



2008

**Statement of Assurance on
Internal Controls**





SECRETARY OF THE ARMY
WASHINGTON

INFO MEMO

13-08-2008 A08:39

FOR: SECRETARY OF DEFENSE

FROM: Pete Geren, Secretary of the Army

A handwritten signature in black ink, appearing to read "Pete Geren", is positioned to the right of the "FROM:" line.

SUBJECT: Fiscal Year (FY) 2008 Statement of Assurance on Internal Controls as Required Under the Federal Managers' Financial Integrity Act of 1982

- I am providing a qualified statement of reasonable assurance that the Army's internal controls in effect for the fiscal year ending September 30, 2008, met FMFIA objectives except for the six material weaknesses noted in TAB B-1. These weaknesses are tied to internal controls for the effectiveness and efficiency of the operations identified, as of the date of this memorandum. Other than the material weaknesses noted, internal controls operated effectively and were used as intended.
- The Army assessed its internal controls for overall operations according to OMB Circular A-123, Management's Responsibility for Internal Control, which can be found at TAB A. TAB A also provides a summary of the significant accomplishments and actions taken to improve Army internal controls during the past year.
- TAB B-1 contains a list of uncorrected and corrected material weaknesses. Individual narratives for each uncorrected material weakness and status of corrective actions can be found at TAB B-2. Narratives for those material weaknesses that have been corrected are at TAB B-3.
- The Army continued to make progress in improving internal controls for financial reporting for the General and Working Capital funds.
- I have no assurance that, as of June 30, 2008, the Army's internal controls for financial reporting were operating effectively. This assessment is based on the auditor's inability to render an audit opinion; 1,290 uncorrected actions identified in our financial improvement plan; 13 areas associated with the General Fund, which are identified at TAB D-1; and eight areas associated with the Working Capital Fund, which are identified at TAB E-1.

SUBJECT: Fiscal Year (FY) 2008 Statement of Assurance on Internal Controls as Required Under the Federal Managers' Financial Integrity Act of 1982

- I am able to provide a qualified statement of reasonable assurance for the Civil Works financial statements. My assurance is based on the qualified audits and opinions achieved in fiscal years 2006 and 2007.

COORDINATION: NONE.

Attachments:
As stated

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ATTACHMENT

TAB A-1

(TAB A-1)
THE BASIS FOR REASONABLE ASSURANCE

U.S. ARMY AUDIT AGENCY INDEPENDENT ASSESSMENT



DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
3101 PARK CENTER DRIVE
ALEXANDRIA, VA 22302-1596

SAAG-ZA

11 July 2008

MEMORANDUM FOR Secretary of the Army

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

1. We performed a review to provide you with an independent assessment of the Army's actions to comply with the requirements of the Federal Managers' Financial Integrity Act of 1982 and DOD Instruction 5010.40 (Managers' Internal Control (MIC) Program Procedures).
2. From the results of our review, I concluded that the Army, as an entity, continued its efforts to make sure that a system of controls exists in accordance with the Act and the DOD Instruction. During FY 08, the Army remained committed to making sure that the Army Managers' Internal Control Program was effective. The Army continued to emphasize leadership, training, and program execution in its day-to-day operations. For example:
 - The Senior Level Steering Group met during the year to review ongoing program issues and work toward correcting previously reported Army-level material weaknesses.
 - A Lean Six Sigma team assisted us in addressing 47 unimplemented audit recommendations where corrective actions—that were over 18 months past the targeted implementation date—would result in monetary benefits. The team found that actions to implement the recommendations had been completed for 34 of the 47 recommendations.

In addition, several other actions had a positive effect on the overall program. The Management Services Directorate in the Office of the Deputy Assistant Secretary of the Army (Financial Operations) oversaw actions to:

- Conduct training on assessing risk, preparing the 5-year internal control plan, completing internal control evaluations, and preparing the assurance statements.
- Support the Office of the Secretary of Defense's "Check It" campaign to increase "internal control awareness" throughout the Army.
- Revise AR 11-2 (Management Control). The regulation was extensively changed to increase the involvement and accountability of commanders and managers. The revised regulation is in the staffing process.

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

3. Our review of the program paralleled the Army's emphasis on leadership, training, and execution of the Managers' Internal Control Program. We also concentrated on support for your statement, and three other areas: the identification and correction of material weaknesses, audit recommendations, and the publication of key controls in Army regulations. We concluded that Army managers:

- Evaluated weaknesses identified by internal inspections and audit activities and reported those weaknesses they considered to be material.
- For identified material weaknesses, took corrective actions or scheduled them for correction.
- Compiled the feeder statements sent from subordinate levels into an annual statement.
- At the senior levels, emphasized internal control provisions by having us review Army regulations in the staffing process to ensure that the regulations contain evaluations of key internal controls.
- Held education and training programs to increase awareness of internal control requirements.
- Emphasized training by providing multiple sources of annual training.

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

- U.S. Army Forces Command developed a Contract/Task Order Performance Assessment Report to strengthen controls over contracts, and the U.S. Army Contracting Agency—Southern Region (now known as U.S. Army Contracting Command (Provisional)) adopted the report for use throughout its area of responsibility.
- U.S. Army Installation Management Command supplemented its 5-year plan with two additional areas not required by AR 11-2 that provided added assistance to the user. An evaluation guide column gave details of where to find a checklist, or the applicable document to use if performing an alternative method. The 5-year plan also included hyperlinks to the appropriate checklists in regulations or other documents if alternative methods were used. These added features provided the user an added resource and also saved time.

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

However, we did find some actions could be taken to improve the Army's internal control process, such as:

- Documenting the process for assessing, reporting, and monitoring material weaknesses.
- Updating Army regulations that lack internal control provisions or an evaluation checklist to meet the requirements of AR 11-2.
- Updating internal control training to make sure it is current and meaningful.
- Conducting training on internal controls to personnel who write Army regulations.
- Conducting and documenting internal control training for personnel with responsibility for evaluating and reporting on the status of internal controls.

Although improvements were needed, the deficiencies we identified were not significant enough to change our overall conclusion on the effectiveness of the Army's internal control program.

4. AR 11-2 requires Army functional proponents to identify key internal controls. The regulation also requires the functional proponent to publish key controls, usually in the form of evaluation checklists, in its Army regulations. During FY 08, we reviewed 122 regulations and found that functional proponents generally included internal control provisions and identified key internal controls.

5. In addition to our audits of the Managers' Internal Control Program, we evaluated key internal controls during our other audits and, when necessary, made recommendations to fix any identified control weaknesses. Our evaluation of internal controls helps to provide assurance that the Army's internal controls are in place and operating or weaknesses are identified and corrected. In addition, we developed trend data to identify areas that warrant focus to provide the greatest benefits in continuing a strong control environment. From 1 July 2007 through 30 June 2008, we issued 246 reports including evaluations of key internal controls related to the 12 internal control standards in AR 11-2. Our evaluations showed that about 60 percent of the standards tested had controls that were in place and operating. We made recommendations to strengthen the controls that were not in place or not operating. Of the controls we identified as not in place or not operating, 44 percent related to 3 of the 12 internal control standards—recording of transactions and events, documentation, and control techniques. The results showed recommendations were made to strengthen:

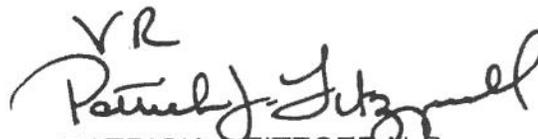
SAAG-ZA

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

- Recording of transactions and events (14 percent). Transactions and other significant events should be promptly recorded and properly classified to maintain relevance and value to management in controlling operations and making decisions.
- Documentation (15 percent). Internal control systems and significant events are to be clearly documented with the documentation readily available for examination. Transaction or significant event documentation should be complete and accurate and facilitate tracing the transaction or event.
- Control techniques (15 percent). Internal control techniques are the mechanisms by which control objectives are achieved. Techniques include, but are not limited to, specific policies, procedures, organization arrangements (including separation of duties, reconciliation, suspense, and physical observations).

Implementation of agreed-to recommendations addressing the control weaknesses and additional focus on these areas overall will strengthen the control program.

6. Although our audits identified opportunities for improvement, they did not identify any undisclosed material problem areas that affect your annual assurance statement for the Secretary of Defense on the status of managers' internal controls in the Army.

VR

PATRICK J. FITZGERALD
The Auditor General

TAB A-2

(TAB A-2)
**DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE
AND HOW THE EVALUATION WAS CONDUCTED**

Guidelines for the Evaluation

Army senior management evaluated the system of internal accounting and administrative controls, in effect during the fiscal year ending September 30, 2008, in accordance with the guidance provided in Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," as implemented by DOD Instruction 5010.40, "Management Control Program Procedures." The OMB guidelines were issued in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act (FMFIA) of 1982." Included is an evaluation of whether the system of internal accounting and administrative controls for the Army complies with standards prescribed by the Comptroller General.

Objectives of Reasonable Assurance

The objective of the Army's system of internal accounting and administrative controls is to provide reasonable assurance that:

- Obligations and costs comply with applicable law;
- Programs achieve their intended results;
- Assets are safeguarded against waste, loss, unauthorized use, and misappropriation;
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly. This ensures accounts and reliable financial and statistical reports are prepared and accountability of the asset is maintained; and
- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

Concept of Reasonable Assurance

The evaluation of internal controls extends to every responsibility and activity undertaken by the Army and applies to financial, administrative, and operational controls. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the expected benefits. The expected benefits and related costs of internal control measures are addressed using managerial judgment. Internal control problems may occur due to inherent limitations, such as resource constraints, congressional restrictions, and other similar factors. Future projections made as a result of any evaluation may be affected by changes in conditions or deterioration of procedural compliance over time. The Army's statement of reasonable assurance is provided within these limitations.

Evaluation

The overall evaluation was performed in accordance with the guidelines above as well as information provided by external sources such as the Government Accountability Office (GAO), Department of Defense Inspector General (DODIG), Army Inspector General, and the U.S. Army Audit Agency (USAAA). The results indicate that the Army's system of internal accounting and administrative controls, in effect during FY 2008, complies with the requirement to provide reasonable assurance that the objectives mentioned above were achieved, except as identified in the listed weaknesses.

Determination of Reasonableness

The Army's approach to internal controls is based on the fundamental philosophy that all commanders and managers have an inherent internal control responsibility. All Army headquarters officials and functional proponents are responsible for establishing sound internal 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 internal controls over their operations and resources. This philosophy is soundly rooted in FMFIA, OMB, DOD, and Army policies. The Army's internal control process supports commanders and managers in meeting their inherent responsibilities by providing a process for periodically conducting detailed evaluations of key internal controls, and a process for developing and supporting an objective annual statement of assurance that fully discloses known material weaknesses.

The process for developing and supporting an objective assurance statement is accomplished through three key components. First is leadership emphasis. Second is the training of commanders, managers, and other personnel with internal control responsibilities. Third is an evaluation process that clearly defines fundamental requirements, establishes accountability, and enables an effective method to detect, report, and correct recurring internal control deficiencies. In addition to these three key components, the Army continued to emphasize internal control over financial reporting (ICOFR) in compliance with OMB, Circular A-123, Appendix A. A summary of each key component follows:

Leadership Emphasis:

- Senior Army leadership has consistently demonstrated strong support for the managers' internal control process at all levels within the Army. Here are some examples for HQDA:
 - The Army's senior leadership issued a memorandum emphasizing the importance of effective internal controls and sound stewardship of public resources. The memorandum, signed jointly by the Secretary of the Army and the Chief of Staff, Army, was addressed and disseminated to Principal Officials of Headquarters, Department of the Army (HQDA), Army Commands (ACOMs), Army Service Component Commands (ASCCs), and Direct Reporting Units (DRUs).

- The Army's Senior Level Steering Group (SLSG)/Senior Assessment Team (SAT), a senior management council, as recommended by OMB Circular A-123, met four times during FY 2008 to review, discuss, and resolve internal control issues. This executive body is composed of general officers and senior executive service members representing all areas of Army operations. As part of their oversight duties, the SLSG/SAT reviewed on-going internal control issues, and worked towards correcting previously reported material weaknesses. The SLSG/SAT also considered additional internal control deficiencies that merit reporting as Army material weaknesses.
- The Army's senior leadership continued to coordinate with the Office of the Under Secretary of Defense (Comptroller) to ensure that the Managers' Internal Control Program (MICP) included requirements of OMB Circular A-123 regarding ICOFR and was aligned with the Chief Financial Officer's Strategic Plan and the Financial Improvement and Audit Readiness Plan.
- The SLSG/SAT continued to monitor the status of open material weaknesses and provided assistance to the material weakness owners to ensure timely resolution of the weaknesses by developing a sound and jointly agreed upon action plan.
- The SLSG/SAT, the USAAA, Principal Officials of HQDA, ACOMs, ASCCs, and DRUs began monitoring and coordinating efforts to reconcile and resolve unimplemented USAAA audit recommendations with potential monetary benefit whose implementation date had exceeded 18 months. A total of 47 unimplemented audit recommendations have been reviewed. To date, 34 of the 47 unimplemented audit recommendations have been resolved.
- The Provost Marshal General sent an e-mail to the principal staff and subordinate commands, reminding them of the need for their commitment to the internal control process as a viable means for effective stewardship of limited resources. He also emphasized the importance to identify problem areas before they arise by; developing a corrective action plan; testing the corrective action to make sure that it works; implementing it; and then moving forward; thus ensuring internal controls are integrated daily into all operations. The Provost Marshal stressed that the internal control evaluations scheduled in the Internal Control Plan (ICP) are the bare minimum requirements, and encouraged leaders to review key aspects of their operations not covered by these existing processes to further minimize risks that could negatively impact other areas of our operations.
- The United States Military Academy Superintendent issued a memorandum to Major Activity Directors emphasizing his strong support and intent to ensure the implementation of an effective internal control program and leaders' involvement at the Military Academy. The guidance was further disseminated to Assessable Unit Managers (AUMs) and Internal Control Administrators (ICAs) throughout the Academy.

- Strong Senior Leadership support for the Manager's Internal Control Program was also demonstrated throughout the Army. Here are some examples:
 - The Space and Missile Defense Commander emphasized the importance of good stewardship and effective internal controls through the Commanding General's Special Emphasis letter. The commander's staff updated command policies that stressed the importance of effective controls within the command and required managers to identify and report material weaknesses. Each AUM, manager, supervisor, and other employees with significant internal control duties, regardless of grade, are required to have a statement of responsibility for internal controls in their performance standards.
 - The Training and Doctrine Command (TRADOC) Commander issued a memorandum to all principal commanders, commandants, key staff officers, and managers at the HQ staff offices and the TRADOC schools and activities on the requirement of establishing an aggressive internal control program. Emphasis was placed on commanders' and commandants' active involvement in the internal control process, including the review of material weaknesses, their cooperation in promoting the timely reporting and resolution of internal control problems in order to enhance the credibility of annual statements, and the assurance that plans identified for corrective actions are being followed and implemented. TRADOC leadership at the major subordinate commands, schools, and activities issued subsequent memoranda and guidance to their AUMs further endorsing the importance of the internal control program and advising them of their roles and responsibilities. TRADOC's leaders placed additional emphasis on internal controls by using policy letters, quarterly reviews, briefings and analysis presentations, town hall meetings, weekly command staff meetings, and monthly status reports to communicate the command's philosophy and monitor the effectiveness of internal controls. The Commanding General also used one-on-one sessions, Chiefs of Staff Board of Director's meetings, chairing numerous council and committee meetings (Environmental Quality Control Council, Installation Safety and Occupational Health Advisory Council, Mayor's Council, etc.). Periodic staff assistance visits, director's meetings, and command and staff meetings were additional ways leadership disseminated internal control information, emphasized proactive involvement, and received feedback on the effectiveness of internal controls throughout the command.
 - The Commander, U.S. Army North, issued over 50 official policy memoranda - many of which implemented or reinforced internal controls in the areas of safeguarding classified information, contract management, property accountability, government travel card, government purchase card, command supply discipline program, overtime management, use of Government resources communications systems, non-tactical vehicle usage, and unauthorized commitments.

