesses reflects its management judgment, as intended by the Integrity Act. The Army is fully aware of and acknowledges its management control problems, both in the DoD Inspector General's semiannual report to Congress and in various audit and inspection reports (subject to the formal resolution of disagreement process). The omission of any such problem in the Secretary's annual statement simply reflects a difference of opinion on the relative materiality of the problem.

In the 21 reporting years since inception of the Army's management control process, Army commanders and managers have reported 1371 material weaknesses to the Secretary. These were the weaknesses remaining after a filtering and value-added reporting process from line managers up through each higher echelon of management. After aggregating similar problems and weeding out lesser issues, the Army reported 231 material weaknesses to DoD. Only 12 of these remain open. Summary details follow:

Open material weaknesses at September 30, 2003	13
Plus: new material weaknesses identified in FY 2004	1
Less: material weaknesses corrected in FY 2004	2
Open material weaknesses at September 30, 2004	12

The Army is reporting the closure of two material weaknesses in FY 2004:

-- Automated Mobilization System (FY 1988). This weakness, while open for 16 years, has faced major challenges during that time such as restructuring systems, changes in technology and size of mobilization deployments. The fielding of the Reserve Component Automation System provides the Army Reserve Component mobilization planning, notification and preparation needs through timely and accurate data. (page B3-1)

-- Army Purchase Card Program (FY 2002). Based on a GAO audit report Army's purchase card program needed program changes and oversight improvements to ensure adequate protection of government resources. The Office of the Assistant Secretary of the Army(Acquisition, Logistics, and Technology) took actions to reduce the number of purchase cards, supported data mining on transactions with DoD, issued policy on management oversight and internal controls, and reduced the span of control requirement to seven cardholders per one billing official. (page B3-2)

DoD Systemic Material Weaknesses

The Office of the Secretary of Defense (OSD) is reporting nine DoD systemic management control material weaknesses in FY 2004. These DOD systemic material weaknesses and the Army material weaknesses that are related are:

DoD Financial Management Systems and Processes: Two Army material weaknesses are related to this DoD systemic weakness.

- Financial Reporting of General Equipment (page B2-12)
- Financial Reporting of Real Property (page B2-11)

Management of Information Technology and Assurance: One Army material weakness is related to this DoD systemic weakness:

- Information Systems Security (page B2-7)

Environmental Liabilities: One Army material weakness is related to this DoD systemic weakness:

- Management of Unexploded Ordnance (page B2-6)

Personnel Security Investigations Program: No Army material weaknesses are related to this DoD systemic weakness. While the Army is concerned about the impact of this DoD systemic weakness on its day-to-day operations, the responsibility for corrective action lies outside the Army.

Real Property Infrastructure: No Army material weaknesses are related to this DoD systemic weakness.

Contracting for Services: One Army material weakness is related to this DoD systemic weakness.

- Contract Administration of Service Contracts (page B2-2)

Government Card Program Management: Army reported in the FY 2003 Statement a material weakness in its Purchase Card Program. During FY 2004 corrective actions were completed and weaknesses corrected. USAAA validation concluded that the Army adequately implemented the GAO recommendations. This weakness is being reported closed in the FY 2004 Statement.

Valuation of Plant, Property and Equipment on Financial Reports: Two Army material weaknesses are related to this DoD systemic weakness.

- Financial Reporting of General Equipment (page B2-12)
- Financial Reporting of Real Property (page B2-11)

Valuation of Inventory Financial Reports: No Army material weaknesses are related to this DoD systemic weakness.

MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

(TAB B)

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

(TAB B-1)

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

(TAB B-1)

Uncorrected Weaknesses Identified During the Period:

<u>Title</u>	<u>(Quarter and Fiscal Year) Targeted Correction Date</u>	<u>Page</u>
Supply Operations:		
Logistics Asset Visibility and Accountability	4 th Qtr FY 2008	B2-1

Uncorrected Weaknesses Identified During 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>	
Contract Administration:				
Contract Administration of Service Contracts	FY 2003	2 nd Qtr FY 2005	2 nd Qtr FY 2005	B2-2
Standard Procurement System Interface to Computerized Accounts Payable System	FY 2001	4 th Qtr FY 2004	1 st Qtr FY 2005	B2-3
Supply Operations:				
In-Transit Visibility (ITV) Policies/Standards	FY 2002	TBD	4 th Qtr FY 2008	B2-4
Financial Reporting of Equipment In-Transit	FY 1996	4 th Qtr FY 2005	3 RD Qtr FY 2007	B2-5

Uncorrected Weaknesses Identified During Prior Periods: (Continued)

<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>	
Property Management:				
Management of Unexploded Ordnance	FY 1998	1 st Qtr FY 2007	4 th Qtr FY 2005	B2-6
Communications Security:				
Information System Security	FY 1996	2 nd Qtr FY 2005	2 nd Qtr FY 2005	B2-7
Personnel/Organizational Management:				
Reserve Component Mobilization Accountability	FY 2003	4 th Qtr FY 2004	4 th Qtr FY 2006	B2-8
Line-of-Duty (LOD) and Incapacitation (Incap) Pay	FY 2002	4 th Qtr FY 2005	4 th Qtr FY 2005	B2-9
Manpower Requirements Determination System	FY 1997	4 th Qtr FY 2005	4 th Qtr FY 2005	B2-10
Comptroller/Resource Management:				
Financial Reporting of Real Property	FY 2003	4 th Qtr FY 2004	2 nd Qtr FY 2005	B2-11
Financial Reporting of General Equipment	FY 1999	2 nd Qtr FY 2004	1 st Qtr FY 2006	B2-12

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

(TAB B-1)

Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page</u>
Contract Administration:		
Army Purchase Card Program	FY 2002	B3-1
Force Readiness:		
Automated Mobilization System	FY 1988	B3-2

**UNCORRECTED MATERIAL WEAKNESSES
STATUS OF CORRECTIVE ACTIONS**

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESS

AICO-04-001

Title and Description of Material Weakness: Logistics Asset Visibility and Accountability. The Army does not have adequate visibility over all requisitions, equipment and supplies transported to, from, and within Theaters of operation, nor across the Army. The supply chain does not effectively support asset visibility and distribution capability in Theaters of operation nor can it effectively manage and transport the large amount of supplies and equipment deployed to support significant Theater operations such as Operation Iraqi Freedom(OIF). Army policies have reduced stock levels and amount of items carried on prescribed load listings and authorized stockage lists. The result is a lean supply chain without the benefit of either an improved distribution system or an enhanced information system.

A United States General Accounting Office (GAO) letter dated December 18, 2003, Subject: **Defense Logistics Observations on The Effectiveness of Logistics Activities During Operation Iraqi Freedom** documented the fact that Logistics Asset Visibility, in conjunction with Theater Distribution and Integrated Supply Chain, is a material weakness. In addition, these weaknesses were identified in after action reviews with commanders and soldiers at deployed sites and supporting personnel involved in the day-to-day support of deployed forces. Forums included the Office of the Deputy Chief of Staff (ODCS) G-4 Class IX Supply Policy Summit General Officer Steering Committee August 4, 2003 and the Combined Arms Support Command (CASCOM) OIF Distribution review March 10-12, 2004.

Radio Frequency Identification (RFID) that tracks assets shipped to and within Theater is now fully supported within DoD and is being expanded and integrated into the Joint Distribution Systems of Record. The use of RFID is being instituted in resident training within Army logistics schoolhouses but still not used in a uniform and consistent manner at the tactical level. Army has taken measures to improve tactical communications but many small units do not have continuous assured access to use DoD logistics and asset visibility systems. DoD distribution systems are now linked to the RFID In-Transit Visibility servers and are capable of exchanging data to maintain inside the box content level visibility of shipments. Training has improved for DoD and service personnel on the use of RFID tags and other tracking tools, but is not fully instituted in doctrinal publications for effective asset visibility.

For an extended period time during OIF, a discrepancy of \$1.2B worth of supplies existed between what was shipped to Army activities in Theater, and what was acknowledged as received by those activities. The discrepancy is reduced to \$375M. Since this issue surfaced, Army has taken action to implement use of the Automated Manifest System for throughput and cross docking management at Theater distribution centers and enabled the Standard Army Retail Supply System

with an automated transportation receipt capability using RFID. Cannibalization of vehicles in Theater and potential reduction in equipment readiness resulting from unavailability of parts that were either not in the DoD inventory, or which could not be located because of inadequate asset visibility has been reduced. Some shipments were “pushed” into Theater by Program Managers (PMs)/Integrated Material Management Center (IMMC), unsolicited by the Command. Shipments consigned to activities in Theater were diverted to an alternate activity.

Distribution of supplies to go forward in Theater is restricted because adequate transportation assets, such as cargo trucks and material handling equipment, are not available early on during Theater operations, when distribution is most critical to success. Distribution of supplies is delayed because cargo arriving in shipping containers and pallets must be separated and repackaged several times for delivery to multiple units in different locations. DoD’s lack of an effective process for prioritizing cargo for delivery precludes effective use of scarce Theater transportation assets. Adequate numbers of Army and Marine logistics personnel do not deploy to the Theater until after combat troops arrive and sometimes not until after operations are well under way. In addition, some logistics personnel are not trained on numerous logistics systems, such as operating material handling equipment and managing Theater distribution centers.

Functional Category: OSD – Supply and Maintenance Operations
 Army – Supply and Maintenance Activities

Pace of Corrective Action:

Year Identified: 2nd Qtr FY 2004

Original Targeted Correction Date: 4th Qtr FY 2008

Targeted Correction Date in Last Year’s Report: Not Applicable.

Current Target: 4th Qtr FY 2008

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

	(\$000s)					
<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>Cost-To-Complete</u>	<u>Total</u>
TBD						

Validation Process: Validation will be conducted by the Office of the Deputy Chief of Staff, G-4 (ODCS, G-4) and US Army Audit Agency (USAAA).

Results Indicators: The Army will have a system with asset visibility capability for tracking supplies and equipment from the factory to foxhole. This system will

allow the Army to manage: its supplies and equipment shipped to units in Theater; mandatory RFID use; receipt tracking; port handling systems; proper training on logistics systems; deployment of logistics personnel in a timely manner; visibility and tracking of requisitions for spare/repair parts; and physical security at ports and distribution points. Corrective actions will reduce the error rate of in-transit asset data.

Source(s) Identifying Weakness: GAO letter dated December 18, 2003, Subject: Defense Logistics Observations on The Effectiveness of Logistics Activities During Operation Iraqi Freedom, (GAO-04-305R).

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
07/04	DoD RFID Policy (Active and Passive RF Mandatory use)
08/04	POM 06-11 Funding for TAV

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
10/04	SARSS – BPS IOC (Connect Focus Area IPT)
10/04	Movement Tracking System Expanded Fielding
01/05	Army RF Implementation Strategy
09/05	SATCOM Phase One – SSA/Log nodes (Connect Focus Area IPT)

C. Planned Milestones (Beyond Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
10/05	Army Reverse/Retrograde Logistics – Reverse Pipeline Committee
10/05	Pure Packing IPT recommendations
10/06	SARSS – BPS Fielding (Connect Focus Area IPT)

C. Planned Milestones (Beyond Fiscal Year 2005): (Continued)

<u>Date:</u>	<u>Milestone:</u>
09/07	SATCOM Final Phase – maneuver BN level (Connect Focus Area IPT)
FY08	GCSS-A (fielded)
FY09	Logistics Modernization Program (fielded)
TBD	TC-AIMS (fielded)(Joint Deployment System)(FP)
FY08	Battle Command Sustainment Support System (BCS3) (fielded)
4 th Qtr FY 2008	USAAA review and validation.

Status of Participating Functional Organizations: Office of the Under Secretary of Defense (Acquisition, Technology & Logistics), Office of the Under Secretary of Defense (Logistics Materiel Readiness) and Office of the Joint Chiefs of Staff, J-4.

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UNCORRECTED MATERIAL WEAKNESS

AICO-03-001

Title and Description of Material Weakness: Contract Administration of Service Contracts. The U.S. Army Audit Agency (USAAA) identified a significant weakness in administering service contracts. Service contracts represent an ever-increasing percentage of the overall contract dollars and now have surpassed the dollars awarded under major weapon systems programs.

Significant audit findings include ineffective planning for quality assurance requirements. Although contracting officers generally appointed quality assurance personnel for contracts, they often did not adequately train the quality assurance personnel about their responsibilities and limitations of authority. They also did not make sure evaluators were versed in proper quality assurance procedures and that the quality assurance evaluators understood specific contract requirements.

In addition, there was a lack of surveillance plans overall, resulting in a lack of a systematic inspection system and ineffective documentation of contract performance. Proper quality assurance procedures require surveillance plans that serve as roadmaps for monitoring contractor performance. This is a key element of establishing strong internal controls that ensure the Army receives value for its serve-contracting dollar. Due in part to the lack of documentation, procedures for validating and approving contractor invoices sometimes were not adequate. In addition, responsibilities and processes for approving invoices were not properly defined.

Several Major Army Commands (MACOMS) have actions ongoing to improve various aspects of contract administration. These actions are steps in the right direction but an overall strategy for administering service contracts is needed.

Functional Category: Office of the Secretary of Defense - Contract Administration
Army – Acquisition

Pace of Corrective Action:

Year Identified: FY 2003

Original Targeted Correction Date: 2nd Qtr FY 2005

Target Date in Last Year's Report: 2nd Qtr FY 2005

Current Target Date: 2nd Qtr FY 2005

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number

<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>Cost to Complete</u>	<u>Total</u>
None						

Validation Process: The USAAA will review the effectiveness of these corrective actions in resolving the material weakness and track milestone completion.

Results Indicators: The Army has addressed every USAAA finding and initiated corrective action.

Source(s) Identifying Weakness: USAAA audit report dated September 23, 2002, "Managing Service Contracts," Audit Report A-2002-0580-AMA.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone: (To be completed by the ACA)

3rd Qtr FY 2004

Instruct contracting officers to orient evaluators on the specific types of contracts and specific contract links. Clarify existing guidance on quality assurance surveillance plans. Recommend to MACOMs they review guidance on surveillance when performing contract management reviews. Issue guidance to require contracting officers to periodically review the Contracting Officer Representative (COR)/monitor contracts files and provide the results of the review to the requiring activity director.

3rd Qtr FY 2004

Issue guidance to ensure effective invoice review procedures are utilized when they develop the statement of work and the surveillance plan. Guidance will further indicate that it may be more appropriate to put requirements for the contractor's invoice preparation and submission in Section G (Contract Administration) of the contract putting emphasis on assignment of responsibility for review to the position and not a given person's name.

4th Qtr FY 2004

Review the management control checklist and included key questions for reviewing, documenting, and adjusting contracting requirements. Issue guidance requiring contracting activities to incorporate instructions for reviewing contract requirements into surveillance plans and appointment letters.

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone: (To be completed by the ACA)</u>
4 th Qtr FY 2004	Advise the customer's Career Program Managers on recommended training to address improvements affecting contract services and review COR courses to determine if it monitors making recommendations to the Defense Acquisition University or the Army Logistics Management College on course material that affects contract services. Incorporate appropriate team-based approach in the Army's strategy for administering service contracts.
4 th Qtr FY 2004	Review self-assessment tools and other tools to incorporate, as appropriate, in the Army's strategy for administering service contracts. Review staffing levels in the contract administration function to determine if appropriate and take immediate action. Incorporate increased awareness in oversight reviews to make sure that the education process continues on the importance of effective contract administration practices.

B. Planned Milestones (Fiscal Year 2005):

2 nd Qtr FY 2005	Issue guidance to the acquisition community instructing contracting officers to detail the appropriate responsibilities and limitations of the monitors in COR appointment letters.
3 rd Qtr FY 2005	AAA review and validation.

C. Planned Milestones (Beyond Fiscal Year 2005): Not Applicable.

OSD or HQDA Action Required: Not Applicable.

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UNCORRECTED MATERIAL WEAKNESS

AICO-01-001

Title and Description of Material Weakness: Standard Procurement System (SPS) interface to Computerized Accounts Payment System (CAPS). SPS was intended to be fielded as a paperless contract writing system using electronic data feeds to create electronic images of contracts viewable by paying offices and to populate CAPS data fields to effect payments. Army contracting offices currently use SPS to write contracts for vendors at Army posts, camps and stations with the Defense Finance and Accounting Service (DFAS) using CAPS to process payment information for most of these contracts. The Army is experiencing numerous problems getting these systems to work together effectively. Reliable electronic data feeds from contracting offices to CAPS paying offices has not been established to support timely and accurate payments of contractors in accordance with 5 Code of Federal Regulations Part 1315 (Prompt Payment).

Use of contract images posted in the Electronic Document Access for use by DFAS paying offices has not yet proven reliable, requiring the contracting offices to forward printed copies of the contracts to the paying office. Furthermore, the electronic data file of contract information created by the SPS interface program has been only sporadically successful, requiring manual entry of vendor payment data upon receipt of the paper contract when the electronic data feed fails. This problem has directly contributed to the late payment interest penalties of about \$470,000 in FY 01 by the Army. In many of these cases where the SPS interface failed, the paper contract is received well after goods and services are provided and accepted to the government. If not corrected, Army contracting offices will be required to forward paper contracts to paying offices increasing the likelihood of erroneous contractor payments, and unnecessary interest payments. In addition, contracting and paying personnel will not meet the goal of paperless contracting, resulting in other inefficiencies in processing these payments.

To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA(ALT)) and DFAS entered into a Memorandum of Agreement to address data migration and interface requirements for information from SPS to CAPS.

Functional Category: OSD - Contract Administration
Army – Acquisition

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2002

Target Date in Last Year's Report: 4th Qtr FY 2004

Current Target Date: 1st Qtr FY 2005

Reason for Change in Date(s): US Army Audit Agency (USAAA) is currently performing the validation and should be done in 1st Quarter FY 2005.

Component/Appropriation/Account Number:

<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>(\$000s)</u>		<u>Cost-To-Complete</u>	<u>Total</u>
			<u>FY06</u>	<u>FY07</u>		
None						

Validation Process: The USAAA will review the effectiveness of these corrective actions in resolving the material weakness.

Results Indicators: This process will update the payment and accounting system and provide timely and accurate payment to the vendor. Additionally, the process allows contracting personnel to realize processing efficiencies.

Source(s) Identifying Weakness: Accounting and commercial accounts offices.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
04/01	DFAS established a working group task force with representatives from OASA(ALT), Office of the Assistant Secretary of the Army (Financial Management and Comptroller) and the SPS Program Management Office to address problems encountered and to coordinate a Paperless Contracting Memorandum of Agreement (MOA) between Army and DFAS
11/01	Paperless Contracting Memorandum of Agreement signed between Army and DFAS.
12/01	Initial implementation of the Paperless Contracting Memorandum of Agreement between Army contracting Offices and DFAS.
06/02	SPS Version 4.2, Increment 1 fielding begins. This version will include enhancements that are expected to facilitate the

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
	Army payment process. Deployment to continue through 2 nd Quarter FY 03.
07/02	SPS Version 4.2, Increment 2 awarded with Adapter. The Adapter will replace SPS Interface to CAPS. Delivery to Government is scheduled for early 3 rd Quarter FY 03.
01/03	SPS Version 4.2, Increment 1 Army deployment completed
01/03 - 07/04	Tested sites pursuant to the DFAS schedule.
4 th Qtr FY 2004	USAAA review and validation

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr FY 2005	Completion of USAAA review and validation.

C. Planned Milestones (Beyond Fiscal Year 2005): Not Applicable.

OSD or HQDA Action Required: Not Applicable.

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UNCORRECTED MATERIAL WEAKNESS

AICO-02-001

Title and Description of Materiel Weakness: In-transit Visibility (ITV) Policies/Standards. Both the Army and Joint Staff perspectives are that the ITV program lacks DoD level policy that identifies standards, uniformity and consensus in objectives, equipment standards, and functional requirements. The Army has taken the lead in the Outside Continental U.S. (OCONUS) area of responsibility (AOR) in deploying and successfully using Automatic Identification Technology (AIT) to obtain in-transit visibility of materiel and personnel in both peacetime and contingency operations. However, the issue exists that there is no joint doctrine to mandate AIT for ITV or hardware/software standards to ensure interoperability. During the current operation, U.S. Central Command (USCENTCOM) identified a war fighter requirement for information available only through use of AIT and specifically requested Radio Frequency Identification (RFID) AIT implementation in the AOR for all services.

To support the Army and Joint Services' concept of operations, the Combatant Commanders require visibility of the entire supply chain (foxhole to the supplier). This requires tracking the container/pallet as well as having "in-the-box" visibility. This "in the box" visibility is key to Army logistics transformation requirements that reduce the logistics footprint by placing a premium on distribution of limited available assets to the unit whose need is most critical to the mission. This "in-the-box" visibility facilitates redistribution of parts to higher priority units from both CONUS and OCONUS assets.

Historically, the Air Force and Navy, as the primary transporters of materiel and equipment in theater, are only concerned with tracking those items at the container or pallet level. This tracking can be done at a low technology level and without the infrastructure investment. RFID technology enhances "in-the-box" visibility of container and pallet shipments moving throughout the DoD transportation system. RFID has been used in support of Somalia, Haiti, Battlefield Distribution Demonstration, and most currently, Operation Joint Endeavor. As stated in U.S. Commander in Chief U.S. Central Command (USCINCENT) Message, 311340Z Jul 02, the Combatant Commander, USCENTCOM, will require all air pallets, containers, and commercial sustainment moving to/from the theater and intra-theater movements to be tagged with RFID at origin for asset and ITV tracking in the Combined/Joint Operations Area (CJOA).

The Army G-4 recommended solution to the ITV materiel weakness is for DoD to establish policy that identifies uniform standards, objectives and functional requirements. We also recommend the J-4 continue the ITV Working Group meetings, consisting of representatives from each of the Services and that they expand the scope of the ITV Work Group to address and define the Service requirements.

In FY 2003 OSD approved funding to support a Business Case Analysis for RFID/ITV. The study was done from May 2003 thru August 2003. One of the by-products of the study will be Business Process analysis.

Functional Category: OSD - Supply Operations
Army - Supply Activities

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: FY 2002

Targeted Correction Date in Last Year's Report: To Be Determined.

Current Target Date: 4th Qtr FY 2008

Reasons for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>(\$000s)</u>		<u>Cost-To-Complete</u>	<u>Total</u>
			<u>FY06</u>	<u>FY07</u>		
None						

Validation Process: Validation of corrective actions will be accomplished by the U.S. Army Audit Agency (USAAA).

Results Indicators: Corrective actions will improve the capability to see timely and accurate information concerning business processes, unit strategic deployments, sustainment cargo, intra-theater moves, and CONUS non-unit cargo movements.

Source(s) Identifying Weakness: USCINCENT Message, 311340Z Jul 02, Subject: OEF Joint Logistics Information Requirements.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
09/02	J-4 convened a JTAV Work Group to determine what the services are doing to comply with the USCENCOM Combatant Commanders requirement for ITV in the USCENCOM AOR.
10/02	Defense Supply Center Philadelphia identified key Class I subsistence prime vendors and taken action to modify contracts to contain an RF protocol requiring them to

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
	generate and affix RF tags to all containerized shipments to USCENTCOM.
10/02	USCENTCOM identified 18 Aerial Ports of Debarkation (APODs) requiring RFID read/write capability and 13 Seaport of Debarkation (SPODs) requiring read only capability. One of the APODs already has read/write capability; five others have read only capability. JCS, J-4 and USCENTCOM provide classified listing of sites to Office of Primary Responsibility (OPR) on request.
11/02	Army and Navy with TC-AIMS II revised fielding plans pending outcome of TC-AIMS II Milestone III decision. Execute as approved.
01/03	Created DA AIT Senior Steering Committee to transitioning PM AIT from product-to-program office.
02/03	OSD coordinated Distribution of available RFID Tags for OIF.
03/03	Kuawait provided dedicated ITV servers. Fifty-three RFID sites in AOR supported with ITV reader capability. OSD Business Case Analysis on RFID/ITV.
05/03	Milestones for USCENTCOM/U.S. Pacific Command (USPACOM) AORs included 19 new sites in Iraq, 40 TC-AIMS II sites, 33 reader stations, and 4 sites in USPACOM.
06/03	Working with U.S. Army Europe ITV to implement common security profile/configuration management across all ITV servers.
10/03	Under Secretary of Defense approved an ITV policy by signing memo dated 2 October 2003, subject "Radio Frequency Identification (RFID) Policy" which provides guidance to establish technology and standards, initiate demonstrations, solicit comments, review lessons learned and implement strategy by June 2004.
06/04	Implement OSD RDIF policy.