- The U.S. Pacific (USARPAC), Commander issued a policy memorandum entitled “Good Stewardship through Management Controls,” charging all commanders and staff principal officers with personal responsibility for Internal Controls. The memorandum reminded each organization of their internal control responsibilities and was widely distributed to all USARPAC activities.
- The U.S. Army Materiel Command (AMC) Commander took the following actions to emphasize the internal control program:
 - Issued a memorandum entitled “Stewardship and the AMC Managers’ Internal Control Process (MICP)” that stressed the importance of internal controls and the MICP program.
 - Conducted senior level meetings with principal staff to discuss how AUMs were addressing internal controls and to review and approve new, updated and closed material weaknesses. These meetings and other senior-level meetings with AMC commands world-wide via Video Tele-Conferencing (VTC) improved the internal control process by senior leaders assessing levels of risk for critical mission areas; evaluating controls in place to mitigate the risks; and taking action when controls or resources were deficient.
 - Instituted Lean Six Sigma (LSS) to increase overall efficiency and effectiveness of AMC’s programs.

Training:

Training on the principles and practices of sound internal controls in achieving the objectives of the FMFIA occurred at all levels within the Army. Principal Officials of HQDA, ACOMs, ASCCs, and DRUs prepared FY 2008 assurance statements with documented evidence of internal control training completed by their activities. The following is a summary of internal control training initiatives for FY 2008:

- Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C)):
 - Provided internal control training via VTC and classroom setting to over 720 Army personnel within Department of Army Headquarters, ACOMs, ASCCs and DRUs. Topics addressed in the training included conducting risk assessments, preparing the internal control plan, completing the internal control evaluations and preparing the statement of assurance.
 - Deputy Assistant Secretary of the Army (Financial Operations) and the Director, Management Services, OASA(FM&C) participated as guest speakers at training conferences and symposia, to include the American Society of Military Comptrollers European Professional Development Institute and the OASA(FM&C) new hire orientation briefings.

- Partnered with the U. S. Army Reserve and trained 250 Army ICAs at the Army Managers' Internal Control Training Conference.
- Continued partnership with the U.S. Department of Agriculture Graduate School, Government Audit Training Institute (GATI) to provide Army personnel a two-day course on effective administration of the Army's internal control process, and a one-day (on-site) course for management level employees on their role in the Army's internal control process. To date, GATI has held eight two-day courses that trained 216 personnel and four one-day courses that trained 155 personnel. GATI has an additional one-day course and four two-day courses scheduled for later in the fiscal year.
- Published articles related to internal controls in the Financial Management and Comptroller Resource Management Publication.
- The U.S. Army Reserves Command trained over 700 individuals. They:
 - Hosted the Army-wide MICP training. The training covered a wide range of topics pertaining to the development and preparation of internal control plans and annual assurance statements to include material weaknesses, internal control plans, using Management Control Evaluation Certification Statement (DA Form 11-2-R), duties and responsibilities of AUMs and ICAs, testing internal controls, conducting evaluations, GAO standards, writing annual statements of assurance, and performance agreements.
 - Developed and fielded an Army IR Chief's Course. Fifty-eight IR chiefs attended the first training session and internal controls were covered as part of the training.
 - Collaborated with the NGB to develop and field a Basic Auditor/Evaluator Course for Army and NGB IR evaluators and auditors. The course included several modules on internal controls. Forty auditors and evaluators attended the first class.
 - Conducted internal control training for the NGB at their annual ICP workshop. Over 200 NGB personnel attended the training. The topics covered at the conference were: Conducting Internal Control Evaluations; Stewardship and Internal Controls; Success in Embedding Internal Controls; OSD Scorecard/A-123 Changes; Balanced Scorecard; Risk Assessments; Reporting Evaluation Results on DA Forms 11-2-R; Using Outside Evaluations to support MICP; MICP/IG Partnership; Material Weakness Reporting; and Preparation of Annual Statements of Assurance.
- U. S. Army Materiel Command (AMC) trained over 7,000 individuals. During FY 2008, AMC:
 - Conducted internal control training on a wide scale and at all levels. AMC sent ICAs from a cross-section of AMC to the U.S. Department of Agriculture (USDA) Graduate School and hosted an on-site course at Headquarters AMC on the Army's ICA Duties

and Responsibilities. Subordinate ICAs also established their own MICP training programs. They conducted training using various methods (formal presentations, VTCs, desk side briefings, web-based training products, electronic briefing charts, USDA classes, and staff meetings.)

- Developed new training packages on the MICP to provide refresher training to AUMs, managers, action officers and ICAs. Packages were distributed command-wide via electronic mail, the use of internet website, Army Knowledge Online (AKO) accounts, handbooks and VTC. Training packages covered topics such as: Definition of controls, benefits of establishing proper controls, responsibilities of the AUM and ICA, internal control plans, annual statement of assurance and reporting material weaknesses.
- Internal Review and Audit Compliance Office website provided command-wide ICAs and others immediate access to various types of guidance related to the MICP, links to other important websites, and various training materials and class schedules. Subordinate commands developed their own AKO sites and web pages to include this information as well as their own command related guidance.
- U. S. Army Test and Evaluation Command conducted training that emphasized Developmental Test Center requirements for the submission of the FY 2008 annual statement of assurance, provided an overview of the internal control program, and provided a forum to ask questions and clarify guidance. The training also briefed common deficiencies identified during command inspections.
- U. S. Forces Korea (USFK) and Eighth U.S. Army (EUSA) provided training to 331 employees on internal controls and the ICOFR requirements. One area of emphasis involved discussions on approaches for leaders to identify key controls within areas HQDA has not identified checklists within Army regulations (e.g., Office of the Status of Force Agreement Secretariat). During this year's training, particular areas of emphasis were (1) thorough evaluation of activities' functional responsibilities / core competencies; and (2) across-the-board evaluations – by all organizations – of responsibilities which present heightened vulnerabilities (e.g., information security, contract administration, government purchase card and travel card use, property accountability, and personnel time and attendance discipline).
- U. S. Army Training and Doctrine Command (TRADOC) continued an aggressive training program to ensure every manager was aware of their responsibilities for implementing an effective internal control process. TRADOC ICAs provided specific training to AUMs on their responsibilities and conducted on-site training and periodic refresher training for all new and current ICAs. Training sessions were conducted with commanders and managers at various TRADOC schools and activities. These sessions allowed direct interaction and exchanges on internal controls. Internal controls were included as a major topic at various workshops and conferences. TRADOC ensured their community was notified of training opportunities and conferences including the courses offered by USDA Graduate School, the training VTCs hosted by OASA(FM&C), FORSCOM internal control VTCs, the web-based training tools on CD available through Fort McCoy's Advanced Distributive Learning Division, and the annual Army Managers' Internal Control Training Conference.

Execution:

The Army supported the Office of the Secretary of Defense's "*Check It*" campaign to increase "internal control awareness" throughout the Army. The primary mission of the campaign is to do all we can to support our warfighters. The Army's support of the campaign consisted of the following:

- OASA(FM&C) distributed "*Check It*" campaign posters and public service announcements to the Army internal control community, as well as posting them on OASA(FM&C)'s and Army Knowledge Online's website. This enabled the "*Check It*" Campaign to reach nearly one million Soldiers and civilians world-wide. Also, encouraged commanders to participate in rounds one and two of Phase Two of the "*Check It*" campaign that recognizes "best" process improvements by submitting their documented improved processes. Submissions were received and forwarded to the Office of the Deputy Secretary of Defense for consideration.
- The U. S. Army Forces Command (FORSCOM) added "*Check It*" posters to the rotation of pop-up screens on the FORSCOM Headquarters staff personal computers to emphasize the importance of effective internal controls and their impact in all theaters. A brief explanation of internal controls and the annual statement of assurance preparation cycle was posted on the portal. "*Check It*" videos were cycled on television screens located in major traffic areas in the FORSCOM Headquarters building. Subordinate commands were provided "*Check It*" posters and public service announcement videos and encouraged to use them to increase awareness.
- U. S. Army Training and Doctrine Command disseminated all "*Check It*" Campaign updates, public service announcements, and related posters throughout the command, subordinate schools and activities. As the "*Check It*" Campaign continued during this reporting period, TRADOC activities were highly encouraged to participate in phase two of the campaign. The various posters were displayed in the appropriate functional areas. Also, TRADOC forwarded published articles about government cases of fraud, waste, and abuse to HQ TRADOC staff, schools, and activities. In addition, TRADOC personnel were kept abreast of the monthly focal points of the Defense Department's "*Check It*" Campaign.
- In addition, the U. S. Army Europe and Seventh Army, U. S. Army North, U. S. Army South, and U. S. Army Test and Evaluation Command distributed information to emphasize awareness of maintaining effective internal controls.

The "*Check It*" campaign underpinned a sound evaluation process for detecting, reporting, and correcting internal control weaknesses. The foundation of the Army's evaluation process is the 742 internal review evaluators responsible for evaluating and testing the effectiveness of internal controls. The cadre of internal control professionals evaluated and tested internal controls across the entire spectrum of Army operations. Additionally, Army Internal Review conducted a review of controls over the Temporary Change of Station (TSC) Program resulting in major revision to the program and possible savings to the Army of approximately \$1 billion.

Reviews of the internal control process were made throughout the Army. The following is a list of actions that were completed during FY 2008:

- To further the Army's implementation of the Chief Financial Officers (CFO) Act, OASA(FM&C) continued work to refine the Army CFO Strategic Plan (the Plan), changing the orientation from a line item process to an end-to-end process based on the Business Enterprise Architecture (BEA) for three (3) areas (Military Equipment, Real Property, and Civilian Pay). The Plan is the Army's roadmap for meeting CFO financial reporting requirements through improved business processes and systems. As these business processes improve, so will the quality of the information. That improved information will be more vital to the Army's decision makers. The Plan includes about 1,960 financial improvement and systems implementation tasks with an estimated cost to complete of about \$4 billion. It also includes actions required to correct previously identified internal control weaknesses (both operational and those the auditors identify each year during their annual review of the Army's financial statements). To ensure that the Plan is kept current, OASA(FM&C) continued to hold quarterly in-process reviews with all stakeholders (at both the action officer level [called the CFO Strategic Plan Working Group] – and the executive level [called the Audit Committee Executives – (ACE)]) to monitor progress, review action plans and updated the Plan as required. To elevate visibility of financial reporting requirements and the direct connection to operational activities, OASA(FM&C) required the executive members (ACE) to present financial improvement activities at quarterly meetings. OASA(FM&C) is now leveraging end-to-end processes, our enterprise financial system solutions (General Fund Enterprise Business System and Logistics Modernization Program), logistics and management systems solutions as a major part of our improvement activities.
- The U. S. Army Finance Command (FINCOM) Special Review Office (SRO) reviewed financial internal controls supporting sensitive and classified operations. During FY 2008, the SRO conducted: six complete operational reviews, eight special mission fund (SMF)/Intelligence Contingency fund (ICF) reviews, five special reviews of DA waivers, and three reviews of the Debit Card Program, a partnership between the Defense Finance and Accounting Service, Army and the U. S. Treasury. Findings were noted, and corrective actions were initiated in the areas of general organization and management, forward support teams, military pay processing, quality assurance, travel pay processing, vendor pay processing, disbursing, accounting, budget office functions and special mission funds/intelligence contingency funds.
- Office of the Deputy Chief of Staff, G-4 developed the Army Asset Improvement Plan (AAIP) to serve as the Army Military Equipment audit validation readiness plan, which documents the Army's plan to improve asset accountability and compliance with the Military Equipment valuation requirements. The Army implemented an initiative called "Operation Total Recall" to establish 100 percent accountability of Army assets through policy revision and enforcement, focused inventories, training, and emphasis on the Command Supply Discipline Program (CSDP). The intent of Operation Total Recall is

to assist commanders in their efforts to re-establish property accountability and ensure that they account for equipment using automated systems. The end-state is corporate-wide Army asset visibility. To date, the Army has returned to property book accountable records over 20,000 items of General Equipment worth more than \$135 million.

- Provost Marshal General conducted staff assistance visits to subordinate commands to review documents, operations, and conduct interviews to ensure adherence to policy and procedures, and to instruct and provide corrective action as needed. Staff assistance visits were made to Headquarters, 202d Military Police (MP) Group (CID) and Headquarters, 6th MP Group (CID). The visits resulted in minor corrective actions needed to improve operations but detected no major deficiencies.
- Army National Guard (ARNG) used a “senior management council” (a forum recommended by OMB Circular A-123 and AR 11-2, Management Control) for executing internal controls within the ARNG. The council convened semi-annually and was chaired by the Deputy Director ARNG (DDARNG). The council consisted of the DDARNG, the ARNG G-staff, the National Guard Bureau (NGB) United States Property and Fiscal Officer Advisor, the NGB J-8, and the NGB Chief of Internal Review. Inclusion of joint staff participation was crucial to address NGB systemic issues affecting ARNG. The council addressed corrective actions for material weaknesses, area of vulnerability, and ensured an ARNG-wide approach was applied. The council kept material weaknesses on track for closure and significantly raised the level of awareness and support throughout the organization. Periodic updates of internal control program performance and effectiveness were briefed to the chairman and the council to identify and correct any problems. This ensured the internal control program remained a proactive approach to process improvements and was an effective tool for leaders and managers at all levels.
- The Army Materiel Command (AMC):
 - The AMC ICAs distributed guidance, established individual five-year internal control plans, scheduled required evaluations for completion, and required feeder statements from subordinate commands and separate reporting activity managers. Staff elements included the use of various alternative evaluation processes in addition to the use of standardized checklists. Many organizations also completed internal checklists on administrative issues within their offices, which were not reflected in their five-year plans.
 - Staff elements employed a pyramidal process to substantiate the AUMs’ annual statement of assurance feeder statements. Each division chief was required to submit an assurance statement to the AUM, similar to the statement the AUM provided to the CG, AMC. The procedure reflected the pyramidal process by which the

government's annual assurance to Congress is built, from the lowest reporting element in each agency through the full agency structure and the President to Congress. It ensured the AUMs, division chiefs and their staffs were more directly involved in the annual assurance process.

- Led the mission in continuous improvement in their support to the Warfighter by integrating Lean Six Sigma (LSS) into the culture of the command through leadership, training and execution. AMC:
 - Won 12 of the 17 public sector Shingo prizes.
 - Trained 31 Master Black Belts, 425 Black Belts, and 2,150 Green Belts.
 - Realized \$305 million in process improvement benefits (e.g., product quality, time, cost savings/avoidance, on-time delivery).
- Army Test and Evaluation Center (ATEC):
 - Conducted over 400 management internal control evaluations this year.
 - Inspected all Government Purchase Card (GPC) holders and billing officials' records by ATEC Mission Support Contracting Activity (AMSCA) personnel, either as stand alone inspections or as part of the Operational Test Command's assessment and review program. All inspections were conducted in accordance with the inspection criteria contained in the ATEC GPC Deskbook. Required approvals, DD Form 1556 to support training payments, and the use of mandatory sources for purchases were verified. Refresher GPC training was conducted during the inspection to card holders and billing officials. After action reports containing the inspection results and required corrective actions were provided to card holders, billing official supervisors and the Director, AMSCA.
 - The Surety, Security, and Intelligence Division worked with the Department of the Army Inspector General Agency (DAIG) to correct the minor deficiencies found at White Sands Test Center during a Reactor Facility Inspection.
 - Utilized internal controls to track and monitor Base Realignment and Closure actions. Surveys are conducted quarterly to accurately reflect AEC's workforce by location to ascertain adequate planning for funding, logistical, and manpower requirements while maintaining effective continuity of operations. Statistical reports are provided to relevant functional staff to ensure proper allocation of any BRAC funds.
- FORSCOM:
 - Coordinated effort to update the HQ FORSCOM Internal Control Plan based on a thorough scrub (performed by Medical Command's ICA) of the regulations posted on the Army Publishing Agency's website. The plan included responsible staff

proponent and scheduled year for completion. The plan also identified evaluations designated for Army Command's (ACOM's) use but deemed not applicable (NA) to the Headquarters by appropriate functional proponent, which was provided to the Headquarters staff for their respective execution during FY 2008.

- Executed the Aviation Resources Management Survey (ARMS) Program by evaluating internal controls in over 200 separate Active and Reserve Component aviation units. Strengths and weaknesses were identified to senior leadership along with methods to improve procedures (best practices from successful units). The ARMS inspections continued to be critical to units identified for deployment to combat by identifying weaknesses and ensuring procedures were in place prior to deployment.
- U. S. Army North Atlantic Treaty Organization (USANATO): Developed 10 checklists to evaluate areas of interest when internal control checklists were not focused on the command's mission or when checklists were not included in the governing regulation. Command developed checklists were used to evaluate four functions that were not included on the HQDA Army Internal Control Evaluation Checklist Inventory; "Army Training and Leader Development," "Physical Security Program" and "Line of Duty Investigations."
- U.S. Army Space and Missile Defense Command (USASMDC): Implemented and coordinated the command's Staff Inspection Program (SIP). All subordinate elements were inspected; incoming commanders/directors received initial inspections to establish baseline performance levels and target improvement areas; and outgoing commanders/directors received departing inspections to assess accomplishments. Major focus of inspections included: providing clear goals, standards, and priorities for regulatory requirements; ensuring organization's strengths and weaknesses are understood in relation to the Commands' goals and standards; providing a feedback mechanism to identify problems and track their resolution; directing problems to the proper level of resolution; and helping the organization assess internal controls.
- Training and Doctrine Command (TRADOC): Continued to use the Organizational Inspection Program (OIP) as the primary tool to evaluate operations, as well as a vehicle to enforce standards, educate, and set future goals. Internal control checklists were incorporated into the OIP at several locations.

TAB A-3

(TAB A-3)
MANAGERS' INTERNAL CONTROL PROGRAM AND RELATED
ACCOMPLISHMENTS

Description of Issue: Temporary Change of Station (TCS) Program.

Accomplishment: In April 2007, a review by the Office of the Assistant Secretary of the Army for Financial Management and Comptroller (OASA(FM&C)) Internal Review (IR) office identified many internal control and financial control weaknesses and potential fraud, waste, and abuse in the TCS program. The Army implemented a major revision of the program significantly strengthening internal and financial controls and, the IR office completed a review of 4,500 travel accounts for fraud, waste and abuse. Changes implemented in FY 2008 include full use of the Defense Travel Service (DTS) for order authorization and travel claim computation, 55 percent per diem for travel exceeding 180 days, use of government lodging, elimination of unnecessary positions, and conversion of temporary positions to full-time enduring positions. These changes provide nearly \$1 billion in total estimated savings.

Description of Issue: Wide Area Work Flow (WAWF).

Accomplishment: The Army fully deployed WAWF to all receiving activities world-wide. As of May 30, 2008, 41 percent of vendor receiving reports and 41 percent of vendor invoices were processed electronically through WAWF. Additionally, monthly usage rate for Mechanization of Contract Administration Sources invoices/receiving reports averaged approximately 95 percent during FY 2008. The Army's WAWF training initiatives for Government Group Administrator, Inspector and Acceptor, and Vendor Processing role courses, resulted in a total of 4,585 vendors and 10,167 Army employees trained. More than 28,000 Department of Defense Activity Address Codes were loaded to ensure the smooth transition to WAWF. Additionally, monthly WAWF usage reports are posted in Army Knowledge Online. These reports provide the command statistics on electronic submissions of invoices and receiving reports and are key reports for monitoring WAWF usage.

Description of Issue: Funds Control Module (FCM).

Accomplishment: Successfully closed FY 2007 supply operations using FCM. Enhanced financial reporting and data analysis capabilities. Expanded helpdesk capability, eliminating 3,081 of the 4,137 trouble tickets. Retired 39 instances of the noncompliant Installation Supply Buffer (ISB).

Description of Issue: Army's Joint Reconciliation Program (JRP).

Accomplishment: The OASA(FM&C) monitored and expanded the Army's JRP, which enhances the execution of current obligation authority (i.e., to maximize buying power), limits the Army's contingent liabilities generated from cancelling appropriations, and reduces abnormal account balances caused by problem disbursements. The JRP has improved the execution of current year

obligation authority, minimized the expenditure of current year dollars to pay cancelled year obligations, and reduced outstanding travel advances. The Army continues to partner with DFAS to meet or exceed program goals and improve accountability by:

- Providing a monthly financial reporting package to support the JRP reporting process.
- Implementing standard operating procedures for Joint Reviews.
- Conducting on-site visits at selected installations to observe the reconciliation process and assist with any necessary improvements.
- Conducting three Command level video-teleconferences during the year to discuss the Army's progress towards meeting FY 2008 goals.

Description of Issue: Defense Travel System (DTS).

Accomplishment: The OASA(FM&C) continued to provide active Army support for the fielding and deployment of the DTS. This DOD initiative touches each Army Soldier and civilian who performs temporary duty travel and local travel. DTS has over 420,000 Army travelers registered, and has been successfully fielded to 13,868 organizations as of January 2008. We continue to monitor and enforce DTS usage at proliferated sites. As of end of June 2008, DTS usage was at 94 percent. Additionally, we implemented Deployment Travel effective March 31, 2008, providing DTS capability to over 12,000 Soldiers on contingency travel orders, reducing travel voucher processing time from 15 days to three days and reducing the DFAS bill by \$3 million. We conduct quarterly DTS Senior Focus Group meetings with current operational sites where information is exchanged on software usability, system improvements, and future enhancements.

Description of Issue: Antideficiency Act (ADA) Cases.

Accomplishment: The Office of the Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C), continued partnering with Army commands and the Office of the General Counsel to ensure the timely investigation and adjudication of ADA cases and continued to work with the Office of the Under Secretary of Defense Comptroller (OUSDC) to process overaged ADA cases. As of June 30, 2008 the Army completed seven of nine cases greater than 12-months old, and is on track to complete the remaining two by September 30, 2008. Since training is a critical aspect of preventing ADA violations, all Army commands have been directed to revalidate the training of all fund certifying officers and ensure all affected personnel have completed fiscal law training prior to the end of FY 2008. To ensure compliance, fiscal law training is now available on line.

Description of Issue: Review of Army-wide Interagency Agreements (IA).

Accomplishment: The Army strengthened controls over interagency agreements by providing additional clarifying guidance, and placing special emphasis on the review of open agreements as part of the tri-annual review of unliquidated obligations. An interagency reference tool was published combining financial and acquisition management policies in a single authoritative source.

As a result, the DODIG identified 130 potential ADA violations related to interagency agreements. Of this total, 120 were corrected per DOD FMR, Volume 11a, Chapter 3. Preliminary ADA investigations were initiated for the remaining ten with eight closed with no ADA finding and the remaining two have investigations in process.

Description of Issue: Pay Support Provided to Wounded Warriors.

Accomplishment: In support of the Army Medical Action Plan, the U. S. Army Finance Command (USAFINCOM) and DFAS conducted staff assistance visits to major medical treatment facilities co-located with a Warrior Transition Unit (WTU). The staff assistance visit team briefed the local defense military pay office/Army finance unit and the WTU leaders on financial management concept support operations, responsibilities, and relationship between the two entities. Integral to the new WTU structure is the addition of financial management specialists (FMSs). Financial management training for these FMSs started in March 2008. DFAS has continued to provide pay support to Soldiers and Family members who visit the installation's Soldier Family Assistance Center. The USAFINCOM and DFAS have streamlined procedures immensely, significantly improving pay support to Wounded Warriors and their Families by providing a special, one-on-one human dimension financial management service. These improvements resulted in customer service and internal control process improvements.

Description of Issue: Liaison with Commanders in Theater, Federal Reserve Banks (FRBs) and Defense Finance Accounting Service (DFAS).

Accomplishment: The USAFINCOM's staff is proactive in assisting and resolving issues, pertaining to the Analysis of Unmatched Transactions (AUTs), for the deployed finance units (DSSNs) in theater. In an ongoing effort to eliminate loss of funds on the AUT, USAFINCOM assists the Theater Commanders and their staff on matching mismatched lines on the AUT, which are impossible to reconcile without intensive research. With assistance from the FRBs, mismatches on outbound International and Domestic EFT are no longer an issue.

Description of Issue: International Treasury Services.

Accomplishment: USAFINCOM's staff developed a desktop standard operating procedures (SOPs) to assist Theater finance units in identifying "Outbound" and "Returns/Rejected" International and Domestic Electronic Fund Transfers (EFTs) in its.gov. The procedures ensure accuracy in the disbursing officer's accountability, and expedite the posting of returns/rejected EFT transactions into the Deployable Disbursing System (DDS). The procedures also reduce the time expended by accounts payable activities to make payments, reducing the likelihood of interest and penalty payments.

Description of Issue: Special Mission Funds Processing.

Accomplishments: USAFINCOM's Special Review Office (SRO) reviewed sensitive financial management operations to ensure internal controls were adequate, and identified internal control strengths and weaknesses at each classified site reviewed. The weaknesses found were minimal and correctable. The reviews conducted throughout the year ensure that finance activities supporting special mission units perform their operations in accordance with all applicable regulatory guidance.

Additionally, the ongoing reviews ensure proper internal controls and adequate separation of duties exist. The ongoing reviews deter both negligence and deliberate action and thereby support the missions of the customers they serve.

Description of Issue: Reporting Accurate Obligations, Military Personnel, Army (MPA).

Accomplishment: During the past year, OASA(FM&C) has made significant improvements in managing the MPA account. We implemented a reliable cost model to forecast pay and non-pay obligations. Using an Oracle-based cost model, developed with the assistance of contractors from the Office, Deputy Assistant Secretary of the Army (Cost and Economics), OASA(FM&C), we can accurately forecast obligations based on strength assumptions. We also tackled the previously reported lack of supply system visibility by devising a process to obligate subsistence transactions prior to disbursement, using detailed order files provided by the Defense Supply Center in Philadelphia on a weekly basis.

Description of Issue: U.S Army Corps of Engineer (USACE) Financial Statements.

Accomplishment: On March 31, 2008, the Corps of Engineers received a qualified audit opinion from DODIG on the fiscal year 2006 and 2007 financial statements. This opinion is viewed as a huge success by both DOD and Army. The qualification is due to the scope limitation yielding uncertainty about the adequacy of defined supporting documentation for estimated values for pre-FY 1999 Buildings and Other Structure projects. DODIG also reported five material weaknesses for financial reporting. USACE developed corrective action plans to mitigate these weaknesses. Furthermore, USACE provided funding to DODIG to initiate the contract option to begin FY 2008 audit of USACE financial statements.

Description of Issue: Enduring Criminal Investigation Task Force (CITF).

Accomplishment: The Criminal Investigation Command established controls to conduct and document investigations relating to foreign attacks against the United States. Prior to the attacks of September 11, 2001, the DOD possessed no single permanent organization specifically tasked to effectively coordinate, train, integrate, deploy or manage its responsibility in the conduct and documentation of criminal investigations resulting from foreign attacks against the United States, its citizens, or interests. Lack of criminal investigative capability to deal with terrorists directly translated to an inability to build a prosecutable case in the appropriate venue. The CITF was stood up shortly after September 11, 2001, and continues to conduct worldwide criminal investigations to substantiate alleged or suspected war crimes, acts of terrorism, and other related offenses committed by non-U.S. citizens against the United States, its citizens, or interests. The CITF has provided operational assistance to developing prosecutorial National systems and is prepared to expand international cooperation to combat terrorism.

Description of the Issue: The Army Reset Process.

Accomplishment: The Army Material Command reported that there were no existing standard automated processes for reporting the status of, or to determine the accountability for, equipment that is scheduled for or inducted into current and planned AMC managed maintenance programs.

To alleviate the problem, the National Channel developed the Automated Reset Management Tool (ARMT) which provides centralized visibility of the end-to-end process for tracking Reset and Retrograde items. The tool will ultimately provide worldwide visibility of Class VII assets by unit as each unit cycles through the Army Forces Generation process (ARFOGEN). ARMT provides a common operating picture to monitor Reset at maintenance facilities by Unit Identification Code, Line Item Number, and Reset sites. For the first time, the Army has visibility of critical assets during the complete ARFORGEN process.

Description of the Issue: Improved Equipment Fielding Management Controls.

Accomplishment: The U.S. Army Intelligence and Security Command (INSCOM) initiated a Lean Six Sigma (LSS) project to improve the equipment fielding internal controls process. The project was initiated in March 2007 to improve the equipment fielding internal controls process while ensuring an efficient and effective process to field intelligence systems/equipment in support of the Global War on Terrorism (GWOT). The G-3 was designated as the central point of control for responsibility, tracking and monitoring of equipment fielding. The project was completed by the LSS project team in December 2007 and was handed over to the G-3 for full implementation. The internal control improvements included:

- INSCOM policy update.
- Utilization of the DA G-2 Quick Reaction Capability (QRC) database.
- Email distribution to communicate QRC requirements.
- Equipment fielding checklist.
- Quarterly updates.
- Review of Five Year Plan.