07/04 OSD published policy on RFID that identifies uniform standards, objectives, and functional requirements.

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
Oct 04	Army take appropriate actions based on the conclusions and findings of J-4 Work Group, OSD Study, and RFID Policy.
Nov 04	Army integrate RF ITV into the Standard Army Retail Supply System (SARSS); fielding FY05-07.
Jan 05	Begin expanding RF ITV.
Apr 05	Army Business Case Analysis for passive RF for supply chain ITV to be completed.
Aug 05	Determine the requirement and select a supply chain event management solution for Army Distribution Management.

C. Planned Milestones (Beyond Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr FY 2008	USAAA to review and validate.

Status of Participating Functional Organizations: Office of the Undersecretary of Defense (Acquisition, Technology & Logistics), Office of the Undersecretary of Defense (Logistics Materiel Readiness) and Office of the Joint Chiefs of Staff, J-4.

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OUNCORRECTED MATERIAL WEAKNESS

AICO-96-001

Title and Description of Material Weakness: Financial Reporting of Equipment In Transit (Previously In-Transit Equipment Visibility). Systems interface and logistics process problems cause a significant portion of the in-transit records displayed by the Continuing Balance System-Expanded (CBS-X) to be invalid. The US Army Audit Agency (USAAA) Audit Report AA 96-156 showed that as of July 31, 1995 about 69 percent of the in-transits sampled in CBS-X were invalid. The equipment involved had been received and reported as on-hand by the receiving units, but the receipt transactions did not close out the shipment (in-transit) records. As a result, the Army did not have reliable data on the value of equipment in-transit, and the value of in-transits reported on the Army's financial statements was misstated by a significant but unknown amount. Also, units periodically experienced unnecessary delays when requisitioning equipment because invalid in-transit records caused requisitions to be rejected. This error made it difficult to gain visibility over the total number of major items, determine maintenance requirements, and redistribute equipment.

Functional Category: OSD - Supply Operations
Army - Supply Activities

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: 4th Qtr FY 2005

Current Target Date: 3rd Qtr FY 2007

Reason for Change in Date(s): During initial validation of corrective actions USAAA found additional problems that must be corrected before closure can be recommended..

Component/Appropriation/Account Number:

<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>(\$000s)</u>		<u>Cost-To-Complete</u>	<u>Total</u>
PBUSE Cost:						
FY05: Property Book w/o DPAS: HW cost: 5.5M; Trng TM cost: 10.6M						
FY05: Property Book w/DPAS: HW cost: 7.2m; Trng TM cost: 11.3M (NOTE: DPAS fielding is dependent on OASA(FM&C) approval to start)						
FY05-2QFY07: Property Book including Unit Level: HW cost: 36M; Trng TM cost: 16.9M LMP Cost TBD						

Validation Process: Validation will be conducted by the Office of the Deputy Chief of Staff, G-4 (ODCS, G-4) and USAAA.

Results Indicators: Corrective actions will reduce the error rate of in-transit asset data to an acceptable level and will improve asset data accuracy in Logistics Integrated Data Base (LIDB), thus improving asset reporting and document closure procedures.

Source(s) Identifying Weakness: General Accounting Office (GAO), GAO/AIMD-93-31, "FINANCIAL MANAGEMENT: Army Lacks Accountability and Control Over Equipment", September 1993; USAAA Audit AA 96-156, "Financial Reporting of Equipment In Transit", June 1996.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
03/96	U.S. Army Materiel Command (USAMC), per request of ODCS, G-4, establishes a Total Package Fielding (TPF) Improvement Product Team (IPT) to review and investigate problems with TPF process and causes of in-transit document closure failures.
09/96	ODCS, G-4 drafted action plan for correcting in-transit visibility problems. USAMC meets with Information Systems Command Software Development Center-Lee (ISSDCL), Logistics Support Agency (LOGSA), Combined Arms Support Command, and ODCS, G-4 to identify and resolve SARSS-O/CBS-X interface problems. ODCS, G-4 meets with LOGSA and ODCS, G-3 to resolve outstanding problems concerning DODAAC/UIC assignment alignment.
03/97	ODCS, G-4 and LOGSA meet to resolve problems and increase priority of Engineering Change Proposal.
08/97	System Change Request for LSSC work written by USAMC.
02/98	Study begun by LOGSA for using Logistics Intelligence File (LIF) rather than CBS-X to track in-transits.
09/98	Initial work on feasibility of using LIF instead of CBS-X to track in-transits completed.
08/99	USAMC begins open TPF document scrub.

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
03/00	USAMC completes open TPF document scrub deleting all invalid documents from CBS-X.
09/00	ODCS, G-4 and USAMC begins process of deleting invalid documents from CCSS and LIF. Sets new policy and develops in-transit closure requirements for new web-based property book system and WLMP.
05/01	Scrub of open TPF documents in LIF and CCSS completed. USAAA begins validation process of corrective actions.
07/01	USAAA stops validation process when it became apparent that additional work is required to complete TPF and non-TPF documents scrub.
09/01	ODCS, G-4 hosts meeting with USAMC, LOGSA, and USAAA to determine additional work required to close weakness. LOGSA began producing reports necessary for completing remaining document scrubs required by USAAA.
11/01	USAMC completed the scrub of remaining TPF documents. ODCS, G-4 met with USAMC and USAAA to determine best way to scrub 6,000 non-TPF bad documents.
10/02	Army begins non-TPF document scrub. ODCS, G-4 directs USAMC and LOGSA to work with CASCOM to determine why in-transit document follow-up system does not work and recommend fixes. ODCS, G-4 issues policy message directing materiel fielders to close TPF and non-TPF documents upon handoff to units. ODCS, G-4 and HQAMC met with LOGSA to provide guidance on actions to be taken to resolve TPF documents and to request LOGSA to provide statistics on non-TPF documents.
01/03	Property Book Unit Supply-Enhanced (PBUS-E) Web-based Property Book initial fielding begins with projected completion slipping to 2007.
03/03	Meeting with HQAMC, LOGSA, and ASA(FM&C) to discuss if LMP was addressing recommendations in audit. Establishment of the Military Equipment Working Group

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
04/03	Meeting with HQAMC, ASA(ALT), ASA(FM&C) to further identify LMP issues for maintaining accountability and visibility of records for systems being fielded.
05/03	HQAMC held "Go/No Go Live" meeting on LMP Fielding.
06/03	Initial fielding of Logistics Modernization Program (LMP) begins (USAAA review for "Blue Book" compliance is being worked as LMP is being developed).
07/03	USAAA to issue report on PBUSE for "Blue Book" compliance pertaining to TDA issues.
08/03	Military Equipment Working Group met with Senior Level Steering Group on future actions to be taken by action officers. HQAMC to host meeting with IMMCs TPF and non-TPF documents discussion issue.
09/03	HQAMC to request AMSAA to do study on non-TPF documents and on follow-up procedures
11/03	Meeting of Military Equipment Working Group to review policy changes.
01/04	Meeting of Military Equipment Working Group to review efforts of record scrub and policy changes.

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
FY 06-07	LMP fielding completed to USAMC.
06/05 to FY07	Records scrubs completed. Prevention policy issued. Slippage due to PBUSE and LMP slipping to FY06-07. Completion of fielding required to complete records scrubs.
07/05 to FY07	USAAA validation of records to restart. Request to USAAA for records validation will be determined by completion of records scrub.

C. Planned Milestones (Beyond Fiscal Year 2005):

3rd Qtr FY 2007 USAAA review and validation.

Status of Participating Functional Organizations: Functional organizations participating in the correction of this weakness are internal to the Army. Their actions are described in the weakness.

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UNCORRECTED MATERIAL WEAKNESS

AICO-98-003

Title and Description of Material Weakness: Management of Unexploded Ordnance (UXO) and Munitions Constituents (MC). Reports identified systemic deficiencies in the management of UXO and MC throughout the Department of Defense (DoD). The U.S. Army Audit Agency (USAAA) addressed this issue in their report on “Formerly Used Defense Sites” and their audit of the “Defense Environmental Restoration Account.” Neither DoD nor the Army have an effective, integrated and proactive UXO and MC management program that addresses the full life cycle perspective of ranges, land withdrawals, and munitions manufacture, use, demilitarization, and disposal. In addition, there is no consensus among DoD, the Army and environmental regulators as to cleanup standards or preferred cleanup techniques. Without a program to focus and address these issues, the Army’s access to military ranges may be at serious risk of being restricted by outside entities such as environmental regulatory agencies, as in the case of the Massachusetts Military Reservation.

Action will focus on preserving the Army’s ability to train our soldiers and to accomplish necessary weapons systems and materiel testing, to reduce risks from UXO and MC, and to manage UXO and MC cleanup expenditures by developing innovative technologies and an effective, integrated and proactive UXO and MC management program to address life cycle concerns. All investments necessary to develop mature and exploit technologies to address UXO and MC will be approved and prioritized by the Army’s Environmental Technology Technical Council and executed in accordance with the Army’s new Investment Strategy Policy. Program management initiatives will follow policy, guidance, and funding guidelines as they are developed by OSD.

Functional Category: OSD – Personnel and Readiness
Army - Force Readiness

Pace of Corrective Action:

Year Identified: FY 1998

Original Targeted Correction Date: Phase One – FY 1999
Phase Two – FY TBD
Phase Three – FY TBD

Targeted Correction Date in Last Year’s Report: Phase One – FY2003

Current Target Date: Phase One – 1st Qtr FY 2004
Phase Two – 2nd Qtr FY 2004
Phase Three – 4th Qtr FY 2005

Reason for Change in Date(s): Phase One – The U.S. Environmental Protection Agency (EPA) withdrew support of the DoD Range Rule as originally written and staffed. The Range Rule would have provided the regulatory drive for the UXO and MC cleanup. DoD is completing final coordination of a new Munitions Response Directive, which will provide the policy driver required for this program.

Phases Two & Three – Phase Two - post Range Rule action items identified and assigned completion dates; Phase Three – 4th Qtr FY 2005

Component/Appropriation/Account Number:

<u>Appropriation(s)</u>	<u>FY04-9</u>	<u>Cost To Complete</u>	<u>Total</u>
BRAC	\$27.1	TBD	TBD
FUDS (OE)	\$406.4	TBD	TBD
DERA	\$61.6	TBD	TBD
O & M	\$234.3	TBD	TBD
RDT & E	\$161.5	TBD	TBD

Validation Process: USAAA will validate final corrective actions.

Results Indicators: Correction will result in a comprehensive management program that includes an accurate inventory of Army ranges, policy and guidance for UXO and MC management on all ranges, funding mechanisms and programmatic planning, and new and enhanced UXO technologies.

Source(s) Identifying Weakness: Defense Science Board Task Force report, “Unexploded Ordnance (UXO) Clearance, Active Range UXO Clearance, and Explosives Ordnance Disposal (EOD) Programs (April 1998); Department of Defense, Office of the Inspector General (DODIG) Evaluation report, “Evaluation of the Disposal of Munitions Items,” (Report 97-213, September 5, 1997); General Accounting Office (GAO) Report, “Unexploded Ordnance – A Coordinated Approach to Detection and Clearance is Needed,” (GAO/NSIAD-95-197, September 1995); DODIG Evaluation report, “Review of Policies & Procedures Guiding the Cleanup of Ordnance on Department of Defense Lands,” (November 22, 1994); Environmental Protection Agency, “Military Munitions Rule: Hazardous Waste Identification and Management; Explosives Emergencies; Manifest Exemption for Transport of Hazardous Waste on Right-of-Ways on Contiguous Properties; Final Rule,” (62 FR 6221, February 12, 1997); Department of Defense “Range Rule Regulatory Impact Analysis, Final Report,” (July 3, 1996); and GAO Report “Natural Resources: Defense and Interior Can Better Manage Land Withdrawn for Military Use,” (NSIAD-94-87, April 4, 1994).