The LSS project team will perform a review in 4-6 months. The major internal control benefits for INSCOM headquarters, Major Subordinate Commands, and war fighters include: reduced sustainment costs, greater control on equipment/system accountability, reduced delays in supportability, decreased supportability labor costs, and potential reduction in infrastructure requirement costs.

Description of the Issue: Manpower Review Board (MprB).

Accomplishment: The Commander, U.S. Army Forces Command (FORSCOM), established a MprB to manage the activation of Reserve Component (RC) Soldiers to FORSCOM Headquarters in support of the war on terrorism. FORSCOM Deputy Chief of Staff, G-1, executes and manages the MprB, which oversees the mobilization and accountability of all RC Soldiers and serves as the single body within the command authorizing their activation. The MprB ensures that the Soldier's skills are matched with the position requirements eliminating mismatching grades to grades and military occupational specialties (MOSs). Soldiers are now filling valid requirements and performing actual duties of the positions they are mobilized into. The MprB has greatly reduced the grade differences in the requirements of mobilized Soldiers. Previously grade mismatches were creating problems with many senior ranking Soldiers performing tasks below grade level. The MprB has processed more than 430 packets for mobilizing Soldiers over the past 18 months resulting in placing qualified RC Soldiers in the right positions when they are needed.

Description of the Issue: Information Technology (IT) Acquisition and Contract Oversight.

Accomplishment: The U.S. Army Europe and Seventh Army (USAREUR) lacked a focal point for IT acquisition and contract validation. Many decision processes lacked cohesion and efficient tracking mechanisms. Several contracts and task orders overlapped and showed different contractors performing the same function. To solve the problem, the USAREUR G-6 transferred the functions and duties of the IT Contract Consolidation Team (ITCCT) to the Information Technology - Theater Business Office (IT-TBO). The ICTT:

- Established the IT-TBO under the USAREUR Chief Information Officer/G-6.
- Contacted stakeholders, identified overlaps, and developed a data-collection strategy to support analyses and reports.
- Presented findings and recommendations to the Chief of Staff, HQ USAREUR/7A, and the USAREUR Board of Directors.
- Coordinated with the USAREUR G8 to validate and consolidate contracts.
- Changed life-cycle management replacement (LCR) policy and cost overruns.

By establishing the IT-TBO, USAREUR has provided a tested IT-management solution for acquisition and contract-consolidation efforts. Current results indicate substantial cost savings across USAREUR, with the following promise of future positive results as follows:

- Reduction in redundancy avoids cost of \$300,000.
- Better defined Tier III services in Kosovo to avoid \$486,000 in costs.
- Contract consolidation to avoid \$4 million in costs.
- Change in LCR policy to avoid \$1.7 million in costs.

The IT-TBO's innovative approach to contract management will yield total cost avoidance of \$6,486 million.

Description of the Issue: Mission Support.

Accomplishment: The Training and Doctrine Command Mobile Exhibit Company supported 326 national targeted events as identified through the Accession Targeting Board (ATB), which resulted in 1,122 personnel tempo (PERSTEMPO) days. There were 1,219 Accession supported events in addition to those identified through the ATB, which resulted in 2,907 PERSTEMPO days. This represents a 33 percent increase in supported events and 10 percent decrease in PERSTEMPO days over Calendar Year (CY) 2006. The increase in support, but decrease in PERSTEMPO, is a result of exhibitors not being on extended TDY as often. There were 380 work orders issued covering approximately 12,157 items and 25,987 square feet of banners produced under the Government-Owned Contractor-Operated (GOCO) facility as follows:

- 54 vehicle maintenance/repairs/upgrades
- 6,490 incentive/award items
- 200 items simply laminated with no production
- 750 concepts/art/jpg files or similar images

- 2,168 prints/posters and/or exhibit components
- 18 complete exhibits
- 347 license plates, 250 future Soldier boards, 144 sandwich signs, 783 signs, and 768 stickers/clings

Through enhanced support to the total accessions mission in telling the Army story across the Nation to target age leads and Centers of Influence, ultimately leading to more enlistment contracts and enrollments in ROTC.

Description of the Issue: U.S. Army Pacific Command (USARPAC) Service Contracts.

Accomplishment: In FY 2007, USARPAC established a monthly Business Transformation Review process of all service contract requirement requests before their presentation to the CG, USARPAC for decision. The purpose was to determine which contract service requirements might be appropriate for further examination under one or more of the USARPAC Business Transformation vectors, i.e., organizational streamlining, cost containment/cutting, process improvement, workforce redesign, and partnerships. The review took place at least 120 days prior to the expiration of an existing service contract or initiation of a new service contract. As a result of the increased scrutiny, USARPAC reduced service contract requirement requests by 20 percent, service contract costs by 10 percent and service contract full-time equivalents (contractor manpower equivalents) by 29 percent in comparison to our FY 2006 service contract totals.

Description of the Issue: 360 Degree Logistic Readiness.

Accomplishment: The Army G-4 integrated the logistics community's efforts to improve visibility of Army level materiel readiness. This collaborative effort with the Army G-8, G-3, ASA (ALT), and the Army Materiel Command (AMC) will synchronize materiel readiness activities and assets to generate and sustain combat power. The 360 Degree Logistics Readiness enables Army leaders and operational staffs to view sustainment assets and activities holistically while providing information with increased fidelity to Army leaders to more effectively influence Army Force Generation process and budget decisions. The 360 Degree Logistics Readiness leverages existing automated information system improvement efforts and helps shape developing automated solutions to synchronize information flow in order to improve the property accountability enterprise. By measuring disconnects between Army visibility of Class VII and actual equipment on-hand, the Army will be able to measure adherence to supply policy and logistics Standard Army Management Information System effectiveness. Operational Asset Visibility development is being integrated with the five other indicators to expand accountability and visibility of all Army equipment assets across the Army from system fielding through retirement. With a 360 Degree view of asset visibility, Leaders and Logisticians can better support current operations, modular force development, and equipping the Army.

Description of Issue: Internal Control Structure.

Accomplishment: The Office of the Assistant Chief of Staff for Installation Management (OACSIM) went through a period of reorganization and expansion of missions and areas of responsibilities during FYs 2007 and 2008. Division chiefs and key personnel contributed to the

process based on their expertise and experience, inserting the correct internal controls into the planning process. OMB Circular A-123 requires the Army to create a control environment by establishing an organizational structure and culture created by management and employees to sustain organizational support for effective internal control. The Office's Strategic Plan provided an organizational structure and path to follow in achieving a control environment and success. As a result, DACSIM established the Financial Management Division in FY 2008 to implement a centralized approach to monitoring Internal Control Program and audit activity; and provided CFO Act, quality control, and budget oversight for DACSIM. The establishment of a centralized internal control function greatly assists in creating an organizational structure and culture that is crucial to the control environment standard within OMB Circular A-123. The change demonstrates management's commitment to establishing and maintaining effective internal controls which will aid in the successful implementation of internal control systems.

Description of the Issue: Family Support.

Accomplishment: Due the high OPTEMO and length of deployment, the National Guard Bureau established a Family Readiness Group (FRG) that enabled family members to effectively gather information, resolve problems and maintain mutual support while their spouses were deployed. The Guard held numerous deployment seminars, training sessions, and workshops that were led by volunteer leaders to educate spouses. The network allowed the Guard to identify the applicable internal controls necessary to proactively assist families during deployment. The process greatly reduced the number of potential problems families normally encountered when spouses are deployed for extended periods to time.

Description of the Issue: Mass Transit Subsidy Program.

Accomplishment: In November 2007, the DODIG conducted an audit of the DOD Transit Subsidy Program within the National Capital Region. In the resulting audit report, DODIG stated that internal controls over the program were not adequate to prevent fraud, waste, abuse, or mismanagement. They determined that improvements were needed in processing enrollment applications and changes in enrollment status, withdrawal of transit subsidy participants, management of the transit subsidy enrollment database, and retention of supporting documentation. The Army has implemented a number of improvements in FY 2008:

- Established an internal control checklist for the program.
- Implemented the new program application (DD Form 2845) to aid in certification.
- Developed a spreadsheet and built a process to import personnel data files, cross-check applicant information, certify commuting costs, and check for fraudulent warnings.
- Began reconciling the billing information on a monthly basis.

Although, Washington Headquarters Services has overall responsibility for the Subsidy Program and the governing DOD guidance, we continue to work closely with the program manager to improve our overall program management.

Description of the Issue: Army Records Management.

Accomplishment: During FY 2007, the Army did not have sufficient short-term records management processes or capabilities and therefore was not in compliance with the Federal Records Act, as amended; Secretary of the Army policy on the preservation of records; and AR 25-400-2, The Army Records Information Management System (ARIMS), which governs records management for the Department of the Army. The Army has taken several steps to improve the overall recordkeeping program. At the direction of the Secretary of the Army, an executive level, Headquarters, Department of the Army Records Retention and E-Mail Working Group was established to discuss and plan improvements. The working group's focus expanded from e-mail to all aspects of records management, and the group issued a request for information to industry to evaluate potential commercial solutions for short-term records. Headquarters is conducting a proof of concept test to evaluate one commercial solution. Another significant action during FY 2008 was the capture of all incoming and outgoing e-mail messages for senior officials in Headquarters. These actions ensure that essential information is preserved while the Army seeks a permanent solution for all types of records.

Description of the Issue: Unemployment Compensation for Ex-Service Members.

Accomplishment: The Army provides unemployment compensation for eligible Soldiers when they separate/retire from active duty. After detecting a possible material weakness in the validation, approval, and subsequent payment process for unemployment compensation, the Army G-1 created an unemployment compensation for Ex-Service Members Tiger Team/Working Group to review the current processes used by the Army to validate these payments, determine if a material weakness exists, and make recommendations to improve or replace the current processes and procedures to mitigate the potential risk of fraud, waste or abuse. To date, the team members have met with officials from the Department of Labor and the Air Force to map their processes. The team will travel to St. Louis, Missouri to set up a program to capture the scope of individuals who are currently receiving unemployment compensation and the related cost. An additional site visit is scheduled for Orlando, Florida to determine how the Federal Claims Control Office manages the unemployment compensation program. The goal is to map the current Army process, then develop a "To-Be" process.

TAB B-1

(TAB B-1)
LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
Financial Reporting of New Equipment In-Transit	3rd Qtr, FY 2010	B-2-1
Expeditionary Contracting	2nd Qtr, FY 2011	B-2-4
Contingency Payment Audit Trails	2nd Qtr, FY 2009	B-2-7

Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Correction QTR and FY Date)		Page #
		Per Last Annual Statement	Per This Annual Statement	

Category: Contract/Procurement

Oversight of Service Contracts	FY 2006	4th Qtr, FY 2009	4th Qtr, FY 2010	B-2-9
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Category: Logistics, Installation Management, and Comptroller

Army General Equipment Data Integrity	FY 2006	4th Qtr, FY 2009	4th Qtr, FY 2010	B-2-12
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Category: Supply Operations

Logistics Asset Visibility and Accountability	FY 2004	4th Qtr, FY 2011	4th Qtr, FY 2011	B-2-15
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Corrected Weaknesses Identified During All Periods:

Title	Year First Reported	Page #
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Category: Supply Operations

Financial Reporting of Equipment In-Transit	FY 1996	B-3-1
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TAB B-2

(TAB B-2)
UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material Weakness: Financial Reporting of New Equipment In-Transit. The U.S. Army lacks internal controls in the follow-up process on New Equipment Fielding in-transit. The U.S. Army does not have reliable internal controls in place to track equipment in-transit from the Program Management office to the unit, resulting in unreliable data on the value reported on the U.S. Army's financial statements. This error makes it difficult to gain visibility over the total number of major items, determine maintenance requirements, and redistribute equipment. In 2006, the Army introduced the Property Book Unit Supply Enhanced system (PBUSE) that was designed to automatically close in-transits when receipt of the equipment was entered. The audit identified a continuing uncorrected weakness.

Functional Category: Supply Operations

Component: Army

Senior Official in Charge: Ms. Sarah Finnicum, Director of Supply, Office of the Deputy Chief of Staff, G-4

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: N/A

Targeted Correction Date in Last Year's Report: None

Current Target Date: 3rd Quarter, FY 2010

Reason for Change in Date(s): N/A

Validation Process: Validation will be conducted by the U.S. Army Audit Agency (USAAA) and Headquarters, Department of the Army, G-4 (HQDA G-4).

Results Indicators: Corrective actions will reduce the error rate of in-transit asset data to an acceptable level that provides management with reasonable assurance of asset accountability, thus improving asset reporting and document closure procedures.

Source(s) Identifying Weakness: USAAA Report: Material Weakness Closure – Financial Reporting of Equipment In-Transit, Audit Report: A-2007-0213-FFM, 25 September 2007.

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	The HQDA G-4 POC met with the ASA(ALT) , ASA(FM&C), HQs, U. S. Army Materiel Command (USAMC) G-3, and internal review (IR), Product Director, Tactical Logistics Systems (PO PBUSE, PO SARSS), and the USAAA to develop corrective actions and milestones.
Completed	Document and deliver process flowcharts. Develop a follow up process to make sure equipment in-transit is properly and promptly closed upon receipt. - Obtain aged Army in-transit reports. - Establish a threshold for closing in-transits.
Completed	Determine where break-downs exist.

B. Planned Milestones for FY 2008:

<u>Date:</u>	<u>Milestone:</u>
4th Qtr, FY 2008	- Determine the reconciliation process - Develop the assessment plan.

C. Planned Milestones (Beyond FY 2008):

<u>Date:</u>	<u>Milestone:</u>
1st Qtr, FY 2009	- Test the process to ensure a follow-up report is produced to catch transactions that failed to process or processed in error. - Test that all systems whether logistical or financial are closing in transit documents. - Review current controls inherent to each system, and manual controls directed by policy or regulation.

Date:

Milestone:

2nd Qtr, FY 2009	<p>Develop a follow up process to make sure equipment in-transit is properly and promptly closed upon receipt.</p> <ul style="list-style-type: none">- Establish periodic reviews for identification and corrective action for aged in-transits.- Establish metrics for open in-transits to track and take corrective action. <p>HQDA G-4 will evaluate results to see if additional controls are needed or actions required to ensure/enforce controls/processes.</p> <ul style="list-style-type: none">- Establish new key management controls in the flow process of equipment in-transit for the CSDP.
4th Qtr, FY 2009	<p>Using validation plan, conduct site assistance visits Army-wide (includes accountability analysis, data validation, source documentation validation and creation and other required actions to create auditable records).</p>
3rd Qtr, FY 2010	<p>USAAA validates closure of Army general equipment data integrity material weakness</p>

(TAB B-2)
UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Expeditionary Contracting. The Army's acquisition workforce is not adequately staffed, trained, structured, or empowered to meet the Army needs of the 21st century deployed Warfighters. The contracting process (requirements definition, contract management, and contract closeout) is not treated as a core competency. Audit reports conclude that internal controls to mitigate risks in the contracting process are ineffective or nonexistent.

Functional Category: Contract/Procurement

Senior Official in Charge: Mr. Wimpy Pybus - Deputy Assistant Secretary of the Army (Acquisition, Policy and Logistics), OASA(ALT)

Pace of Corrective Action:

<u>Year Identified:</u>	FY 2007
<u>Original Target Date:</u>	2nd Qtr, FY 2011
<u>Target Date in Last Year's Report:</u>	N/A
<u>Current Target Date:</u>	2nd Qtr, FY 2011
<u>Reason for Change in Date(s):</u>	N/A

Validation Process:

- Unit Self Inspection conducted using Army Federal Acquisition Regulation Supplement (AFARS), Appendix BB Management Control checklists.
- Compliance review with procedures and internal controls conducted by Contracting Operations Review.
- USAAA validates results.

Results Indicators: Success is defined as the effective implementation of the procedures and internal controls that work effectively for expeditionary contracting operations. The Army will have established viable internal controls to mitigate risk of fraud, waste, abuse and mismanagement.

Source(s) Identifying Weakness: Audit Reports on Expeditionary Contracting Operations:

Subject Area	Government Accountability Office	USAAA	Special Inspector General for Iraq Reconstruction (SIGIR)
1. Failure to follow long-standing planning guidance and to adequately factor use and role of contractors into planning	Four reports from 2003 to 2007: GAO-03-695, GAO-04-854, GAO-05-201 and GAO-07-145		One report in 2006: Lessons Learned Report 2: Contracting and Procurement
2. Failure to systematically collect and distribute lessons learned	Two reports from 2004 to 2007 (both also included in subject areas 1 and 2): GAO 04-854 and GAO-07-145	One report from 2005 (also included in subject area 2): A-2005-0043-ALE	One report in 2008: SIGIR-08-006
3. Lack of comprehensive training for contract oversight personnel and military commanders	Seven reports from 1997 to 2007 (five also included in subject areas 1, 2, and 3): GAO/NSIAD-97-63, GAO/NSIAD-00-225, GAO-03-695, GAO-04-854, GAO-05-201, GAO-05-737, GAO-07-145	One report from 2008 (also included in subject areas 2 and 3): A-2008-0020-ALL	

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
4th Qtr, FY 2007	Form the Army Contracting Task Force (ACTF) (co-led by ASA(ALT) MILDEP and AMC Executive Deputy Command Director) with participants from a wide range of Army staff elements and contracting operations.
4th Qtr, FY 2007	Assign new leadership and increase staff.
4th Qtr, FY 2007	Establish reach-back capability to manage active contracts.
1st Qtr, FY 2008	Develop internal controls for optimal contract management and surveillance.
1st Qtr, FY 2008	Establish increased engagement of Defense Contract Management Agency in performing contract management and oversight support through the Kuwait Logistics Support Office.

<u>Date:</u>	<u>Milestone:</u>
2nd Qtr, FY 2008	Establish contracting officer's representative training program.
2nd Qtr, FY 2008	Commence contracting officer's representative training.
2nd Qtr, FY 2008	Disband ACTF and form the Army Contracting Campaign Plan Task Force to work ACTF findings.
3rd Qtr, FY 2008	Implement internal controls for optimal contract surveillance.
3rd Qtr, FY 2008	Contracting Operations Review team conducts independent verification of compliance with internal control procedures.
3rd Qtr, FY 2008	Contracting Operations Review team reports internal control review results.

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
4th Qtr, FY 2008	Revise or establish procedures and internal controls which effectively meet current demands of contracting environment.
4th Qtr, FY 2008	Develop Internal Control Evaluation Checklist(s) in accordance with AFARS, Appendix BB.

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
1st Qtr, FY 2009	Conduct Unit Self Inspection utilizing the Internal Control Evaluation Checklist.
2nd Qtr, FY 2009	Independent review/Contracting Operations Review for compliance with procedures and internal controls.
2nd Qtr, FY 2009	Contracting Operations Review team reports internal control review results.
4th Qtr, FY 2009	USAAA validates Contracting Operations Review results.

(TAB B-2)
UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material Weakness: Contingency Payment Audit Trails. Because of the high turnover of personnel and organizations in a contingency theater of operations, the maintenance of substantiating documents by certifying/entitlement activities creates significant challenges in tracing audit trails for support of financial statements. Based on an audit of Operation Iraqi Freedom payment vouchers stored in Rome, New York, two percent of the sample was missing critical supporting documents. Additionally, two percent were missing critical signatures. Numerous vouchers stored in Rome did not contain all critical data elements, primarily because the automated disbursing voucher was not included in the hard-copy package sent to Rome. While the DOD FMR Volume 5 and GAO Financial Manual specifically allow for the maintenance of distributed audit trails rather than attaching supporting documents to a payment voucher, this practice creates significant complexity in tracking back through audit trails for payments made in a contingency operation.

Functional Category: Comptroller and/or Resource Management

Senior Official in Charge: Mr. John J. Argodale, Deputy Assistant Secretary of the Army for Financial Operations

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: N/A

Target Date in Last Year's Report: N/A

Current Target Date: 2nd Qtr, FY 2009

Reason for Change in Dates: N/A

Validation Process: The Defense Finance and Accounting Service (DFAS) reviews all paid vouchers from the theater to ensure compliance with revised policy requiring invoices and receiving reports to be attached to the voucher, along with the inclusion of key data elements and signatures on the vouchers. A Balanced Score Card is maintained and provided to management showing the results of these reviews, and any follow-up corrective action, for each disbursing station in theater. Army Audit Agency is performing an audit of vendor payments from Kuwait, Iraq, and Afghanistan (Audit of Controls Over Vendor Payments – Project A-2008-ALL-0501.000) starting in June 2008 which will encompass the audit trails of vendor payments made in theater.

Results Indicators: Between August 2007 and April 2008, 98.38 percent of 91 thousand disbursement vouchers included required documentation, signatures, and data elements when initially received by DFAS Rome. Follow-up has been completed on the remaining 1.6 percent to ensure the retrograded audit trail is complete.

Source Identifying Weakness: DODIG Audit Report: Internal Controls Over Payments Made in Iraq, Kuwait and Egypt, Report No. D-2008-098, dated May 22, 2008.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date</u>	<u>Milestone</u>
2007	Published revised policy requiring invoices and receiving reports to be attached to vouchers.
2007	Published revised policy requiring automated disbursing vouchers be attached to paid voucher submissions.
2007	Published voucher review checklist.
2007	Implemented revised compliance reviews with follow-up as required.
2007	Added results to the contingency disbursing balanced scorecard.

B. Planned Milestones (Fiscal Year 2008):

<u>Date</u>	<u>Milestone</u>
3rd Qtr Jun 2008	Start USAAA audit of contingency vendor payments.

C. Planned Milestone (Beyond Fiscal Year 2008)

<u>Date</u>	<u>Milestone</u>
2nd Qtr FY 2009	Complete USAAA audit of contingency vendor payments.

OSD or HQDA Action Required: Army Audit audit of vendor payments from Kuwait, Iraq, and Afghanistan (Audit of Controls Over Vendor Payments – Project A-2008-ALL-0501.000). POC: Ms. Janet Stallings, (910)-396-5698 extension 215 or janet.stallings@us.army.mil

Point of Contact: G. Eric Reid, Director, U. S. Army Finance Command, (317)-510-2223 or g.eric.reid@us.army.mil

(TAB B-2)
UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During Prior Periods

Title and Description of Material of Weakness: Oversight of Service Contracts. The Director of the Army Contracting Agency (ACA) identified the administration of contracting services as an area of concern in the ACA FY 2005 Annual Assurance Statement. Subsequent review by the Senior Level Steering Group, in conjunction with the USAAA, revealed that oversight of service contracts should be disclosed as an Army-wide material weakness. Specific elements of this weakness include poorly trained CORs, weak requirements justification, and improper use of contractor labor.

Functional Category: Contract/Procurement

Senior Official in Charge: Mr. Wimpy Pybus - Deputy Assistant Secretary of the Army (Procurement), Office of the Assistant Secretary of the Army (Acquisition, Policy and Logistics), OASA(ALT)

Pace of Corrective Action:

Year Identified:	FY 2006
Original Target Date:	4th Qtr, FY 2010
Target Date in Last Year's Report:	4th Qtr, FY 2009
Current Target Date:	4th Qtr, FY 2010

Reason for Change in Date(s): Issues raised in Kuwait Theater prompted urgency to ensure surveillance mechanism instituted. Preliminary reviews of corrective actions indicate that further measures are warranted and additional time is necessary to integrate the measures into our processes before we can validate the sufficiency of the correction and closeout of the weakness.

Validation Process: Army Commands (ACOMs) verify acceptable implementation at their levels through bi-monthly contracting leadership compliance reviews and briefs to the Deputy Assistant Secretary of the Army (Procurement). USAAA validates results.

Results Indicators: Review contract files to verify compliance with current policy to ensure that CORs are trained and appointed and surveillance plans are developed and used to support receipt and acceptance of services. The acceptable accuracy rate for COR training and oversight execution is 90 percent (95 percent where potential fraud exists).

For ACOM-level Army Service Strategy Panel (ASSP) reviews, success is defined as data reflecting that management controls over service contracts imposed by the ASSP are in place and working effectively. Additional positive or negative implementation indicators include the review of recent audit organization reports, conclusions found related to contract administration of service contracts, and annual review results by ACOM Contracting Operations teams.

Source(s) Identifying Weakness:

- ACA Director’s FY 2005 Annual Assurance Statement
- DOD Office of the Inspector General Report 2006-010, Contract Surveillance for Service Contracts, dated October 28, 2005
- GAO Report GAO-05-274, Opportunity to Improve Surveillance on DOD Service Contracts, dated March 2005
- USAAA Report A-2005-0296-ALT, Contract Administration for Contracts Resulting From A-76 Commercial Activities Study Decisions, dated September 15, 2005

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
1st Qtr, FY 2007	Army COR minimum certification and refresher training requirements standardized.
2nd Qtr, FY 2007	DASA(P&P) and ASA(ALT) memos issued which addressed oversight, surveillance, and performance assessment measures for service contracts and established mandatory Army COR training requirements.
2nd Qtr, FY 2007	Principal Assistants Responsible for Contracting (PARCs) established COR compliance plans.
2nd Qtr, FY 2007	Defense Acquisition University (DAU) established Army COR folder in Acquisition Community Connection.
3rd Qtr, FY 2007	DAU began to collect COR training metrics.

Date:

Milestone:

3rd Qtr, FY 2007

Established method of obtaining service metrics from ACOM ASSP review authority. Conducted discussions with PARCs. ASA(ALT) approved ASSP process metrics. FY 2006 metrics on services collected and assessed.

3rd Qtr, FY 2008

HQDA IR reports results.

B. Planned Milestones (FY08):

Date:

Milestones:

4th Qtr, FY 2008

Complete draft Army Regulation on Management and Oversight of Service Contracts and issue Army-wide.

C. Planned Milestones (Beyond FY08):

Date:

Milestone:

4th Qtr, FY 2009

Bi-monthly test and reports brief to DASA(P).

2nd Qtr, FY 2010

USAAA validates results.

(TAB B-2)
UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During Prior Periods

Title and Description of Material Weakness: Army General Equipment Data Integrity. Recent USAAA audit results identified significant weaknesses in financial reporting of Property, Plant and Equipment (PP&E) to include deficiencies with accountability over general equipment and supporting documentation availability/retention. Army installations do not systemically comply with DOD and Army regulations that require periodic comprehensive (wall-to-wall) inventories of PP&E. This failure to properly perform accountability functions has led to breakdown in reporting acquisitions, improvements, transfers and disposals of PP&E; all of which may have an impact on Army financial statements.

Furthermore, Army installations are unable to present adequate documentation to support information in property accountability systems. Absence of supporting documentation for property records will prohibit Army from achieving audit compliance goals.

Functional Category: Logistics, Installation Management, and Comptroller

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 4th Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2009

Current Target Date: 4th Qtr, FY 2010

Reason for Change in Date(s): Delay in development and execution of the Data Quality Improvement Plan.

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

Results Indicators: The Army will have increased accountability for its general equipment inventories.

Source(s) Identifying Weakness:

USAAA Reports:

- A-2005-0261-FFG Defense Property Accountability System Material Weakness Closeout, Fort Belvoir, Virginia

- A-2005-0277-FFG Defense Property Accountability System Material Weakness Closeout, Fort Stewart, Georgia
- A-2005-0325-FFG Defense Property Accountability System Material Weakness Closeout, Fort Knox, Kentucky
- A-2005-0326-FFG Defense Property Accountability System Material Weakness Closeout, Corpus Christi, Texas
- A-2006-0013-FFG Defense Property Accountability System Material Weakness Closeout, Criminal Investigative Division Laboratory, Fort Gillem, Georgia
- A-2006-0060-FFM Defense Property Accountability System Material Weakness Closeout, Fort Bragg, North Carolina
- A-2006-0064-FFM Defense Property Accountability System Material Weakness Closeout, Night Vision and Electronic Sensors Directorate; Fort Belvoir, Virginia
- A-2006-0109-FFM Defense Property Accountability System Material Weakness Closeout, Fort Gillem, Georgia
- A-2006-0123-FFM Defense Property Accountability System Material Weakness Closeout, U.S. Army Special Operations Command Fort Bragg, North Carolina

Major Milestones to Include Progress to Date: OASA(FM&C) overall lead.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone</u>
2nd Qtr, FY 2006	Conducted initial pilot site assistance visit -- Fort Jackson includes accountability analysis, data validation, source documentation validation and creation, and other required actions to create auditable records).
4th Qtr, FY 2006	Conducted second pilot site assistance visit -- Fort Hood (includes accountability analysis, data validation, source documentation validation and creation, and other required actions to create auditable records).
1st Qtr, FY 2008	Developed Data Quality Improvement Plan (DQIP) and submitted to internal review for pre-validation before requesting DODIG/AAA formal review and developed schedule for site assistance visits.

B. Planned Milestones for FY 2008:

<u>Date:</u>	<u>Milestone:</u>
4th Qtr, FY 2008	Distribute OASA(FM&C), G4, IMCOM-signed memo to Army installations recommending 100 percent (wall-to-wall) inventories of PP&E and identifying supporting documentation requirements.
4th Qtr, FY 2008	Request DODIG/AAA formal review of DQIP. Begin site visits.
4th Qtr, FY 2008	Produce scorecard style performance measurement tool to track Army progress. Identify sites with inventories completed under Total Recall and an indicator which will trigger either a USAAA or internal review site validation.
4th Qtr, FY 2008	Implement the scorecard. Continue site visits.

C. Planned Milestones (Beyond FY 2008):

<u>Date:</u>	<u>Milestone:</u>
4th Qtr, FY 2009	Scorecard indicates that all sites are compliant. USAAA notified to begin validation.
1st thru 3rd Qtr, FY 2010	USAAA performs Army-wide validation of General Equipment.
3rd Qtr, FY 2010	USAAA validates closure of Army general equipment data integrity material weakness.
4th Qtr, FY 2010	Army Reports closure of material weakness.

(TAB B-2)

UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During Prior Periods

Title and Description of Issue: 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. The supply chain does not effectively support asset visibility and distribution capability.