Major Milestones in Corrective Action:

A. Phase One, Policy and Guidance (OSD and other agencies):

<u>Date:</u>	<u>Milestone:</u>
09/98	Transitioned from Organizational Environmental Executive Steering Committee (OEESC) to the Operational and Environmental Executive Steering Committee for Munitions (OEESCM). Established the OEESCM subcommittees: Acquisition and Production Stockpile Management and Demilitarization; Range and Munitions Use (RMUS); and Range Response (RRS). (completed)
09/01	DoD Final Range Rule promulgated. (withdrawn at request of EPA)
12/02	Publish DoDD on Munitions Response. (at DOD for signature)
12/02	Publish DoDD on Sustainable Range Management. (completed)
08/05	Develop and publish Defense Environmental Restoration Program instructions and guidance for DoDD on Munitions Response. (OSD action – awaiting DoDD on MR)

B. Phase Two, Program Management: (Coordination, Management Groups)

<u>Date:</u>	<u>Milestone:</u>
08/00	Develop OEESCM Strategic Plan to address the spectrum of issues related to military munitions and military ranges. (completed)
08/01	Develop and implement Program for Range Sustainment. <ul style="list-style-type: none">• Stand up Army Range Sustainment Integration Council (ARSIC). (completed)• Complete final draft of Army Sustainable Range Management Plan. (completed)• Complete Army regulation for Sustainable Range Program. (G-3 action; expected 09/04)

B. Phase Two, Program Management: (Coordination, Management Groups)

<u>Date:</u>	<u>Milestone:</u>
08/01	Develop and obtain approval of OEESCM Munitions Action Plan by DepSecDef . (completed)
(Technology)	
03/03	Army develops UXO Technology Operational Requirements Document. (completed)
(Army Guidance)	
08/00	Develop and obtain approval for Army Range Inventory Management Plan. (completed)
06/02	Army develops implementation and execution policy guidance UXO and MC Corrective Action Plan. (completed)
08/03	Army develops Sustainable Range Program Plan for active ranges. (completed)
(Information)	
08/00	Begin Army Range Inventory with Army Advance Range Survey (AARS) training sessions for all MACOMs. Sent Survey and Army Range Inventory Management Plan to MACOMs. Conduct Phases I, II, and III. (completed)
(Funding)	
03/99	Include in the Program Objective Memorandum (POM) the development process requirements needed to address UXO and MC issues. (completed)
11/01	Created Management Decision Evaluation Package (VEMR) for Environmental Support to Ranges and Munitions. (completed)

C. Phase Three (Planned Milestones - beyond Fiscal Year 2005):

<u>Date:</u>	<u>Milestone</u>
4 th Qtr FY 2005	USAAA conducts validation.

Status of Participating Functional Organization: Based on the scope, this weakness has been designated a DoD systemic weakness. The Office of the Secretary of Defense has designated the Office of the Under Secretary of Defense for Acquisition and Technology – Office of the Deputy Under Secretary of Defense for Environmental Security as the proponent for this action.

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UNCORRECTED MATERIAL WEAKNESS

AICO-96-002

Title and Description of Material Weakness: Information Systems Security. There is wide spread recognition that the Army's unclassified automated information systems and telecommunications networks have been attacked and successfully penetrated by unauthorized personnel. These intrusions have led to the identification of systemic deficiencies in systems and network security design and implementation; incident response, containment, and implementation of countermeasures; Information Systems Security (INFOSEC) education, training, awareness; and professional development.

The decisiveness, effectiveness, and potential safety of the Warfighter in attaining national security objectives is at risk because sustaining base information systems and networks have proven to be highly vulnerable to malicious attack. Not only is the information processed and transmitted throughout the Army's systems vulnerable to compromise and exploitation by hostile forces, but also control of the information systems and networks themselves could easily be lost to hostile forces during a national crisis.

Army INFOSEC policy and procedures for managing risk to our information systems, networks, and even our intelligent weapon systems are outdated and must be brought into line with evolving DoD and national practices.

To correct these weaknesses, Army leadership has, in the Command and Control (C2) Protect Program Management Plan, outlined the measures that Army leadership will undertake to ensure the Army's portion of the Defense Information Infrastructure is adequately protected. The C2 Protect Program Management Plan is designed to manage and control the growth of C2 Protect initiatives, is in consonance with the Army Enterprise Strategy, and supports the Defense Information Warfare efforts. It had been developed to address the identified weakness, and had been formally signed by the Office of the Deputy Chief of Staff, G-3, (ODCS, G-3), the Chief Information Officer/G-6 (CIO/G-6), and the ODCS, G-2.

Functional Category: OSD - Communications/Intelligence/Security
Army - Intelligence Activities

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: 2nd Qtr FY 2005

Current Target Date: 2nd Qtr FY 2005

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>(\$000s)</u>		<u>Cost-To-Complete</u>	<u>Total</u>
			<u>FY06</u>	<u>FY07</u>		
None						

Validation Process: The CIO/G-6 and the U.S. Army Audit Agency (USAAA) will validate corrective actions.

Results Indicators: There should be an improved ability of the Army to detect attempted intrusions and penetrations through the use of automated detection software, and improved training of Army's systems and network administrators and security personnel. In addition, improvements in our incident report system should result in a significant increase in the number of detected and reported incidents, and a corresponding decrease in the number of systems that are penetrated. Assessments of these incidents will show the effectiveness of trained administrators, and improvements in our detection and reporting systems.

Source(s) Identifying Weakness: General Accounting Office (GAO) report, Information Security – Computer Attacks at Department of Defense Pose Increasing Risks, GAO Report AIMD-96-84 and USAAA Management Control Review draft report August 1996.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
09/96	Army Central React Capability (Army Computer Emergency Response Team (ACERT)) established.
09/97	CIO/G-6, in conjunction with ODCS, G-2, ODCS, G-3, the Assistant Secretary of the Army (Acquisition, Logistics and Technology), and the Major Army Commands developed a Future Year C2 Protect Resourcing Plan for the total force. The resourcing plan, for the total force, provides near, mid, and long term C2 protection requirements developed by the C2 Protect and Information Operations Councils of Colonels.
09/98	Network Enterprise and Technology Command (NETCOM) leveraged the Army Network Support Operations Center infrastructure to establish the ability to monitor the operational status of security routers located at Army

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
	Nonsecure Internet Protocol Router Network (NIPRNet) gateways (World-wide Monitoring).
09/99	Developed and delivered a phased Security in Depth plan to the CIO/G-6 and the Vice Chief of Staff, Army (VCSA) 1st Qtr FY 99. Upgraded technology and security of all Army Domain Name Services 2nd Qtr FY 99, identified all DoD Research and Engineering Network and Tri-Service Infrastructure Management Program Office connections to Army networks to determine security vulnerability and required gateway protections in 3rd Qtr FY 99. Developed an Army-wide plan to secure all local area networks (LAN), wide area networks (WAN) and Enterprise networks 4th Qtr FY 99.
11/00	CIO/G-6 implemented DoD's mandated Information Assurance Vulnerability Alert Compliance Verification process which validates that corrective security actions were implemented.
01/01	Initiated a Biometrics Program to review and evaluate, acquire, and integrate state-of-the-art biometrics technologies into sustaining base and digitized tactical force to enhance information systems security identification and authentication measures. Information Assurance (IA) Web Server installed at the Strategic and Advanced Computing Center put all IA Office web sites onto one server and supported them with a relational database. Conducted vulnerability assessments on 15 combat systems.
06/01	Established resident training for System Administrator and Network Manager Security instruction at "School House" in Ft Shafter, HI.
FY 02	Milestones were pushed back due to the reorganization and activation of NETCOM.
01/03	Updated IA requirements documents and integrated IA measures into Army life-cycle acquisition programs. Also developed contract standards for technology and information technology personnel.

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
02/03	Evaluated Predictive IA automated tools and developed an Automated Risk Management Strategy.
11/03	CIO/G-6, published AR 25-2, Information Assurance; AR 380-19, Information Systems Security, was rescinded.
09/03	As part of the original Corrective Action Plan, a recommendation proposing that the The Assistant Secretary of the Army (Manpower and Reserve Affairs) would initiate action to establish a C2 Project career management program. The Office Deputy Chief of Staff, G-1, (ODCS, G-1) would provide guidance for submission of an action plan to establish appropriate skill identifiers (Army Occupation Code/Military Occupation Skill/Skill Identifier/Additional Skill Identified). Senior Army leadership was not responsive to the establishment of MOS/Additional Skill Identifiers or a separate career field for Information Assurance personnel. To provide the Army with a means of tracking key Information Assurance personnel who have completed training, the Capability Requirements Database (CDR) was modified, to indicate training status.
09/04	TRADOC, in coordination with ODCS, G-3 and CIO/G-6, will develop, identify, and implement tactics, techniques, and procedures (TTP) in accordance with policy and doctrine for training of commanders, managers, developers, systems administrators, security-managers and users. TRADOC will also develop proactive TTP for intrusion detection, and develop guidelines for their acquisition and use.

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr 2005	USAAA will review and validate of all corrective actions. In addition, the information Operations/C2 Protect General Officer Steering Committee will provide ongoing oversight.

C. Planned Milestones (Beyond FY 2005): Not Applicable.

HQDA Functional Proponent Participating in Corrective Action: Functional organizations participating in the correction of this weakness are internal to the Army and their actions are described in this corrective action plan.

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UNCORRECTED MATERIAL WEAKNESS

AICO-03-002

Title and Description of Material Weakness: Reserve Component Mobilization Accountability. Lack of synchronization exists among automated management tools available to ensure Reserve Component (RC) mobilization accountability. Inter-agency accountability must provide better-integrated management controls for tracking RC personnel in the “mobilization pipeline.” Of particular concern is the tracking of RC personnel from home station to mobilization station, to duty station, through deployment, redeployment, and demobilization or release from active duty (REFRAD). This challenge is further complicated for personnel in a medical hold status remaining on active duty on original Headquarters Department of Army mobilization order after demobilization of the parent unit.

Additionally, the use of Derivative Unit Identified Codes (DUIC) has exacerbated force tracking. Limitations imposed by dual military pay systems (Defense Joint Military Pay System – Active Component (DJMS-AC) and Defense Joint Military Pay System – Reserve Component (DJMS-RC)) also impairs accountability of mobilized personnel.

Functional Category: OSD - Personnel and/or Organization Management
Comptroller and/or Resource Management
Force Readiness
Information Technology

Pace of Corrective Action:

Year Identified: FY 2003

Original Target Date: 4th Qtr FY 2004

Target Date in Last Year’s Report: 4th Qtr FY 2004

Current Target Date: 4th Qtr FY 2006

Reason for Change in Date(s): The difficulty in developing the many business practices that will satisfy the variety of systems involved and synchronization of those systems.

Component/Appropriation/Account Number:

	(\$000s)					
<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>Cost-To-Complete</u>	<u>Total</u>
None						

Validation Process: US Army Audit Agency will validate the corrective actions in resolving the material weakness.

Results Indicator: Will include: (1) Synchronization of UIC among independent systems, (2) Real-time accountability of mobilized soldiers/units, and (3) Resolution of medical hold authority / accountability.

Source(s) Identifying Weakness: Assistant Secretary of the Army (Manpower and Reserve Affairs); Assistant Secretary of the Army (Financial Management and Comptroller); Office of the Deputy Chief of Staff (ODCS), G-1; ODCS G-3; Defense Finance and Accounting Service; US Army Forces Command; Office of the Chief, Army Reserve; National Guard Bureau; US Army Reserve Command; US Army, Europe and 7th Command.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
3 rd Qtr FY 2003	Establishment of RC Mobilization Accountability Tiger Team.
4 th Qtr FY 2003	Correction of UIC/DUIC between DFAS records and HQDA Mobilization Orders.
4 th Qtr FY 2003	Modification to Global Command & Control System (GCCS) to allow 'on-hand' data input at mobilization station.
1 st Qtr FY 2004	Resolution of Medical Hold authority / accountability

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr FY 2005	Release of Amendment Order correcting mobilized UIC's.
2 nd Qtr FY 2005	Correct disconnects between DA Mobilization Orders and DFAS data entry.
2 nd Qtr FY 2005	Integration of Theater tracking systems ICW 3 rd PERSCOM.

C. Planned Milestones (Beyond Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr FY 2006	Interface between GCCS and Mobilization Deployment Integration System (MDIS) to obtain on-hand data.
2 nd Qtr FY 2006	USAAA review and validation.

Status of Participating Functional Organizations: Coordinated agreement with the following agencies: Defense Finance and Accounting Service; US Army Forces Command;

Office of the Chief, Army Reserve; National Guard Bureau; US Army Reserve Command; US Army, Europe and 7th Command. Update Army Mobilization Operations Planning and Execution System (AMOPES) to reflect revised policies and procedures.

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UNCORRECTED MATERIAL WEAKNESS

AICO-02-002

Title and Description of Material Weakness: Line-of-Duty (LOD) and Incapacitation (Incap) Pay. Neither DoD nor the Army has established policy guidance, including effective management controls, for the processing of LOD and Incap pay. Army policy guidance in this area was previously published in AR 135-381, Incapacitation of Reserve Component (RC) Soldiers (for Incap pay) and AR 600-8-1, Army Casualty Operations / Assistance / Insurance (for LOD pay). However, guidance provided in AR 600-8-1, dated 18 Sep 1986, on LOD pay, was deleted when the AR was revised in 20 Oct 1994. Currently, Army activities must use the obsolete edition of AR 600-8-1 for processing LODs. A new AR 600-8-4 is needed to update and/or provide LOD policy, command instructions, principles of support and standards of service; HQDA mandated operational tasks for field execution; and mobilization guidance. Also, AR 135-381, dated 1 Jun 1990, requires a complete revision to update policies and procedures, and reflect legislative changes introduced in 1999. Both of these regulations have not been revised and published, in part, due to multi-level coordination requirements that have been ongoing for eight years.

Due to LOD policy not being included in AR 600-8-4, in recent demobilizations the Army National Guard (ARNG) has experienced active army personnel insisting LOD's were not needed, impacting Soldiers who attempt to receive medical treatment and/or benefits from the Veterans Administration after separation but cannot because they are unable to document their service-related injuries. The old regulation (AR 600-8-1) does not address all of the new categories of Soldiers and their respective status nor does it provide for automation of the LOD forms (which is badly needed). Until the new regulation (AR 600-8-4) is published, differences in interpretation as to what's needed or required will continue. Failure to correct this material weakness will result in continued problems in the processing LOD & Incap pay; an increased number of Soldiers dunned by medical care providers; and more frequent Inspector General investigations and congressional inquiries into late payment/unpaid medical bills and the lack of due process. All these problems would be exacerbated in the event of a significant mobilization.

Functional Category: OSD – Personnel/Organization Management

Pace of Corrective Action:

Year Identified: FY 2002

Original Target Correction Date: FY 2004

Targeted Correction Date in Last Year's Report: 4th Qtr FY 2005

Current Target Date: 4th Qtr FY 2005

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account:

<u>Appropriation(s)</u>	<u>FY 03</u>	<u>FY 04</u>	<u>(\$000s)</u>		<u>Cost-To-Complete</u>	<u>Total</u>
			<u>FY 05</u>	<u>FY 06</u>		
None						

Validation Process: The U.S. Army Audit Agency (USAAA) will validate the effectiveness of corrective actions.

Results Indicators: Up-to-date, timely and effective procedures for processing LOD & Incap pay. Fewer Soldiers dunned by medical care providers, including reducing the number of Inspector General investigations and congressional inquiries into late and unpaid medical bills or the lack of due process.

Source Identifying Weakness: Army National Guard staff and State assessments, and Internal Review audits.

Major Milestones in Corrective Actions:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
11/93	<u>LOD:</u> ARNG provided comments on the Reserve Component (RC) portions of the draft AR 600-8-4.
04/94	ARNG sent official regulation request change (DA Form 2028).
09/96	ARNG representatives meet with HQDA to address AR 600-8-4 publication.
03/97	AR 600-8-4 underwent major revision due to statutory changes related to Soldier medical/duty status (FY 1997 National Defense Authorization Act).
09/97	Pending rewrite of AR 600-8-4, authority granted to State Adjutants General to approve informal LOD and function as reviewing authority for formal LOD investigations for ARNG Soldiers.
08/98	Publication of AR 600-8-4 delayed due to personnel shortages in HQDA G-1.

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
07/00	Coordination and review of revised draft AR 135-381 and DA Pamphlet (PAM) begins with ARNG and USAR (OCAR).
08/01	AR 135-381 reorganized with updated information on policy qualifications & legislative changes; coordination of revised AR & DA PAM started.
06/02	Work group reviewed AR 600-8-4 and determined that the RC should have a separate chapter.
07/02	ARNG and U.S. Army Reserve (USAR) developed policies, procedures and mandated tasks.
09/02	As a stopgap measure, ARNG placed AR 600-8-1, dated 18 Sep 1986 on its website for States to use until new guidance is issued.
3rd Qtr FY 2004	LOD portion of MW is Closed--New AR 600-8-4 published dated April 15, 2004.
08/99	<u>Incap Pay:</u> Statutory requirements results in revisions and testing of new Claim forms delaying revisions to AR 135-381.
07/00	Coordination of new draft AR 135-381 and DA Pamphlet (PAM) begin review with the ARNG and the USAR (OCAR).
08/01	AR 135-381 reorganized with updated information on policy qualifications; coordination of revised AR & DA PAM began.
08/01	OTJAG unable to review draft AR 135-381 and DA PAM for legal sufficiency until after Department of Defense Directive (DODD) 1244.2, Reserve Components Incapacitation Benefits, is published.
09/02	OTJAG re-initiated its legal review of draft AR 135-381.
3 rd Qtr FY 2004	AR 135-381 is currently under review at HQDA to determine delegation authority below Army level (USAR & NGB have approval beyond 6 mos.).

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr FY 2004	Final staffing of AR 135-381; ARNG concurs and determines that follow-on (ARNG) guidance is not necessary.
4 th Qtr FY 2004	OTJAG For 3rd Legal Review

B. Planned Milestones (Fiscal Year 2005):

<u>Date</u>	<u>Milestone</u>
1 st Qtr FY 2005	Final Staffing OTJAG Completed
2 nd Qtr FY 2005	Publication of AR 135-381 & DA PAM 135-381
4 th Qtr FY 2005	AAA to review and validate closure.

C. Planned Milestones (Beyond Fiscal Year 2005): Not Applicable.

Status of Participating Functional Organizations:

Office of the Under Secretary of Defense (Personnel & Readiness) support assured.
Office of the Deputy Chief of Staff, G-1 support assured.
Office of The Judge Advocate General support assured.

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UNCORRECTED MATERIAL WEAKNESS

AICO-97-004

Title and Description of Material Weakness: Manpower Requirements Determination System. The Army has not established effective manpower programs for managing and controlling Tables of Distribution and Allowances (TDAs) workload, organizations and manpower staffing, including reductions in force. The current system for manpower requirements determination lacks the ability to link workload, manpower requirements and dollars. Thus, the Army is not capable of rationally predicting future manpower requirements based on workload. As a result, managers at all levels do not have the information needed to improve work performance, improve organizational efficiency, and determine and support staffing needs, manpower budgets, and personnel reductions.

Functional Category: OSD - Personnel/Organizational Management,
Force Readiness
Army - Personnel

Pace of Corrective Action:

Year Identified: FY 1997

Original Target Date: FY 2000

Target Date in Last Year's Report: 4th Qtr FY 2005

Current Target Date: 4th Qtr FY 2005

Reason for Change in Date(s): Not Applicable.

Component/Appropriation:

<u>Appropriation(s)</u>	<u>FY 02</u>	<u>FY 03</u>	<u>(\$000s)</u>		<u>Cost-To-Complete</u>	<u>Total</u>
			<u>FY 04</u>	<u>FY 05</u>		
None						

Validation Process: The Office of the Deputy Chief of Staff (ODCS), G-1, and U.S. Army Audit Agency (USAAA) will validate corrective actions.

Results Indicators: Staffing levels of Army organizations will be based on workload associated with valid prioritized missions. Manpower requests contained in Army budget submissions and the dollars required to support the requested level of manpower will be logically developed from specific workload requirements, which directly derive from missions directed or approved by higher headquarters and approved by Headquarters Department of the Army (HQDA).

Sources Identifying Weakness: Numerous USAAA audits and General Accounting Office audit reports published between 1992 and 1997.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
FY 2004	a. Validate and approve Department of the Army missions; b. Include TDA requirements in the Total Army Analysis (TAA) process; c. Prioritize and approve all Generating Force manpower requirements. These milestones have been met through improvements in the TAA process. The Army continues to identify and refine the linkages between the Operating Forces and Generating Forces to justify, quantify and prioritize both requirements and resourcing decisions in the TAA process. Army missions are approved by the G-3 and validated by the TAA functional panels. Additionally, stricter business rules have been developed and functional responsibilities continue to be revised in order to ensure visibility/scrutiny of all issues.

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr FY 2005	Project and strategically analyze workload for peacetime and wartime and link to Operating Force inputs.
4 th Qtr FY 2005	Ensure accurate documentation of HQDA validated and approved manpower requirements in Table of Distribution and Allowances (TDA).
4 th Qtr FY 2005	Issue interim change to AR 570-4, Manpower Management, to reflect policy change in approval authority for determining manpower requirements.
4 th Qtr FY 2005	Include contractor requirements in Generating Force manpower requirements.
4 th Qtr FY 2005	ODCS, G-1 and USAAA jointly complete validation of corrective actions.

C. Planned Milestones (Beyond Fiscal Year 2005): Not Applicable.

Status of Participating Functional Organizations: None.

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UNCORRECTED MATERIAL WEAKNESS

AICO-03-003

Title and Description of Material Weakness: Financial Reporting of Real Property. Army's real property database does not allow for depreciation, and subsequent entries in dollar values override previous dollar values with no audit trail of transactions.

The attempted solution of the Defense Property Accounting System (DPAS) interface with Installation Facilities System (IFS) did not work for Real Property financial statement reporting. In addition, data mismatches and negative numbers from IFS were not allowed in DPAS that resulted in dollar values being overridden and audit trails being lost. The decision was made to discontinue the DPAS interface and to modify IFS to calculate depreciation and run financial reports directly from each site. In October 2002 Army requested a waiver from OSD to modify IFS to process and capture financial statement information. OSD approval was received in May 2003 for making IFS modifications.

Functional Category: OSD - Property Management

Pace of Corrective Action:

Year Identified: FY 2003

Original Target Date: 4th Qtr FY 2004

Target Date in Last Year's Report: 4th Qtr FY 2004

Current Target Date: 2nd Qtr FY 2005

- **Reason for Change in Date(s):** System/software requirements to convert from an inventory management system to a dual entry real property accounting system exceeded original expectation and dates for completion are aligned with projected DFAS schedule for completion of Defense Corporate Database (DCD) interface with IFS. DCD will not be ready for the interface until January 2005.
- Office of the Assistant Secretary of the Army (Financial Management and Comptroller) ((OASA(FM&C))) contract award for the IFS Phase II Functional Description required three months longer than anticipated.
- Unable to award contract for Phase I training. Training was accomplished with existing resources and resulting loss of 3 individuals for 3 months that were dedicated to correcting material weakness.
- Office of the Assistant Chief of Staff for Installation Management (OACSIM) resources:
 - Original May 2003 plan requested fill of two vacancies for CFOA support that remain vacant.

- Two additional vacancies have occurred since May 2003 including IFS team leader.
- Current OACSIM team of three individuals cannot effectively accomplish IFS mission.

Component/Appropriation:

	(\$000s)						
<u>Appropriation(s):</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>Cost-To-Complete</u>	<u>Total</u>
O&MA	\$1,200	\$1,132	N/A	N/A	N/A		\$2,332

Validation Process: U.S. Army Audit Agency (USAAA) is working with IFS team on change requirements process and validating IFS modifications as we progress. Validation of Phase 1 was completed March 2004 and Phase II will be corrected by March 2005.

Results Indicators: The material weakness will be corrected when IFS is able to calculate depreciated values for real property, preserve previous values by handling both positive and negative numbers; provide an audit trail of all real property transactions and interface with Defense Corporate Database.