Functional Category: Supply Operations

Senior Official in Charge: Ms. Patricia Kelly, Director of Force Projection and Distribution, Deputy Chief of Staff, G-4

Pace of Corrective Action:

Year Identified: FY 2004

Original Target Date: 4th Qtr, FY 2008

Target Date in Last Year's Report: 4th Qtr, FY 2011

Current Target Date: 4th Qtr, FY 2011

Validation Process: Corrective actions and improvements to in-transit visibility (particularly in the early stages of a conflict where the infrastructure is undeveloped), will be demonstrated by Office of the Deputy Chief of Staff, G-4 and validated by USAAA.

Results Indicators: Corrective action will provide visibility of shipments in transit allowing commanders to allocate available lift assets in accordance with established priorities.

Source(s) Identifying Weakness: GAO letter dated December 18, 2003, subject: *Defense Logistics: Preliminary Observations on the Effectiveness of Logistics Activities during Operation Iraqi Freedom* (GAO-04-305R).

Major Milestones to Include Progress to Date:

A. **Completed Milestones:**

<u>Date:</u>	<u>Milestone:</u>
Completed	Army Radio Frequency Identification (RFID) Strategy. Combat Service Support Very Small Aperture Terminal Phase One - SSA/Log Nodes (Connect Focus Area IPT).

<u>Date:</u>	<u>Milestone:</u>
Completed	Established Army Reserve/Retrograde Logistics Reverse Pipeline Committee.
Completed	GCSS-A Initial Operating Capability (IOC) and Fielding.

B. Planned Milestones for FY 2008:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2008	G4 validation of current systems, policies, procedures, and processes to address lack of in-transit visibility.
4 th Qtr, FY 2008	Request AAA validation of Army's in-transit visibility systems, policies, and procedures.

C. Planned Milestones (Beyond FY 2008):

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2011	Complete AAA validation of Army's in-transit visibility systems, policies, and procedures.

TAB B-3

(TAB B-3)
MATERIAL WEAKNESS(ES) CORRECTED THIS PERIOD

Identified During Prior Periods

Title and Description of Issue: Financial Reporting of Equipment In-Transit. Financial Reporting of Equipment In-Transit lacks accuracy. The Army does not have reliable data on the value and inventory of equipment in-transit as reported on the Army's financial statements.

Functional Category: Supply Operations

Component: Army

Senior Official in Charge: Ms. Sarah Finnicum, Director of Supply, Office of the Deputy Chief of Staff, G-4

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Date: FY 1999

Targeted Completion Date in Last Year's Report: 1st Qtr, FY 2008

Current Target Date: Closed

Reason for Change in Date: November 2007. USAAA attempted but could not validate closure of the weakness. USAAA recommended that the weakness be restructured to address the current processing environment of equipment in-transit and that the scope be narrowed to address only wholesale to retail transactions (USAAA Audit Report: A-2007-0213-FFM, 25 September 2007).

Validation Indicator:

Results Indicator:

Source Identifying Weakness: U.S. Army Audit Agency (USAAA).

TAB D-1

(TAB D-1)

LISTS OF ALL ARMY UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Internal Controls Over Financial Reporting (ICOFR)

General Fund Uncorrected Weaknesses Identified During the Period:

<u>Title</u>	<u>Quarter (QTR) and Date (FY) Targeted Correction Date</u>	<u>Page #</u>
<u>Financial Management Systems</u> The lack of a single, standard transaction-driven general ledger will prevent the Army from preparing auditable financial statements.	31 January 2014 (Q2)	D-2-1
<u>Fund Balance with Treasury</u> Army has had long-standing problems in reconciling transaction activity in their Fund Balance with Treasury accounts.	31 March 2012 (Q2)	D-2-4
<u>Operating Materials & Supplies</u> The systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger.	31 January 2015 (Q2)	D-2-6
<u>General Property, Plant, and Equipment</u> The Army has acknowledged that Real Property and Military Equipment were not recorded at acquisition or historical cost and did not include all costs needed to bring these assets to a form and location suitable for their intended use.	31 December 2010 (Q1)	D-2-9
<u>Environmental Liabilities</u> The Army has not properly estimated and reported its environmental liabilities.	31 December 2011 (Q1)	D-2-14
<u>Intragovernmental Eliminations</u> DOD is unable to collect, exchange, and reconcile buyer and seller Intragovernmental transactions, resulting in adjustments that cannot be verified.	30 September 2011 (Q4)	D-2-18
<u>Accounting Adjustments</u> Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army General Fund financial statements.	30 September 2011 (Q4)	D-2-20

(TAB D-1)

LISTS OF ALL ARMY UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

<u>Title</u>	<u>Quarter (QTR) and Date (FY) Targeted Correction Date</u>	<u>Page #</u>
<u>Statement of Net Cost</u> The financial information contained in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DOD strategic and performance plans required by the Government Performance and Results Act.	30 September 2011 (Q4)	D-2-22
<u>Abnormal Account Balances</u> The FY 2007 trial balance data for the Army General Fund included 141 general ledger accounts with \$163.8 billion of unresolved abnormal balances for proprietary and budgetary accounts used by DFAS Indianapolis as part of the compilation of the Army General Fund financial statements. Abnormal balances not only distort the Army General Fund Financial statements, but also indicate internal control and operational deficiencies and may conceal instances of fraud.	31 December 2011 (Q1)	D-2-25
<u>Accounts Receivable</u> Weaknesses include noncompliance with policies and procedures regarding referrals to the Debt Management Office of the Department of Treasury and for write-offs of 2-year-old debt; a lack of controls to ensure all entitlement system receivables (vendor pay, civilian pay, and interest) are recorded in the accounting systems; and a lack of controls to ensure that accounts receivable balances are supportable at the transaction level.	30 September 2011 (Q4)	D-2-27
<u>Accounts Payable</u> The Army is unable to properly account for and report Accounts Payable.	31 March 2012 (Q2)	D-2-29
<u>Statement of Budgetary Resources</u> The Army accounting systems do not provide or capture data needed for obligations incurred or prior year obligations recovered in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget Requirements."	30 September 2011 (Q4)	D-2-32
<u>Reconciliation of Net Cost of Operations to Budget</u> The Army General Fund is unable to accurately represent the relationship between budgetary obligations incurred and its Statement of Net Costs without preparing \$22.9 billion in unsupported adjustments to the general ledger accounts to force costs to match obligation information.	30 September 2011 (Q4)	D-2-34

(TAB D-1)

LISTS OF ALL ARMY UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

General Fund Uncorrected Weaknesses Identified During Prior Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Correction OTR and FY Date</u>		<u>Page #</u>
		<u>Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	
N/A				

General Fund Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
N/A		

TAB D-2

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material Weakness: Financial Management Systems. Army accounting systems lacked a single, standard transaction-driven general ledger. The Army also needed to upgrade or replace many of its non-financial feeder systems so that financial statement reporting requirements could be met. The lack of a single, standard transaction-driven general ledger will continue to prevent the Army from preparing auditable financial statements.

Functional Category: Financial Management Systems

Component: Army

Senior Official in Charge: Ms. Kristyn Jones, Director, Financial Information Management, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 31 January 2014

Targeted Correction Date in Last Year's Report: N/A

Current Target Date: 31 January 2014

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007); Army CFO Strategic Plan

Major Milestones to Include Progress to Date:

A. Completed Milestones:

Date:

Milestone:

Completed

Army Medical Department Property Accounting System (AMEDDPAS) to be replaced by Defense Medical Logistics

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
	Standard Support System (DMLSS), (Army CFO Strategic Plan WBS 7.1)
Completed	Corps of Engineers Financial Management System (CEFMS) (Army CFO Strategic Plan, WBS 7.4)
Completed	Army Environmental Database - Compliance Clean-up (AEDB-CC) (Army CFO Strategic Plan, WBS 7.5)
Completed	Installation Status Report (ISR) (Army CFO Strategic Plan WBS 7.8)
Completed	Army Environmental Database - Restoration (AEDB-R) (CFO Strategic Plan (WBS 7.10)
Completed	Funds Control Module (Army CFO Strategic Plan WBS 7.13)

B. Planned Milestones for FY 2008:

<u>Date:</u>	<u>Milestone:</u>
9/30/08	Identify any additional feeder systems, existing or future needs, that are critical to the Army and must be CFO-compliant

C. Planned Milestones (Beyond FY 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	LMP to replace Commodity Command Standard System-Financial (CCSS-F) (Army CFO Strategic Plan WBS 7.2)
9/30/10	LMP to replace Commodity Command Standard System-Logistics (CCSS-L) (Army CFO Strategic Plan WBS 7.31)
9/30/11	General Fund Enterprise Business System (GFEBs) (Army CFO Strategic Plan WBS 7.6)
3/31/09	Property Book Unit Supply Enhanced (PBUSE) (Army CFO Strategic Plan WBS 7.7)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
3/31/09	Integrated Facilities System (IFS) (Army CFO Strategic Plan WBS 7.9)
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
6/30/09	Planning Resource Infrastructure Decision and Evaluation (PRIDE) System (Army CFO Strategic Plan, WBS 7.12)
1/31/14	Global Combat Support System - Army (GCSS-A) (Army CFO Strategic Plan WBS 7.14)
9/30/12	Correct identified Financial Management Systems deficiencies (Army CFO Strategic Plan WBS 8.3.1.1)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Fund Balance with Treasury. DOD and its Components, including the Army, have had long-standing problems in reconciling transaction activity in their Fund Balance with Treasury accounts. Appropriation balances recorded in the accounting records do not agree with balances held at Treasury. Therefore, DFAS Indianapolis made unsupported adjustments that had a net effect of \$12.3 billion on the three Fund Balance with Treasury line items.

Functional Category: Fund Balance with Treasury

Senior Official in Charge: Mr. John Argodale, DASA for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 March 2012

Target Date in Last Year's Report: N/A

Current Target Date: 30 March 2012

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007); Army CFO Strategic Plan

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Identify Requirements to Accurately Report FBWT (Army CFO Strategic Plan WBS 1.1.1.1.1)
Completed	Implement OMB Circular A-123, Appendix A (Army CFO Strategic Plan WBS 1.1.1.1.2)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/11	Implement sustainable business process to report FBWT (Army CFO Strategic Plan WBS 1.1.1.1.3)
9/30/11	Report FBWT in accordance with a sustainable business process (Army CFO Strategic Plan 1.1.1.4)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
3/31/12	Re-validate Auditability of FBWT (Army CFO Strategic Plan WBS 1.1.1.2.2)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Operating Materials and Supplies/Inventory. Inventories are valued and reported at approximate historical cost using latest acquisition cost adjusted for holding gains and losses. The systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement of Federal Financial Accounting Standards No. 3 states that Operating Materials and Supplies must be expensed when the items are consumed. However, the Army has acknowledged that significant amounts of Operating Materials and Supplies were expensed when they were purchased instead of when they were consumed.

Functional Category: Operating Materials & Supplies/Inventory

Senior Official in Charge: Mr. Robert Turzak, DCS/Army G-4

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 January 2015

Target Date in Last Year's Report: N/A

Current Target Date: 31 January 2015

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Provide guidance for establishing the value of OM&S using a historical cost method (Army CFO Strategic Plan WBS 1.1.7.1.1.2)
Completed	Provide policy for valuation of operating expenses associated with consumption of OM&S in normal operations (Army CFO Strategic Plan WBS 1.1.7.1.1.3)
Completed	Provide guidance for establishing the inventory baseline (i.e. an acceptable value for on-hand OM&S at the time systems are converted to a historical cost method) (Army CFO Strategic Plan WBS 1.1.7.1.1.4)
Completed	Provide guidance for reporting Excess, Obsolete and Beyond Repair OM&S (Army CFO Strategic Plan WBS 1.1.7.1.1.5)
Completed	Perform physical inventory counts in accordance with the AR 740-26 and other applicable guidance (Army CFO Strategic Plan WBS 1.1.7.1.1.6)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
6/30/08	Incorporate the revised historical cost valuation policy (Consumption Method) for OM&S into the DOD FMR (DOD 7000.14-R) (Army CFO Strategic Plan WBS 1.1.7.1.1.8)
9/30/08	Obtain final approval from OUSD(C) for the Army's approach for conversion from use of the Purchase to use of the Consumption Method for accounting for OM&S (Army CFO Strategic Plan WBS 1.1.7.1.1.9)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
11/30/08	Publish Army implementation guidance (Army CFO Strategic Plan WBS 1.1.7.1.1.10)

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	Ensure adherence to governance requirements for field level physical inventory process (Army CFO Strategic Plan WBS 1.1.7.1.1.7)
9/30/10	Full operational capability of LMP (Army CFO Strategic Plan WBS 7.11)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
1/31/14	Full operational capability of GCSS-Army (Army CFO Strategic Plan WBS 7.14)
1/31/15	Internal validation (AAA)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: General Property, Plant, and Equipment. Statement of the Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires that all General Property, Plant, and Equipment be recorded at cost, and that depreciation expense be recognized on all General Property, Plant, and Equipment. The Army has acknowledged that real property and Military Equipment were not recorded at acquisition or historical cost and did not include all costs needed to bring these assets to a form and location suitable for their intended use. Also, the Army could not support the reported cost of Military Equipment in accordance with Statement of Federal Financial Accounting Standards No. 6. The Army also lacks financial accountability systems for all its Military Table of Equipment unit property books that comply with the Federal Financial Management Improvement Act (FFMIA) of 1996.

Functional Category: General Property, Plant, and Equipment

Senior Official in Charge: Mr. John J. Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 December 2010

Target Date in Last Year's Report: N/A

Current Target Date: 31 December 2010

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Identify applicable compliance requirements by chapter from the current "Guide to Federal Requirements for Financial Management Systems" (DFAS Blue Book) and JFMIP (Army CFO Strategic Plan WBS 7.7.1)
Completed	Map DFAS Blue Book and JFMIP requirements to PBUSE business processes (Army CFO Strategic Plan WBS 7.7.2)
Completed	PBUSE: Conduct FFMIA compliance attestation and provide report on the system compliance status (A-2004-0075-FFG) (Army CFO Strategic Plan WBS 7.7.7)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
6/30/08	Formally request an FFMIA compliance re-audit on PBUSE from AAA (Army CFO Strategic Plan WBS 7.7.14)

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
12/31/08	Conduct follow-up audit of implemented corrective actions for PBUSE (Army CFO Strategic Plan WBS 7.7.15)
3/31/09	Obtain AAA certification that PBUSE complies with all identified requirements based on the current versions of the DFAS Blue Book and JFMIP (Army CFO Strategic Plan WBS 7.7.16)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

<u>Date:</u>	<u>Milestone</u>
12/31/09	Identify Requirements to accurately Report General Equipment (Army CFO Strategic Plan WBS 1.1.9.1.1)
12/31/09	Implement sustainable business process to report General Equipment (Army CFO Strategic Plan WBS 1.1.9.1.2)
3/31/11	Validate Auditability of General Equipment (Army CFO Strategic Plan WBS 1.1.9.2)
12/31/10	Report General Equipment in accordance with a sustainable business process (Army CFO Strategic Plan WBS 1.1.9.1.3)

Functional Category: Real Property

Senior Official in Charge: Mr. John J. Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 March 2010

Target Date in Last Year's Report: N/A

Current Target Date: 31 March 2010

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Identify Requirements to accurately report General PP&E - Real Property (Army CFO Strategic Plan WBS 1.1.16.1.1)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/08	Implement sustainable business process to report General PP&E - Real Property (Army CFO Strategic Plan WBS 1.1.16.1.3)

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone</u>
9/30/09	Report General PP&E - Real Property in accordance with a sustainable business process (Army CFO Strategic Plan WBS 1.1.16.1.4)
3/31/10	Validate Auditability of General PP&E – Real Property Assets (Army CFO Strategic Plan WBS 1.1.16.2)

Functional Category: Military Equipment

Senior Official in Charge: Mr. Robert J. Turzak, G-4/DCSLOG

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 March 2012

Target Date in Last Year's Report: None

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Current Target Date: 31 March 2012

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone</u>
12/31/10	Identify Requirements to accurately report Military Equipment (Note 10.E) (Army CFO Strategic Plan WBS 1.1.11.1.1)
12/31/10	Implement OMB Circular A-123, Appendix A (Military Equipment) (Army CFO Strategic Plan WBS 1.1.11.1.2)
9/30/11	Report Military Equipment in accordance with an Auditable Process (Army CFO Strategic Plan WBS 1.1.11.1.4)
3/30/12	Validate Auditability of Military Equipment (Army CFO Strategic Plan 1.1.11.2)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Environmental Liabilities. The Army has not properly estimated and reported its environmental liabilities. For example, the processes used to report environmental liabilities for the Defense Environmental Restoration Program, Base Realignment and Closure, and the non-Defense Environmental Restoration Program on the financial statements were not adequate to establish or maintain sufficient documentation and audit trails. Although estimators were properly qualified to perform estimates, the Army did not document supervisory reviews of estimates and did not have adequate quality control programs in place to ensure the reliability of data.