Sources(s) Identifying Weakness: USAAA (Army Audit Report 01-358.) Audit of the Integrated Facilities System for Financial Management System Compliance (Assignment Number: G1-127C), Audit Report: AA 01-358, dated June 28, 2001.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
05/03	Obtained OSD waiver approval to modify IFS
05/03	Completed PH I Functional Description for
12/03	Completed PH I Software Development
02/05	Completed PH I Software Tests
03/04	SCP 15 (PH I) shipped to the field for implementation
03/04	Completed PH II Functional Description
06/04	SCP 15 (PH I) training completed accept for Korea
4 th Qtr FY 2004	Completed System Specification for PH II

1st Qtr FY 2005 SCP 15 (PH I) Korea Training

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr FY 2005	Complete PH II Software Development
2 nd Qtr FY 2005	Complete PH II Software Development Test
2 nd Qtr FY 2005	Complete PH II System Qualification Test
2 nd Qtr FY 2005	Obtain AAA Certification of Changes
2 nd Qtr FY 2005	Complete PH II User Acceptance Test
2 nd Qtr FY 2005	Implement SCP 16 (PH II) to the field
2 nd Qtr FY 2005	USAAA review and validation.

C. Planned Milestones (Beyond Fiscal Year 2005): Not Applicable.

OSD or HQDA Action Required: Not Applicable.

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UNCORRECTED MATERIAL WEAKNESS

AICO-99-001

Title and Description of Material Weakness: Financial Reporting of General Equipment (formerly titled "Financial Reporting of Real Property and General Equipment"). The Army does not currently meet Federal Accounting Standards for the financial reporting of Real Property and General Equipment. In November 1995, the Federal Accounting Standards Board issued the Federal Accounting Standard Number 6, Accounting for Property, Plant and Equipment (PP&E). This Standard identifies four categories of PP&E, to include Real Property and General Equipment, and requires Federal agencies to present fairly the cost and depreciation of these assets in their financial statements.

To meet the requirements of this Standard, the Army fielded the Defense Property Accountability System (DPAS), a new Chief Financial Officer Act-compliant system for reporting Real Property and General Equipment. DPAS will replace or interface with existing non-compliant systems and bring the Army into compliance with Federal Accounting Standards. Failure to meet this standard for financial reporting does not mean the Army lacks property accountability. However, the Army's inability to identify an item's acquisition date and cost prevents the computation of depreciation and the determination of value for financial reporting.

Functional Category: OSD - Comptroller/Resource Management
Army - Financial Management

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2001

Targeted Correction Date In Last Year's Report: 2nd Qtr FY 2004

Current Target Date: 1st Qtr FY 2006

Reason for change in Date(s): The Assistant Secretary of the Army(Financial Management and Comptroller) expanded the scope of US Army Audit Agency's (USAAA) review from existence and completeness to include valuation of assets. By including asset valuation as part of the review, the Army will be addressing a major factor hindering it from obtaining an unqualified audit opinion. USAAA review results will be used to enhance the Army's financial management of General Equipment.

Component/Appropriation/Account Number: Operations and Maintenance, Army; Army Working Capital Fund; Operations and Maintenance, Army Reserve; and Operations and Maintenance, Army National Guard

	(\$000s)						
<u>Appropriation(s)</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>Cost-To-Complete</u>	<u>Total</u>	
None							

Validation Process: USAAA will validate the effectiveness of corrective actions.

Results Indicators: The Army will be substantially closer to receiving an unqualified audit opinion on its annual financial statements. In addition, the Army will benefit from DPAS implementation through: improved management oversight and accountability of PP&E; improved management access to PP&E information and operating results; and standardized property book accounting throughout the Army.

Source(s) Identifying Weakness: Management Review (Army Equipment Working Group and Army Integrated Process Team for Real Property). Audits of Army financial statements performed by USAAA (USAAA 97-149), Army's Principal Financial Statements for Fiscal Year 1996 -- Financial Reporting of Real Property and USAAA 99-192, Army's Principal Financial Statements for Fiscal Year 1998 -- Financial Reporting of Army General Equipment Financial Statements).

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
4/99	Initiated fielding of DPAS to Table of Distributions and Allowances (TDA) and installation property books.
09/00	Activated Logistics Support Activity Weblog web site for FY 2000 equipment reporting.
07/01	Army G-4 mandated that General Equipment residing in Military Table of Equipment property books be transferred to the TDA or installation property books utilizing DPAS.
09/01	Completed implementation of DPAS for General Equipment reporting on September 30, 2001 except for two sites in Eighth US Army.
09/01	Incorporate corrected PP&E values (Army Working Capital Fund and General Fund) into FY 2001 financial statements.
09/01	Obtain year-end "snap-shot" of General Equipment (General Fund) for year-end valuation effort.

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
04/02	Completed 100 percent fielding of DPAS for General Equipment to all TDA and Installation property books containing General Equipment.
07/03	USAAA began preliminary review of General Equipment
11/03	USAAA began a review of DPAS reliability for General Equipment at selected sites
04/04	USAAA provided interim results. ASA(FM&C) moved forward with clarified operating instructions
08/04	USAAA briefed final results. ASA(FM&C) provided field training and direction for data clean up via VTC and teleconference
4 th Qtr FY 2004	USAAA begins issuing site reports on reviews completed.

B. Planned Milestones (Fiscal Year 2005):

<u>Date:</u>	<u>Milestone:</u>
FY 2005	Conduct site assistance visits (includes accountability analysis, data validation, training, source document validation and creation, and other required actions to create auditable property records)
3 rd QTR FY 2005	Request USAAA conduct a follow-up review of DPAS data reliability, validating actions taken to ensure weakness can be closed.

C. Planned Milestones (Beyond Fiscal Year 2005):

1 st QTR FY 2006	USAAA validates corrective actions. Weakness closed.
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Status of Participating Functional Organizations:

Defense Finance and Accounting Service, Defense Logistics Agency, DPAS Program Office, and Army-Office of the Deputy Chief of Staff for Logistics support assured.

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CORRECTED MATERIAL WEAKNESS

AICO-02-003

Title and Description of Material Weakness: Army Purchase Card Program. Government Accountability Office (GAO) audit identified a lack of adherence by Navy activities to established purchase card internal controls. Although no substantial instances of fraud, waste, and abuse were identified, an environment existed that could have easily fostered fraud. As a result, the GAO expanded its audit, to review Army and other DoD component activities, and found similar problems.

The Army has positively addressed every GAO finding regarding the Army Purchase Card Program. To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA(ALT)) has aggressively sought to establish positive controls in areas of weaknesses found.

Functional Category: OSD - Contract Administration
Army – Acquisition

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: FY 2003

Target Date in Last Year's Report: 4th Qtr FY 2004

Current Target Date: 4th Qtr FY 2004

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

<u>Appropriation(s)</u>	<u>FY04</u>	<u>FY05</u>	<u>(\$000s)</u>		<u>Cost-To-Complete</u>	<u>Total</u>
			<u>FY06</u>	<u>FY07</u>		
None						

Validation Process: The U.S. Army Audit Agency (USAAA) reviewed the effectiveness of these corrective actions in resolving the material weakness. USAAA issued a final report A-2004-0168-AMA, dated 27 February 2004 that closed this material weakness. USAAA recommends that the Army continue to track the purchase card program until all recommended actions are fully implemented.

Results Indicators: The Army has addressed every GAO finding and all have been positively addressed in revisions to and guidance regarding the Army Purchase Card program.

Source(s) Identifying Weakness: GAO audit report dated June 27, 2002, "PURCHASE CARDS: Control Weaknesses Leave Army Vulnerable to Fraud, Waste and Abuse," (GAO-02-732).

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
05/02	OASA(ALT) memorandum directed heads of contracting activities to issue the purchase card on an as-needed basis and to ensure authorization controls are properly used and cards cancelled when appropriate.
06/02	Canceled 1700 accounts that are inactive or fall outside mandated span of control limits. Continuing to review accounts with DoD for possible cancellation. Participated in the DoD charge card task force to identify and strengthen internal control weaknesses.
07/02	Vice Chief of Staff, Army memorandum issued directing Army commanders to provide adequate resources for Purchase Card Program coordinators to ensure a system of strong internal controls. Acquisition Contracting Agency(ACA) prepared and issued a Standing Operating Procedure for the Purchase Card Program.
08/02	Communicated the Secretary of the Army plan to improve purchase card program to Deputy Secretary of Defense. Requested USAAA perform an audit on the implementation of corrective actions based on the above direction and guidance provided to the field.
01/03	Supported the DoD "data mining" effort to identify and investigate questionable card transactions. Ongoing program software and transaction testing with Inspector General, DoD, USAAA, and Defense Criminal Investigative Service.
01/03	The Secretary of the Army directed the Army Charge Card Program comply with Army policy, listed Army performance metrics and required senior leadership review. He stated that he holds leadership accountable for immediate results.

A. Completed Milestones: (Continued)

<u>Date:</u>	<u>Milestone:</u>
01/03	Army 1 st Quarter FY03 span of control ratio is one billing official to every seven cardholders in all cases except where exceptions have been granted. Additionally, Army purchase cards have been reduced by 22,545 since the 4 th Qtr FY 02. This number continues to decrease. The Army further continues to partner with the DoD Joint Program Office in data mining efforts to identify and investigate what appear to be inappropriate transactions.
04/03	The ACA's Executive Agent for the Army Purchase Card, in partnership with the Army Comptroller's office has awarded a support contract to identify purchases leveraging with the purchase card. The contractor will assess the Army's purchasing data to determine if leveraging opportunities are available. The contract's expected completion date is June 2003.
04/03	The Army has teamed with the Army Criminal Investigative Command and the Army Public Affairs office to identify, report and publish newsworthy fraud cases and to inform Army soldiers and Department of the Army civilian personnel, their supervisors and the public of corrective actions taken to resolve misuse of the Army Purchase Card Program. An Army public affairs plan has been developed and is in coordination reviews. Projected finalization is June 2003.
07/03	The Army participates as a member of the DoD Charge Card special task force to provide corrective actions on 43 recommendations made in the management decision initiative (MID 904). Additionally, the Army canceled over 33,000 cards since September 2002 and has met the span of control requirement of 3 cardholders per 1 billing official 1 st , 2 nd and 3 rd quarters FY 03.
09/03	USAAA performed an assessment of the Army Purchase Card compliance of the GAO recommendation made in GAO report GAO-02-732, "Purchase Cards: Control Weaknesses Leave Army Vulnerable to Fraud, Waste and Abuse", 27 June 2002.
02/04	USAAA issued final report A-2004-0168-AMA dated February 27, 2004 closing this material weakness.

B. Planned Milestones (Fiscal Year 2005): Not Applicable.

C. Planned Milestones (Beyond Fiscal Year 2005): Not Applicable.

OSD or HQDA Action Required: Not Applicable.

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CORRECTED MATERIAL WEAKNESS

AICO-88-010

Title and Description of Material Weakness: Automated Mobilization System. Army mobilization exercises in 1976, 1978, and 1980 highlighted that the capability did not exist within the Reserve Component (RC) structure (Army National Guard and Army Reserve) for maintaining mobilization essential data, and the ability to rapidly respond to mobilization requirements was lacking. Managers at mobilization stations and transportation agencies did not have access to timely and accurate information necessary for the mobilization decision-making process. These mobilization needs were to be originally satisfied through the Continental Army Management Information System (CAMIS) initiated in 1979. In August 1986, the Army restructured this effort as the Reserve Component Automation System (RCAS) and in February 1988, the RCAS Project was assigned to the Chief, National Guard Bureau (CNGB). In FY 1995, the RCAS Project was restructured to constrain cost growth, establish a realistic requirements baseline, and leverage new information management technology. The approved Mission Need Statement (April 1996), Critical Operational Issues and Criteria (COIC) Document (April 1996), and Operational Concept Description (OCD) (April 1996) tasked the Project to satisfy the Army RC's mobilization planning, notification, and preparation needs (phases 1-3 of the Army's Mobilization Process). Mobilization phases 4 and 5 (validation and deployment) were not within the scope of the restructured Project's charter. RCAS will satisfy the automation requirements of the RC for day-to-day operations and will significantly enhance their mobilization preparedness and mobilization execution capability. It provides timely and accurate data that can be accessed at the various echelons to support commanders, staffs and functional managers in the mobilization planning and administration of RC forces.

Functional Category: OSD - Force Readiness;
Army - Mobilization

Pace of Corrective Action:

Year Identified: FY 1988

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: 4th Qtr FY 2004

Current Target Date: 4th Qtr FY 2004

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number: Army/Operations and Maintenance, Army Reserve (OMAR); Operations and Maintenance, Army National Guard (OMNG); Other Procurement, Army (OPA)

<u>Appropriation(s)</u>	(\$000s)			<u>Cost-To-Complete</u>	<u>Total</u>
	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>		
OMAR					41,889
OMNG					60,666
OPA					307,086

Validation Process: Involves field and functional proponents' input; benefits analysis; independent verification and validation; technical test and evaluation; operational testing; field participation in the evaluation process; RCAS has an established and approved Acquisition Program Baseline which details the DA & OSD Major Automated Information Systems Review Council (MAISRC) review cycle for each incremental release. Defense Acquisition Executive Summary (DAES) Quarterly Reports are submitted to the Milestone Decision Authority providing updated status. In addition, periodic General Officer Steering Committee meetings are held to monitor the progress. U.S. Army Audit Agency (USAAA) will validate final corrective actions.

Results Indicators: The Army will be able to more effectively plan and execute mobilization of Army Reserve and Army National Guard contingency forces.

Source(s) Identifying Weakness: GAO Report, "General Management Review of the Reserve Components," November 1988.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
03/88	Effect interim actions and controls to resolve the immediate deficiencies: a. Place management control of RCAS program with the Chief, NGB; b. New charter approved by the Sec. Army & forwarded to Congress; c. Army Reserve General Officer assigned as RCAS Program Manager.
09/89	Develop an automated information system to satisfy long-range needs for mobilization, administration, and management requirements of the Army National Guard (ARNG) & U.S. Army Reserve (USAR) for day-to-day operations: a. Complete Functional Description; b. Issue draft Request for Proposal (RFP)
09/89	DA MAISRC Milestone I & OSD MAISRC Milestone I
09/91	DA MAISRC Milestone II
03/92	OSD MAISRC Milestone II in November 1991

A. Completed Milestones: (continued)

<u>Date:</u>	<u>Milestone:</u>
03/95	Red Team reviewed the program at the request of CNGB in February & March 1995. The Team recommended changes to overall program to contain cost and leverage new technology. Changes included moving from an x-terminal to a personal computer base, removing multi-level security requirements, providing a separate system for classified data and centralizing data at State Area Commands and Major USAR Commands.
09/95	Validation Assessment Team formed to validate recommendations and perform necessary contracting actions to effect program restructure. Revised program was briefed and approved by the General Officer Steering Committee and the OSD MAISRC.
03/96	Contract Modification/Proposal in October–December 1995; Awarded in January 1996.
09/96	Received Overarching Integrated Process Team (OIPT) MAISRC approval to field Increment 1 (Commercial off-the-shelf hardware and software and Wide Area Network telecommunications).
03/98	Received OIPT MAISRC fielding approval (Milestone IIIb) in Jan 98. (Database servers, Software Pilot project, some Logistics functionality and Government off the shelf (GOTS) software).
03/00	Milestone Decision point for Increment 3 MS IIIc in December 1999 (Force Authorization, Training and Security functionality)
09/00	Completed fielding of Increment 3 in September 2000
03/01	Completed hardware fielding 16 March 2001, 18 months ahead of schedule
09/01	Milestone Decision Review MS III d for Increments 4 / 5 completed April 2001 (Personnel, Mobilization Planning, Force Authorization, Training Mgmt (GOTS) Occupational Health (COTS) functionality). Increments approved fielding of 4/5 pending DoD CIO Certification of Increment 4/5, in April 2001 & began fielding Increments 4/5 (received DoD CIO Certification July 2001).

A. Completed Milestones: (continued)

<u>Date:</u>	<u>Milestone:</u>
09/01	Milestone Decision MS IIIe point for Increment 6 in December 2001 (Safety, Force Modern, Logistics (GOTS), Mobilization Planning functionality)
03/03	Milestone IIIf fielding decision for Increment 7 in March 2003 (Mobilization Planning, Safety, Logistics (GOTS) functionality)
09/03	MS IIIg – fielding decision for Increment 8 (Mob, Force Mgmt, Safety, Occupational Health Mgmt & Military & Civilian Personnel functionality).
1 st Qtr FY 2004	RCAS Increment 8 fielding and implementation plan includes on-site training for all Joint Force Headquarters (JFHQ) (formerly State Area Command)/Regional Support Command (RSC) identified soldiers on the system's mobilization applications, expanded RCAS distance learning and online courses, and required data entry into integrated databases.
1 st Qtr FY 2004	System sustainment to began 1 October 2004.
4 th Qtr FY 2004	USAAA validation completed.

B. Planned Milestones for FY05: Not Applicable.

C. Planned Milestones beyond FY05: Not Applicable.

HQDA / NGB Functional Proponent Participating in Corrective Action:

Chief, NGB: Support Assured
Director, ARNG: Support Assured
Chief, USAR: Support Assured
ODCS, G4: Support Assured
ODCS, G-6: Support Assured

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(TAB B-4)

**MANAGEMENT CONTROL PROGRAM AND
RELATED ACCOMPLISHMENTS**

U.S. Army National Guard Reserve Component Pay Problems During Mobilization

Description of the Issue: Reserve Component (RC) pay problems during mobilization are multifaceted and cross various agency levels making the problem and solution complex. The Army National Guard (ARNG) is working with all components and agencies to correct pay problems. Below are highlighted a few of the initiatives taken by ARNG to correct RC pay problems.

Accomplishments:

Video taped our Soldiers' Brief, Commander's Brief, and Family Brief for distribution to every armory.
Received and resolved thousands of pay inquiries from Soldiers and families since inception of our toll-free line and global email address.
Reviewed all accounts of Soldiers that have demobilized to determine if they have a leave balance. A leave balance indicates they were not paid their lump sum leave at the demobilization site. We are matching the DD214 with the accounts that have a leave balance to determine the payment amount.
Reviewed BAS: Identified 613 Soldiers receiving the wrong rate of BAS. 35 Soldiers were not receiving any BAS, while 578 were overpaid. Corrections were made. The errors were basically limited to one state that was notified and provided targeted training.
Developed and distributed 100,000 booklets entitled "Citizen Soldier's Guides to Mobilization Finance" to the Family Assistance Centers (FAC). An additional 50,000 are being printed to ensure all ARNG soldiers have access to this pay information.
Created and distributed posters to FACs and units advertising the ARNG Ombudsman toll-free number.
Assisted the Defense Finance and Accounting Service and U.S. Army Finance Command with mobilization site compliance reviews.
Finished the FAC briefing and are now providing monthly opportunities for families to receive training on what to expect from finance.

U.S. Army National Guard Transformation of Intelligence Functions

Description of the Issue: Army National Guard needed to transform its intelligence functions to meet mission requirements.

Accomplishments:

Established the J2 Directorate within the National Guard Bureau (NGB) Headquarters
Developed the J2 Mission statement, Functions and Mission Essential Tasks List
Led the effort to install the Homeland Security Information Network (HSIN) in 54 states and territories to provide a common operating system to enhance information sharing and situation awareness
Established partnerships with national-level intelligence agencies to facilitate information and intelligence sharing
Provided Intel support to the G8 Summit, DNC, RNC and Reagan Funeral
Conducted over 90 Intelligence briefings to NGB leaders
Provided daily intelligence updates to all 54 states and territories
Assisted in planning and participated in U.S. Northern Command exercise Determined Promise 04
Led the effort to provide Joint Worldwide Intelligence Communication System capability at the Army National Guard Readiness Center
Conducted Video Telephone Conferences with Joint Force Headquarters State J2s to share information, discuss NG transformation issues and improve communications
Provided NG input to key policy meetings within DoD & Department of Homeland Security.
Coordinated and drafted Joint Intelligence (J2) Joint Tables of Distribution and Program Directors for 54 states and territories
Established liaison with external Intelligence agencies
Developed a model intelligence architecture and standardized intelligence tools and procedures to maximize efficient information sharing

Deputy Chief of Staff, G-1 Recruitment of Military Arabic Translators

Description of the Issue: The Army lacked Arabic military translators in units deployed to Iraq making communication with the local populace very difficult and hindering the Army's operations.

Accomplishments:

Created a military occupational specialty for translator aides
Deployed units now have greater ability to communicate with the local populous in the areas of operation
Directly accessed individuals into the Individual Ready Reserve

**Resources Put to Better Use
The Surgeon General, Brooke Army Medical Center**

Description of the Issue: A medical materiel branch standardization compliance project was needed to reduce shelf inventory to improve patient safety and reduce costs.

Accomplishments:

Evaluated and implemented standardized product lines that reduced shelf inventory
Improved patient safety
Achieved cost savings exceeding \$2.3 million dollars

**Assistant Secretary of the Army(Acquisition, Logistics and Technology)
Contracting Support in Iraq**

Description of the Issue: Establishment of Project and Contracting Office(PCO) to support the Chief of Mission in Iraq

Accomplishments:

Per Office of the Secretary of Defense direction, established the PCO and the position of Deputy to the Deputy Assistant Secretary of the Army (Policy & Procurement) for Iraq
Developed Standing Operating Procedure, 715-1 for the Baghdad Contracting Activity; issued May 15, 2004 and updated July 24, 2004
Developed and implemented an internal contract review process

**Deputy Chief of Staff, G-4
Supply and Maintenance Assessment and Review Team (SMART)**

Description of the Issue: Looking for ways to improve Army equipment and logistics processes the Army created the SMART suggestion process as a way personnel could identify problems and make suggestions for improvement.

Accomplishments:

SMART process provided a means for suggesting improvements
Allowed a proponent to do evaluations/determine potential savings to Army
Since 1981, 16,021 suggestions submitted with 2,453 adopted resulting in savings of \$180M to Army
In FY 2004 SMART received 184 suggestions and implemented 10 resulting in savings of more than \$1.8M to the Army

Challenges Faced by U.S. Army Reserve's when Mobilizing Individual Augmentees or Small Groups for Specific Requirements

Description of the Issue: The Army Reserve was challenged by a large number of taskers that required mobilizing Individual Augmentees (IA) or small groups to fill specific individual requirements for Operation Iraqi Freedom. This was complicated due to guidance and procedures designed to mobilize whole or task-organized units. If the skills were not available in the Individual Mobilization Augmentee (IMA), we had to form derivative units out of whole units. High requirements for groups of three or less individuals made tracking of mobilized Soldiers extremely difficult to maintain force management, readiness reporting, and personnel mobilization records.

Accomplishments:

Established a new Unit Identification Code (UIC) account that serves an unstructured holding account for individual Soldiers and IA.
Streamlined the mobilization process for both Troop Program Unit (TPU) and IMA Soldiers to volunteer for individual mobilization requirements (i.e. Military Intelligence, Military Police, linguists and other specialties).
Mobilizing individual Soldiers and establishing the IA Program allows USARC to: assign Soldiers to a single place to manage and account for individual Soldiers; improve the ability to meet individual mobilization requirements without breaking or reducing unit readiness; and when the IA Program lacks qualified volunteers in the volunteer pool, USARC can identify Soldiers with no mobilization history, or with the longest history between mobilization to fill involuntary cross-leveling mobilization requirements.
The USARC Augmentation Unit (UAU) manages the IA Program that provides an official database for TPU and IMA Soldiers who volunteer for mobilization tours on the 2xcitizen/HRC-St. Louis website. Currently, over 3500 TPU Soldiers are registered.
Soldiers living in an area without a unit that supports their MOS or grade may be assigned to the IA Program and attached to the closest unit near their home of record for training to perform training assemblies.
The IA also helps fulfill force generation requirements by being temporarily attached to a TPU to fill critical MOS/grade shortfalls in mobilizing units.
Only four months after implementing the IA Program, over 200 IA were mobilized and 127 IA were mobilized using only two Derivative UICs (DUIC) (vice use of multiple DUICs) without degrading unit readiness.
The IA Program concept has proven to be vital in streamlining, and re-engineering the individual mobilization request and fill process.

Deputy Chief of Staff, G-2
Incorporating Lessons Learned into Intelligence Transformation

Description of the Issue: Ensuring that intelligence support to Operations Enduring Freedom (OEF) and Iraqi Freedom (OIF) included lessons learned.