Functional Category: Environmental Liabilities

Senior Official in Charge: Mr. Jerry Hansen, DASA/Strategic Infrastructure

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 December 2011

Target Date in Last Year's Report: N/A

Current Target Date: 31 December 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

Major Milestones in Corrective Action for Defense Environmental Restoration Program (DERP) and Base Realignment and Closure (BRAC) DERP:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/08	Develop implementation plan with milestones and schedules to aid in transition to the enterprise architecture process and data model

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/11	Audit Readiness Validation

Major Milestones in Corrective Action for Non-DERP and BRAC Non-DERP

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/09	Complete documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating environmental liability estimates.
9/30/10	Establish and document process to accomplish supervisory review and approval of the liability estimates
9/30/12	Audit Readiness Validation

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Major Milestones in Corrective Action for Chemical Materials Agency / Chemical Agents Munitions Destruction (CAMD)

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
3/31/09	Complete documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating CAMD estimates
12/31/09	Develop implementation plan with milestones and schedules to aid in transition to the enterprise architecture process and data model
12/31/11	Audit Readiness Validation

Major Milestones in Corrective Action for CAMD Assembled Chemical Weapons Alternatives (ACWA)

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
12/31/09	Document that all property, plant, and equipment (PP&E) records have been reviewed for Environmental Liabilities and liability properly recorded.
12/31/09	Complete documentation and correction of processes and procedures for creating, changing, reviewing, approving and liquidating ACWA estimates
12/31/11	Audit Readiness Validation

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Intragovernmental Eliminations. DOD is unable to collect, exchange, and reconcile buyer and seller Intragovernmental transactions, resulting in adjustments that cannot be verified. This is primarily because of systems' limitations, as the majority of the systems currently used within DOD do not allow the capture of buyer-side information for use in reconciliations and eliminations. DOD and Army accounting systems were unable to capture trading partner data at the transaction level to facilitate required trading partner eliminations, and DOD guidance did not require adequate support for eliminations. In addition, DOD procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. Therefore, DFAS Indianapolis made \$35.5 billion in unsupported adjustments to Intragovernmental accounts to force the accounts to agree with the records of Army's trading partners.

Functional Category: Intragovernmental Eliminations

Senior Official in Charge: Mr. John Argodale, DASA for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segment's passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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9/30/10	Confirm sustainable processes, procedures and/or systems exist to eliminate Accounts Receivables (Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.1.2.3.7)
12/31/10	Confirm sustainable processes, procedures, and/or systems exist to eliminate intragovernmental costs and revenues (Army CFO Strategic Plan WBS 2.1.1.2.2)
12/31/10	Correct identified deficiencies over Intragovernmental Transactions and Eliminations (Army CFO Strategic Plan WBS 8.3.1.3)
9/30/11	Confirm sustainable business process, procedures, and/or systems exist to eliminate intragovernmental payables (Army CFO Strategic Plan WBS 1.2.1.1.2.3.2)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Accounting Adjustments. Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army General Fund financial statements. DFAS Indianapolis did not adequately support \$258.2 billion in journal voucher adjustments used to prepare the Army General Fund financial statements.

Functional Category: Accounting Adjustments

Senior Official in Charge: Mr. John Argodale, DASA for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007)

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Statement of Net Cost. The financial information contained in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DOD strategic and performance plans required by the Government Performance and Results Act. Because financial processes and systems do not correlate costs with performance measures, revenues and expenses are reported by appropriation categories. The amounts presented in the Statement of Net Cost are based on funding, obligation, and disbursing transactions, which are not always recorded using accrual accounting. Army systems do not always record the transactions on an accrual basis as required by GAAP. To capture all cost and financing sources for the Army, the information presented also includes data from non-financial feeder systems. In addition, Army General Fund budgetary and proprietary information does not correlate. As a result, DFAS Indianapolis made \$22.9 billion in unsupported adjustments to force costs to agree with obligation information.

Functional Category: Statement of Net Cost

Senior Official in Charge: Mr. John Argodale, DASA for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
12/31/10	Report the full cost of outputs in the General Fund Financial Statements (SFFAS # 4, par. 89) (Army CFO Strategic Plan WBS 2.1.1.3.1)
12/31/10	Report indirect costs included in the full cost of outputs (SFFAS # 4, par. 91) (Army CFO Strategic Plan WBS 2.1.1.3.2)
12/31/10	Report general management and administrative support costs as a cost not assigned to programs if they cannot be identified by segment (SFFAS # 4, par. 92) (Army CFO Strategic Plan WBS 2.1.1.3.3)
12/31/10	Report other post employment benefits as an expense for the period during which the future outflow or other sacrifice is probable and measurable on the basis of events occurring on or before the accounting date (SFFAS # 4, par. 96) (Army CFO Strategic Plan WBS 2.1.1.3.4)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
12/31/10	Report as an expense the benefits paid during the reporting period plus any increase or less any decrease in liabilities from the end of the prior period to the end of the current period (SFFAS # 17, par. 22) (Army CFO Strategic Plan WBS 2.1.1.3.5)
12/31/10	Report inter-entity costs for goods and services received without reimbursement (SFFAS #4, par. 112) (Army CFO Strategic Plan WBS 2.1.1.3.6)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Abnormal Account Balances. DFAS Indianapolis did not detect, report, or take action to eliminate abnormal balances included in the Army General Fund accounting records. The FY 2007 trial balance data for the Army General Fund included 141 general ledger accounts with \$163.8 billion of unresolved abnormal balances for proprietary and budgetary accounts used by DFAS Indianapolis as part of the compilation of the Army General Fund financial statements. The FY 2007 trial balance data for the Army General Fund included an additional \$847.5 billion of abnormal balances in 58 budgetary general ledger accounts that were not used in compiling the Army General Fund financial statements. DFAS Indianapolis considers this budgetary data so unreliable that the trial balance for budgetary accounts must be constructed from other budgetary reports. Although the Army reported abnormal balances as an area of concern in its FY 2006 Annual Statement of Assurance, it did not disclose abnormal balances in the financial statement footnotes. Abnormal balances not only distort the Army General Fund financial statements, but also indicate internal control and operational deficiencies and may conceal instances of fraud.

Functional Category: Abnormal Account Balances

Senior Official in Charge: Mr. John Argodale, DASA for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 December 2011

Target Date in Last Year's Report: N/A

Current Target Date: 31 December 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segment passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan.

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
---------------------	--------------------------

9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
12/31/10	Correct identified deficiencies resulting in Abnormal Account Balances (Army CFO Strategic Plan WBS 8.3.1.4)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Accounts Receivable. The Army has acknowledged weaknesses in its accounts receivable management. The weaknesses are considered to be DOD-wide and apply to both public and intragovernmental receivables at the Army General Fund level. Weaknesses include:

- Noncompliance with policies and procedures regarding referrals to the Debt Management Office of the Department of Treasury and for write-offs of 2-year-old debt;
- A lack of controls to ensure all entitlement system receivables (vendor pay, civilian pay, and interest) are recorded in the accounting systems,
- A lack of controls to ensure that accounts receivable balances are supportable at the transaction level.

Functional Category: Accounts Receivable

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB D-2)
**ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS**

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Implement OMB Circular, A-123, Appendix A (Receivables-Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.1.1.2 & 1.1.4.1.2.2)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
6/30/08	Accurately Record Accounts Receivable due to criminal and civil fraud recovery (Public) (Army CFO Strategic Plan WBS 1.1.4.1.1.1.10)
6/30/08	Provide audit readiness validation plan (Receivables) (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.1.1.3.5)

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/11	Identify Requirements to accurately report Receivables (Public & Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.1.1.1& 1.1.4.1.2.1)
9/30/11	Implement sustainable business process to report Receivables (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.1.1.3 & 1.1.4.1.2.3)
9/30/10	Implement a sustainable business process to correct aging and reporting receivable deficiencies within the accounting systems (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.1.1.3.4 & 1.1.4.1.2.3.3)
6/30/11	Validate Audibility of Receivables (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.2.1 & 1.1.4.2.2)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Accounts Payable. The Army is unable to properly account for and report Accounts Payable. DFAS Indianapolis made \$6 billion in unsupported adjustments for FY 2007 that decreased Accounts Payable by \$25.5 million. In addition, the Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales. Therefore, the Army has acknowledged that it was unable to reconcile Intragovernmental accounts payable to the related Intragovernmental accounts receivable that generated the payables.

Functional Category: Accounts Payable

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 March 2012

Target Date in Last Year's Report: N/A

Current Target Date: 31 March 2012

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	OMB Circular, A-123, Appendix A (Accounts Payable – Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.2 & 1.2.1.1.2.2)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
9/30/11	Identify Requirements to accurately Report Accounts Payable (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.1 & 1.2.1.1.2.1)
9/30/11	Implement sustainable business process to Report Accounts Payable (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.3 & 1.2.1.1.2.3)
9/30/11	Report Accounts Payable in accordance with a sustainable business process (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.4 & 1.2.1.1.2.4)
3/31/12	Validate Auditability of Accounts Payable (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.2)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Statement of Budgetary Resources. The Army accounting systems do not provide or capture data needed for obligations incurred or prior year obligations recovered in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget Requirements." Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined.

Functional Category: Statement of Budgetary Resources

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army General Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Implement OMB Circular A-123, Appendix A (Appropriations) (Army CFO Strategic Plan WBS 4.1.1.2)

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A	
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C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
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9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
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(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Reconciliation of Net Cost of Operations to Budget. The Statement of Federal Financial Accounting Standards No. 7 “requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. During FY 2007, OMB rescinded the requirement to report this reconciliation as a Statement of Financing and now requires the disclosure of the information as a note to the financial statements. The Army General Fund is unable to accurately represent the relationship between budgetary obligations incurred and its Statement of Net Costs without preparing \$22.9 billion in unsupported adjustments to the general ledger accounts to force costs to match obligation information.

Functional Category: Reconciliation of Net Cost of Operations to Budget

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year’s Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor’s Report on the FY 2007 Army General Fund Financial Statements (9 November 2007)

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

(TAB D-2)
ARMY GENERAL FUND UNCORRECTED WEAKNESS(ES) STATUS OF
CORRECTIVE ACTIONS

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A	
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C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
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9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
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TAB D-3

(TAB D-3)
ARMY MATERIAL WEAKNESS(ES) CORRECTED THIS PERIOD

General Fund Identified During Prior Periods

N/A

TAB E-1

(TAB E-1)
**LIST OF ALL ARMY WORKING CAPITAL FUND UNCORRECTED AND CORRECTED
MATERIAL WEAKNESSES**

Working Capital Fund Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Date (FY) Targeted Correction Date	Page #
<u>Financial Management Systems</u> The lack of a single, standard transaction-driven general ledger will prevent the Army from preparing auditable financial statements.	31 January 2014 (Q2)	E-2-1
<u>Inventory</u> The systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger.	31 January 2015 (Q2)	E-2-4
<u>General Property, Plant, and Equipment</u> The Army has acknowledged that Real Property and Military Equipment were not recorded at acquisition or historical cost and did not include all costs needed to bring these assets to a form and location suitable for their intended use.	31 December 2010 (Q1)	E-2-7
<u>Intragovernmental Eliminations</u> DOD is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified.	30 September 2011 (Q4)	E-2-12
<u>Accounting Adjustments (Other Accounting Entries)</u> Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army Working Capital Fund financial statements.	30 September 2011 (Q4)	E-2-14
<u>Statement of Net Cost</u> The financial information contained in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DOD strategic and performance plans required by the Government Performance and Results Act.	30 September 2011 (Q4)	E-2-16

(TAB E-1)
**LIST OF ALL ARMY WORKING CAPITAL FUND UNCORRECTED AND CORRECTED
MATERIAL WEAKNESSES**

<u>Title</u>	<u>Quarter (QTR) and Date (FY) Targeted Correction Date</u>	<u>Page #</u>
<u>Accounts Payable</u> The Army is unable to properly account for and report Accounts Payable.	31 March 2012 (Q2)	E-2-19
<u>Reconciliation of Net Cost of Operations to Budget</u> The Army Working Capital Fund is unable to accurately represent the relationship between budgetary obligations incurred and its Statement of Net Costs without preparing \$145 million in unsupported adjustments to the general ledger accounts to force costs to match obligation information.	30 September 2011 (Q4)	E-2-21

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>	
N/A				

Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
N/A		

TAB E-2

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Working Capital Fund Uncorrected Weakness(es) Identified During the Period

Title and Description of Material Weakness: Financial Management Systems. Army accounting systems lacked a single, standard transaction-driven general ledger. The Army also needed to upgrade or replace many of its non-financial feeder systems so that financial statement reporting requirements could be met. The lack of a single, standard transaction-driven general ledger will continue to prevent the Army from preparing auditable financial statements.