Accomplishments:

<p>The Army G-2 focused on lessons learned from OEF and OIF to guide intelligence transformation in the Army. The Office of the Deputy Chief of Staff, G-2 focused on intelligence resources, information technologies, policies and processes for improvement.</p>
<p>Eighty five (85) actions were initiated to improve intelligence in four areas: tactical collection, access to national intelligence, reporting, and networking analysis centers. Through weekly video teleconferencing with U.S. Central Command, Combined Force Land Component Command, Combined Joint Task Force 7 (U.S. Army V Corps, Iraq), HQ Army Staff, U.S. Army Forces Command, U.S. Army Intelligence Command, and others, 75 of the original actions had been closed by December 2003. Through these dynamic weekly video teleconferences, actions grew to 127, of which 123 are now complete or proceeding without significant issue (as of April 2004).</p>
<p>The Army planned for more manned airborne systems to the theater and more UAVs at lower echelons for both force protection and intelligence gathering.</p>
<p>The need for digitizing Combat Patrol reporting and enhancing communications for Tactical Human Intelligence(HUMINT) Teams (THT) was identified and the process commenced to validate and resource the requirements.</p>
<p>A G2X training course was established and mobile HUMINT training teams were sent to Afghanistan and Iraq. A Counterintelligence HUMINT Information Management System course was established to facilitate training on Counterintelligence and HUMINT Soldier reporting tools and workstations. Advanced Biometric tools are being developed for use at detainee centers and by Military Police.</p>
<p>An Information Dominance Center (forward) was established using analysts with unique skill sets, tools, and accesses. A coalition network was implemented as well as collaboration tools and processes.</p>

**Headquarters, U.S. Army North Atlantic Treaty Organization (HQ USANATO)
Management Control Process Tool Box**

Description of the Issue: Frequent rotation of management control administrators (MCA), Assessable Unit Managers (AUMs) and personnel within U.S. Army North Atlantic Treaty Organization (USANATO) created a “knowledge drain” within the command on the requirements of the management control process.

Accomplishments:

The HQ USANATO MCA created a management control reference Tool Box that is based on a template jointly developed by the Army’s management control (MC) steering group and Army Reserve Training Center for the Army.
The Tool Box includes all resources necessary for executing a successful MC program within USANATO, including a collection of USANATO command’s current and historical files and electronic storing of documents.
The Tool Box provides a variety of real-life examples and documents that can be modified and/or used in the execution of an MCA’s own program.
Tool Box reaches a wider audience in a more cost effective manner, providing a choice of training methods and saving the MCA’s time. Standard Power Point presentations or multimedia Computer-Based Training modules are available.
The Tool Box provides specific templates, examples, and samples of required documentation and serves as a one-stop portable resource to meet MC program needs and to assist USANATO MCAs in successful execution of their local programs.
The Tool Box’s automated training modules will be utilized more frequently as the command shifts training efforts from direct instruction by the HQ USANATO MCA to more cost effective methods.
HQ USANATO MCA’s Tool Box content includes: <ul style="list-style-type: none"> ▪ Army MCA’s Tool Box ▪ Regulatory framework, USANATO directives ▪ Historical command ASAs’ submission files ▪ Current and previous fiscal years policies/appointment memoranda ▪ HQDA/USANATO guidance ▪ A variety of training resources ▪ USAAA Assessments ▪ Links to other MCP sites ▪ Windows Media Videos
The “USANATO MCA’s Tool Box” was published on the command’s website and also distributed on CD to serve as a back-up in case of internet connectivity problems.
Utilization of “USANATO MCA’s Tool Box” CD-Rom by current USANATO MCAs, AUMs, and managers can benefit military and civilian personnel in their future commands.

Controlling Logistics Civil Augmentation Program (LOGCAP) Costs (Third U.S. Army)

Description of the Issue: A review of Global War on Terrorism (GWOT) costs showed Logistics Civil Augmentation Program (LOGCAP) costs as a large factor in overall expenses. LOGCAP can be used to provide services quickly and in austere locations but it comes with a high price tag. With limited funds available, implementing cost control measures for LOGCAP was essential.

Accomplishments:

Established policy requiring changes to LOGCAP contracts over \$10,000,000 be approved by the Coalition Forces Land Component Command (CFLCC) Service Contracts and Non-Stock Fund Review Board.
Commander directed each LOGCAP program manager review task orders monthly to identify and capitalize on potential costs savings.
Implemented the Prime Vendor Program for subsistence in Iraq/Kuwait, which reduced the cost of rations purchased under LOGCAP.
Developed decision matrix, which forced decision makers to look at the availability of military forces within theater, military forces available outside theater, the availability of Host Nation Support, and the feasibility of using a regional contract in lieu of LOGCAP.
Coordinated with contractor, Kellogg, Brown & Root to establish a schedule to “definitize” LOGCAP contracts, which locked in the government’s costs and limited cost increases.
Provided a draft memorandum for the Vice Chief of Staff, Army, which directed commanders to take specific steps to control LOGCAP costs without sacrificing mission accomplishment. Memorandum was sent to all commands involved with GWOT.
Coordinated with HQDA to ensure other Defense Departments paid their “fair share” for LOGCAP support.
Budgeted amount for LOGCAP prior to these actions: \$8.7 billion After these actions: \$6.5 billion

Lack of Property Book Procedures for Radioactive Waste I Corps and Fort Lewis, U.S. Army Forces Command

Description of the Issue: Identified the need to establish property book procedures to account for radioactive waste due to no existing crosswalk between the Army supply system and a radioactive waste inventory system.

Accomplishments:

Established and validated a separate hand receipt for radioactive waste storage area.
Created a standing operating procedure (SOP) with Installation Supply Division to define how items are managed on the radioactive waste hand receipt.
Turned in waste items to Operational Support Command for disposal, properly cleared the hand receipt, and ensured positive accountability for all items.
Forwarded process description to higher headquarters for potential command-wide implementation.

**Information Technology Acquisition Process
U.S. Army Intelligence and Security Command (INSCOM)**

Description of the Issue: INSCOM's Information Technology (IT) acquisition process was highly fragmented, inconsistently applied, and non-repeatable. IT acquisition requests were reviewed and obtained by a variety of methods which was recognized as a serious shortcoming by the INSCOM's Chief of Staff who directed that the INSCOM Business Process Work Group review the IT acquisition process.

Accomplishments:

INSCOM completed the business process redesign of its IT Acquisition Process during the past year
The redesigned process is a compliance-driven, enterprise-wide process to be used for all IT acquisition requests
Included in the redesigned process are specific Management Control requirements
All IT purchases are validated by the proper authorities,
Appropriately funded
Approved for acquisition by the appropriate level of authority
Accounted for on property books, as required
This redesign will significantly improve the command's stewardship and investment of its IT resources.
The process was reviewed by the Senior Management Council and approved for implementation.

U.S. Army Training and Doctrine Command (TRADOC) Interrogator Training

Description of the Issue: TRADOC needed to ensure that its training of Army interrogators incorporated lessons learned from current operations to meet mission requirements.

Accomplishments:

TRADOC school reviewed all intelligence training and updated the programs of instructions with lessons learned from current operations.
In reference to Human Intelligence Collector (formerly Interrogator) Training, school insured that lessons learned, tactics, techniques, and procedures were constantly reviewed for relevance and incorporation into training.
School prepared draft FM 2-22.3, Human Intelligence Collector Operations which will supercede FM 34-52. Draft expected to be released for review 4 th Quarter FY 2004.
School concluded Military Intelligence and Military Police doctrinal roles regarding Enemy Prisoners of War were sufficient in a recent review of applicable regulations and manuals; e.g., AR 190-8 and FM 34-52. Draft FM 2-22.3 has additional sections that outline responsibilities, specifically in the areas of internment and interrogation to enhance clarity and simplicity.



DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
Office of the Principal Deputy Auditor General
3101 Park Center Drive
Alexandria, VA 22302-1596

SAAG-FFG

20 September 2004

MEMORANDUM FOR Assistant Secretary of the Army
(Financial Management and Comptroller)

SUBJECT: Independent Assessment of the Army's Compliance with the Federal Managers' Financial Integrity Act

1. Enclosed is The Auditor General's assessment on the Army's actions to ensure compliance with the Federal Managers' Financial Integrity Act of 1982. In addition to this assessment we will be issuing reports with detailed results to each activity included in the review and an overall report summarizing the site results to you.

2. If you have any questions concerning this assessment, please contact Anita Bales, 681-9766 or anita.bales@aaa.army.mil or Carl Redenbo, 428-6410 or carl.redenbo@aaa.army.mil

FOR THE AUDITOR GENERAL:

Encls


PATRICK J. FITZGERALD
Principal Deputy Auditor General



**DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
Office of The Auditor General
3101 Park Center Drive
Alexandria, VA 22302-1596**

Acting Secretary of the Army

The U.S. Army Audit Agency performed a review to furnish you an independent assessment of the Army's actions to comply with the requirements of the Federal Managers' Financial Integrity Act of 1982; Office of Management and Budget Circular A-123, Management Control Program; DOD Directive 5010.38, Management Control Program; and DOD Instruction 5010.40, Management Control Program Procedures.

Based on our review, I have concluded that the Army, as an entity, has continued its efforts to ensure that a system of management controls exists in accordance with the Integrity Act, Circular A-123, DOD Directive 5010.38, and DOD Instruction 5010.40. As shown in the enclosure to your annual assurance statement, during FY 04 the Army remained committed to ensuring that the management control process was effective. Some of these actions follow:

- The Army continued to emphasize leadership, training, and process execution in day-to-day operations.
- The Senior Level Steering Group met twice during the fiscal year to review Army-level material weaknesses.
- The management control process benefited from the overall program direction of the Management Services and Internal Review Directorate. The directorate:
 - Furnished functional guidance and executed an education and training program during FY 04.
 - Operated a website with information on the management control process.

We found that these actions have had a positive impact on the process.

Again this year, our efforts have paralleled the Army's emphasis on leadership, training, and execution of the management control process. We also concentrated on support for your statement and the identification and correction of material weaknesses and the publishing of key management controls in Army regulations. A summary of the results of our review follows:

- There generally has been continued leadership emphasis on the process; senior-level managers at Headquarters, DA and Army major commands have directly participated. Their feeder statements were generally a fair representation of the effectiveness of the process.
- Senior leadership at each level generally evaluated weaknesses identified by external inspection and audit activities for materiality and reported those weaknesses considered to be material.
- Management levels identifying material weaknesses corrected them or scheduled them for correction.
- Headquarters, DA activities and major commands had reasonably effective systems to monitor actions to correct material weaknesses.
- Education and training efforts generally resulted in increased awareness of feeder statements requirements.
- Activity managers prepared feeder statements that compiled into an annual assurance statement that the commander or equivalent signed.

The Army continues to provide senior level emphasis on the importance of a system of management controls. For example:

- Headquarters, U.S. Army Materiel Command has a management control website designed to aid administrators in the management control process as well as provide training. Also, a Senior Level Group reviews submitted weaknesses to determine materiality and reports results so personnel can determine whether to submit the weaknesses to the next higher command.
- Headquarters U.S. Army Installation Management Agency uses its Internal Review Office to review DA Form 11-2Rs and management control checklists to ensure compliance with the management control process. Internal Review also assists in reviewing and reporting of material weaknesses.
- U.S. Tank-automotive and Armaments Command Management Control Program Coordinator and Deputy Chief of Staff have produced a training video regarding the “Importance of Reporting Material Weaknesses”. The activity also produced a training slideshow presentation on the Management Control Process for all operating personnel to access on the Intranet.

However, we did find that a more robust implementation at individual local commands would improve the Army’s Management Control Program. Improvements such as ensuring management control responsibilities are in managers’ performance agreements, supporting management control evaluations with documented tests of controls and providing classroom face-to-face training on management controls would make the program stronger. Although

improvements were needed, the issues we identified weren't significant enough to change our overall conclusion on the effectiveness of the Army's management control process.

AR 11-2 (Management Control) requires DA functional proponents to identify the areas that should have key management controls evaluated. The regulation also requires the functional proponent to publish the key management controls, usually in the form of evaluation checklists, in its Army regulations. During FY 04 we found that the functional proponents had published management control evaluations in their key regulations.

I have concluded that the Army continues in its efforts to ensure that a system of management controls exists in accordance with the law and applicable guidance. My overall conclusion is based on the results of specific reviews done for 31 assessable units at 9 activities, and 54 Army Audit Agency reports issued during FY 04 that included an objective that addressed whether Army regulations identified key management controls. The annual review didn't identify problems that materially affect your annual assurance statement for the Secretary of Defense on the status of internal accounting and administrative controls in the Army.

VR,

JOYCE E. MORROW
The Auditor General