Functional Category: Financial Management Systems

Component: Army

Senior Official in Charge: Ms. Kristyn Jones, Director, Financial Information Management, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 31 January 2014

Targeted Correction Date in Last Year's Report: N/A

Current Target Date: 31 January 2014

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007); Army CFO Strategic Plan

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Army Medical Department Property Accounting System (AMEDDPAS) to be replaced by Defense Medical Logistics

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
	Standard Support System (DMLSS), (Army CFO Strategic Plan WBS 7.1)
Completed	Corps of Engineers Financial Management System (CEFMS) (Army CFO Strategic Plan, WBS 7.4)
Completed	Army Environmental Database - Compliance Clean-up (AEDB-CC) (Army CFO Strategic Plan, WBS 7.5)
Completed	Installation Status Report (ISR) (Army CFO Strategic Plan WBS 7.8)
Completed	Army Environmental Database - Restoration (AEDB-R) (CFO Strategic Plan (WBS 7.10)
Completed	Funds Control Module (Army CFO Strategic Plan WBS 7.13)

B. Planned Milestones for FY 2008:

<u>Date:</u>	<u>Milestone:</u>
9/30/08	Identify any additional feeder systems, existing or future needs that are critical to the Army and must be CFO-compliant

C. Planned Milestones (Beyond FY 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	Logistics Modernization Program (LMP) to replace Commodity Command Standard System-Financial (CCSS-F) (Army CFO Strategic Plan WBS 7.2)
9/30/10	LMP to replace Commodity Command Standard System-Logistics (CCSS-L) (Army CFO Strategic Plan WBS 7.31)
9/30/11	General Fund Enterprise Business System (GFEBs) (Army CFO Strategic Plan WBS 7.6)
3/31/09	Property Book Unit Supply Enhanced (PBUSE) (Army CFO Strategic Plan WBS 7.7)

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
3/31/09	Integrated Facilities System (IFS) (Army CFO Strategic Plan WBS 7.9)
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
6/30/09	Planning Resource Infrastructure Decision and Evaluation (PRIDE) System (Army CFO Strategic Plan, WBS 7.12)
1/31/14	Global Combat Support System - Army (GCSS-A) (Army CFO Strategic Plan WBS 7.14)
9/30/12	Correct identified Financial Management Systems deficiencies (Army CFO Strategic Plan WBS 8.3.1.1)

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Inventory. Inventories are valued and reported at approximate historical cost using latest acquisition cost adjusted for holding gains and losses. The systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement of Federal Financial Accounting Standards No. 3 states that Inventory must be expensed when the items are consumed. However, the Army has acknowledged that significant amounts of Inventory were expensed when they were purchased instead of when they were consumed.

Functional Category: Inventory

Senior Official in Charge: Mr. Robert Turzak, DCS/Army G-4

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 January 2015

Target Date in Last Year's Report: N/A

Current Target Date: 31 January 2015

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Provide guidance for establishing the value of inventory using a historical cost method (Army CFO Strategic Plan WBS 1.1.7.1.1.2)
Completed	Provide policy for valuation of operating expenses associated with consumption of inventory in normal operations (Army CFO Strategic Plan WBS 1.1.7.1.1.3)
Completed	Provide guidance for establishing the inventory baseline (i.e. an acceptable value for on-hand inventory at the time systems are converted to a historical cost method) (Army CFO Strategic Plan WBS 1.1.7.1.1.4)
Completed	Provide guidance for reporting Excess, Obsolete and Beyond Repair OM&S (Army CFO Strategic Plan WBS 1.1.7.1.1.5)
Completed	Perform physical inventory counts in accordance with the AR 740-26 and other applicable guidance (Army CFO Strategic Plan WBS 1.1.7.1.1.6)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
6/30/08	Incorporate the revised historical cost valuation policy (Consumption Method) for OM&S into the DOD FMR (DOD 7000.14-R) (Army CFO Strategic Plan WBS 1.1.7.1.1.8)
9/30/08	Obtain final approval from OUSD(C) for the Army's approach for conversion from use of the Purchase to use of the Consumption Method for accounting for inventory (Army CFO Strategic Plan WBS 1.1.7.1.1.9)

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
11/30/08	Publish Army implementation guidance (Army CFO Strategic Plan WBS 1.1.7.1.1.10)

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	Ensure adherence to governance requirements for field level physical inventory process (Army CFO Strategic Plan WBS 1.1.7.1.1.7)
9/30/10	Full operational capability of LMP (Army CFO Strategic Plan WBS 7.11)
9/30/11	Full operational capability of GFEBBS (Army CFO Strategic Plan WBS 7.6)
1/31/14	Full operational capability of GCSS-Army (Army CFO Strategic Plan WBS 7.14)
1/31/15	Internal validation (AAA)

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: General Property, Plant, and Equipment. Statement of the Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires that all General Property, Plant, and Equipment be recorded at cost, and that depreciation expense be recognized on all General Property, Plant, and Equipment. The Army has acknowledged that real property and military equipment were not recorded at acquisition or historical cost and did not include all costs needed to bring these assets to a form and location suitable for their intended use. Also, the Army could not support the reported cost of military equipment in accordance with Statement of Federal Financial Accounting Standards No. 6. The Army also lacks financial accountability systems for all its Military Table of Equipment unit property books that comply with the Federal Financial Management Improvement Act (FFMIA) of 1996.

Functional Category: General Property, Plant, and Equipment

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 December 2010

Target Date in Last Year's Report: N/A

Current Target Date: 31 December 2010

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Identify applicable compliance requirements by chapter from the current "Guide to Federal Requirements for Financial Management Systems" (DFAS Blue Book) and JFMIP (Army CFO Strategic Plan WBS 7.7.1)
Completed	Map DFAS Blue Book and JFMIP requirements to PBUSE business processes (Army CFO Strategic Plan WBS 7.7.2)
Completed	PBUSE: Conduct FFMIA compliance attestation and provide report on the system compliance status (A-2004-0075-FFG) (Army CFO Strategic Plan WBS 7.7.7)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
6/30/08	Formally request an FFMIA compliance re-audit on PBUSE from AAA (Army CFO Strategic Plan WBS 7.7.14)
12/31/08	Conduct follow-up audit of implemented corrective actions for PBUSE (Army CFO Strategic Plan WBS 7.7.15)

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone</u>
3/31/09	Obtain AAA certification that PBUSE complies with all identified requirements based on the current versions of the DFAS Blue Book and JFMIP (Army CFO Strategic Plan WBS 7.7.16)
12/31/09	Identify Requirements to accurately Report General Equipment (Army CFO Strategic Plan WBS 1.1.9.1.1)

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
12/31/09	Implement sustainable business process to report General Equipment (Army CFO Strategic Plan WBS 1.1.9.1.2)
3/31/11	Validate Auditability of General Equipment (Army CFO Strategic Plan WBS 1.1.9.2)
12/31/10	Report General Equipment in accordance with a sustainable business process (Army CFO Strategic Plan WBS 1.1.9.1.3)

Functional Category: Real Property

Senior Official in Charge: Mr. John Argodale, DASA/Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 March 2010

Target Date in Last Year's Report: N/A

Current Target Date: 31 March 2010

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	Identify requirements to accurately report General PP&E - Real Property (Army CFO Strategic Plan WBS 1.1.16.1.1)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/08	Implement sustainable business process to report General PP&E - Real Property (Army CFO Strategic Plan WBS 1.1.16.1.3)

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone</u>
9/30/09	Report General PP&E - Real Property in accordance with a sustainable business process (Army CFO Strategic Plan WBS 1.1.16.1.4)
3/31/10	Validate Auditability of General PP&E – Real Property Assets (Army CFO Strategic Plan WBS 1.1.16.2)

Functional Category: Military Equipment

Senior Official in Charge: Mr. Robert J. Turzak, G-4/DCSLOG

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 March 2012

Target Date in Last Year's Report: None

Current Target Date: 31 March 2012

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone</u>
12/31/10	Identify Requirements to accurately report Military Equipment (Note 10.E) (Army CFO Strategic Plan WBS 1.1.11.1.1)
12/31/10	Implement OMB Circular A-123, Appendix A (Military Equipment) (Army CFO Strategic Plan WBS 1.1.11.1.2)
9/30/11	Report Military Equipment in accordance with an Auditable Process (Army CFO Strategic Plan WBS 1.1.11.1.4)
3/30/12	Validate Auditability of Military Equipment (Army CFO Strategic Plan 1.1.11.2)

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Intragovernmental Eliminations. DOD is unable to collect, exchange, and reconcile buyer and seller Intragovernmental transactions, resulting in adjustments that cannot be verified. This is primarily because of systems' limitations, as the majority of the systems currently used within DOD do not allow the capture of buyer-side information for use in reconciliations and eliminations. DOD and Army accounting systems were unable to capture trading partner data at the transaction level to facilitate required trading partner eliminations, and DOD guidance did not require adequate support for eliminations. In addition, DOD procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without performing proper reconciliations. Therefore, DFAS Indianapolis made \$7.5 billion in unsupported adjustments to Intragovernmental accounts to force the accounts to agree with the records of Army's trading partners.

Functional Category: Intragovernmental Eliminations

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segment's passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	Confirm sustainable processes, procedures and/or systems exist to eliminate Accounts Receivables (Intragovernmental) (Army CFO Strategic Plan WBS 1.1.4.1.2.3.7)
12/31/10	Confirm sustainable processes, procedures, and/or systems exist to eliminate intragovernmental costs and revenues (Army CFO Strategic Plan WBS 2.1.1.2.2)
12/31/10	Correct identified deficiencies over Intragovernmental Transactions and Eliminations (Army CFO Strategic Plan WBS 8.3.1.3)
9/30/11	Confirm sustainable business process, procedures, and/or systems exist to eliminate intragovernmental payables (Army CFO Strategic Plan WBS 1.2.1.1.2.3.2)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Accounting Adjustments (Other Accounting Entries). Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army Working Capital Fund financial statements. DFAS Indianapolis did not adequately support \$7.7 billion in journal voucher adjustments used to prepare the Army Working Capital Fund financial statements.

Functional Category: Accounting Adjustments

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007)

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A	
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(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A	
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C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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9/30/11	Full operational capability of GFEBs (Army CFO Strategic Plan WBS 7.6)
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9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
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(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Statement of Net Cost. The financial information contained in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DOD strategic and performance plans required by the Government Performance and Results Act. Because financial processes and systems do not correlate costs with performance measures, revenues and expenses are reported by appropriation categories. The amounts presented in the Statement of Net Cost are based on funding, obligation, and disbursing transactions, which are not always recorded using accrual accounting. Army systems do not always record the transactions on an accrual basis as required by GAAP. To capture all cost and financing sources for the Army, the information presented also includes data from non-financial feeder systems. In addition, Army Working Capital Fund budgetary and proprietary information does not correlate.

Functional Category: Statement of Net Cost

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year's Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
12/31/10	Report the full cost of outputs in the General Purpose Financial Statements (SFFAS # 4, par. 89) (Army CFO Strategic Plan WBS 2.1.1.3.1)
12/31/10	Report indirect costs included in the full cost of outputs (SFFAS # 4, par. 91) (Army CFO Strategic Plan WBS 2.1.1.3.2)
12/31/10	Report general management and administrative support costs as a cost not assigned to programs if they cannot be identified by segment (SFFAS # 4, par. 92) (Army CFO Strategic Plan WBS 2.1.1.3.3)
12/31/10	Report other post employment benefits as an expense for the period during which the future outflow or other sacrifice is probable and measurable on the basis of events occurring on or before the accounting date (SFFAS # 4, par. 96) (Army CFO Strategic Plan WBS 2.1.1.3.4)

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

<u>Date:</u>	<u>Milestone:</u>
12/31/10	Report as an expense the benefits paid during the reporting period plus any increase or less any decrease in liabilities from the end of the prior period to the end of the current period (SFFAS # 17, par. 22) (Army CFO Strategic Plan WBS 2.1.1.3.5)
12/31/10	Report inter-entity costs for goods and services received without reimbursement (SFFAS #4, par. 112) (Army CFO Strategic Plan WBS 2.1.1.3.6)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Accounts Payable. The Army is unable to properly account for and report Accounts Payable. DFAS adjusted Accounts Payable with Public upward by \$116.1 million for undistributed disbursements. Also, DFAS was unable to reconcile the Army Working Capital Fund accounts payable with the corresponding Intragovernmental accounts receivable that generated the payables. As a result, DFAS made \$140.2 million in unsupported adjustments to decrease Intragovernmental accounts payable to force the amounts to agree with Army Working Capital Fund trading partners. Therefore, the Army has acknowledged that it was unable to reconcile Intragovernmental accounts payable to the related Intragovernmental accounts receivable that generated the payables.

Functional Category: Accounts Payable

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 31 March 2012

Target Date in Last Year's Report: N/A

Current Target Date: 31 March 2012

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007), Army CFO Strategic Plan

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
Completed	OMB Circular, A-123, Appendix A (Accounts Payable – Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.2 & 1.2.1.1.2.2)

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
N/A	

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
9/30/10	Full operational capability of Logistics Modernization Program (LMP) (Army CFO Strategic Plan, WBS 7.11)
9/30/11	Full operational capability of GFEBS (Army CFO Strategic Plan WBS 7.6)
9/30/11	Identify Requirements to accurately Report Accounts Payable (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.1 & 1.2.1.1.2.1)
9/30/11	Implement sustainable business process to Report Accounts Payable (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.3 & 1.2.1.1.2.3)
9/30/11	Report Accounts Payable in accordance with a sustainable business process (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.1.1.4 & 1.2.1.1.2.4)
3/31/12	Validate Auditability of Accounts Payable (Public and Intragovernmental) (Army CFO Strategic Plan WBS 1.2.1.2)

(TAB E-2)
**AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS**

Uncorrected Weakness(es) Identified During the Period

Title and Description of Material of Weakness: Reconciliation of Net Cost of Operations to Budget. The Statement of Federal Financial Accounting Standards No. 7 “requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data. During FY 2007, OMB rescinded the requirement to report this reconciliation as a Statement of Financing and now requires the disclosure of the information as a note in the financial statements. The Army Working Capital Fund is unable to accurately represent the relationship between budgetary obligations incurred and its Statement of Net Costs without preparing \$145 million in unsupported adjustments to the general ledger accounts to force costs to match obligation information.

Functional Category: Reconciliation of Net Cost of Operations to Budget

Senior Official in Charge: Mr. John Argodale, Deputy Assistant Secretary of the Army for Financial Operations, OASA(FM&C)

Pace of Corrective Action:

Year Identified: FY 2008

Original Target Date: 30 September 2011

Target Date in Last Year’s Report: N/A

Current Target Date: 30 September 2011

Reason for Change in Date(s): N/A

Validation Process: Internal validation will be conducted by AAA.

Results Indicators: Success is defined as the segments passing audit readiness validation.

Source(s) Identifying Weakness: Independent Auditor’s Report on the FY 2007 Army Working Capital Fund Financial Statements (9 November 2007)

(TAB E-2)
AWCF UNCORRECTED WEAKNESS(ES) STATUS OF CORRECTIVE
ACTIONS

Major Milestones in Corrective Action:

A. Completed Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
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N/A

B. Planned Milestones (Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
---------------------	--------------------------

N/A

C. Planned Milestones (Beyond Fiscal Year 2008):

<u>Date:</u>	<u>Milestone:</u>
---------------------	--------------------------

9/30/10

Full operational capability of Logistics
Modernization Program (LMP) (Army CFO
Strategic Plan, WBS 7.11)

9/30/11

Full operational capability of GFEBS (Army CFO
Strategic Plan WBS 7.6)

TAB E-3

(TAB E-3)
ARMY MATERIAL WEAKNESS(ES) CORRECTED THIS PERIOD

Working Capital Fund Weaknesses Identified During Prior Periods

N/A