



SECRETARY OF THE ARMY
WASHINGTON

INFO MEMO

08-29-11 10:32 AM

FOR: SECRETARY OF DEFENSE

FROM: John M. McHugh, Secretary of the Army

A handwritten signature in black ink, appearing to read "John M. McHugh", is written over the "FROM:" line.

SUBJECT: Fiscal Year 2011 Statement of Assurance on Internal Controls as Required Under the Federal Managers' Financial Integrity Act of 1982

- I recognize that Army management is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I provide a qualified statement of assurance that the Army's internal controls, in effect for the fiscal year ending September 30, 2011 met FMFIA objectives except for the four material weaknesses noted in this assurance statement. Other than the material weaknesses noted, internal controls operated effectively and were used as designed.
- The Army assessed internal controls for overall operations according to the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. Details of how this assessment was conducted are provided at tabs A-1 through E-3.
- Although we continued to make progress in improving internal controls over financial reporting for the General and Working Capital funds I provide no assurance that as of June 30, 2011 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; over 5,000 uncorrected actions identified in our financial improvement plan; and 13 weaknesses associated with the General Fund and nine weaknesses associated with the Working Capital Fund. Our Fiscal Year 2011 (FY11) Internal Controls over Financial Reporting Statement of Assurance provides further details.
- Our assessment of the effectiveness of the internal controls over financial systems for the General and the Working Capital funds was conducted in compliance with OMB Circular A-127. Based on this assessment, I provide a qualified statement of assurance that internal control over financial systems were operating effectively with the exception of the two material weaknesses reported in this statement. Other than the material weaknesses noted, internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over financial systems.

SUBJECT: Fiscal Year (FY) 2011 Statement of Assurance on Internal Controls as Required Under the Federal Managers' Financial Integrity Act of 1982

- For Army Civil Works Funds I am providing an unqualified statement of assurance based on the unqualified audit opinion achieved in FY10.

COORDINATION: NONE.

Enclosures
As stated

Prepared By: Jorge F. Roca, 703-601-1252

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

SAAG-ZA

12 July 2011

MEMORANDUM FOR Secretary of the Army

SUBJECT: Review of the Army's Compliance With the Federal Managers' Financial Integrity Act (Project A-2011-FFM-0120.000), Attestation Report: A-2011-0156-FFM

1. The U.S. Army Audit Agency performed a review 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 Program Procedures). We performed our review in accordance with generally accepted government auditing standards and in accordance with attestation standards established by the American Institute of Certified Public Accountants.
2. From the results of our review, I concluded that the Army, as an entity, continued its efforts to make sure a system of controls exists in accordance with the Act and DOD Instruction 5010.40. During FY 11, nothing came to our attention to indicate the Army didn't remain committed to making sure the Army Managers' Internal Control Program was effective. The Army reflected its commitment through:
 - Continued emphasis on leadership, training, and process execution in its day-to-day operations.
 - The quarterly meeting of its Senior Level Steering Group to review ongoing program issues and work toward correcting previously reported Army-level operating and financial reporting material weaknesses.

In addition, actions taken by the Management Services Directorate in the Office of the Deputy Assistant Secretary of the Army (Financial Operations) had a continued positive effect on the overall program. It took actions to:

- Implement a computer-based Managers' Internal Control Program training program that will enable key internal control personnel to more easily identify and access needed training. Over 5,000 personnel have received training since the July 2010 inception of the program.
- Identify, report, and monitor material weaknesses. During FY 11, the Army reported 4 operational and 24 financial reporting uncorrected material weaknesses.

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The Army reported the previously identified Logistics Asset Visibility and Accountability operational material weakness as corrected. U.S. Army Audit Agency reviewed the Army's corrective actions and reported that nothing came to its attention that would lead it to believe the material weakness shouldn't be reported as corrected. The Management Services Directorate continued to actively monitor the status of the other material weaknesses and provide assistance to the material weakness owners to ensure timely resolution.

3. Again this year, our review of the program paralleled the Army's emphasis on leadership, training, and execution of the program. To perform our review, we:

- Completed audits of two Army Managers' Internal Control Program direct reporting organizations to assess the implementation of the program within the organizations. Although we found improvements were needed, the weaknesses we identified were not sufficiently significant to change our overall conclusion on the effectiveness of the Army's internal control program.
- Evaluated key internal controls during our other audits and examination attestations. We published 236 reports that included evaluations of key internal controls. We found a significant number of key controls evaluated were not fully in place and/or operating. However, we normally expect a high number of tested controls to require strengthening in the areas we choose to audit. This is because, in addition to performing audits in response to requests (which normally indicate a senior leader has concerns about the effectiveness or efficiency of the area audited), we focus on suspected high-risk areas or where programs are new and controls may not have fully matured. Our evaluation of internal controls is a key component of the Army Managers' Internal Control Program because it helps the Army identify controls that are weak and need to be corrected.
- Commented on Army regulations that were in the staffing process. We reviewed 20 regulations in the staffing process and found that 7 (about 35 percent) of the regulations didn't meet some AR 11-2 (Managers' Internal Control Program) requirements. We communicated the needed improvements for each of the seven regulations to the responsible Army functional proponent.

Detailed results are in the enclosure.

4. We continue to make recommendations during our audits to strengthen controls that were not in place or not operating. To have a fully effective control environment,

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the recommendations need to be implemented in a timely manner. As of July 2011, Army organizations reported 415 unimplemented Agency recommendations — a 53 percent decrease from the 882 unimplemented Agency recommendations reported as of July 2010. We are continuing to work with Army leaders to reduce the number of unimplemented recommendations past their agreed-to target completion dates, but continued emphasis is needed. Of these, 65 recommendations exceeded the target completion date for implementing corrective actions by 24 months or more.

5. Although our audits identified some significant opportunities for improvement, they did not identify any problem areas sufficiently material to affect your opinion on your annual assurance statement for the Secretary of Defense on the status of managers' internal controls in the Army.



RANDALL L. EXLEY
The Auditor General

Encl

REVIEW OF THE ARMY'S COMPLIANCE WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

What We Reviewed

We reviewed 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 Program Procedures).

Our review covered the results of two specific audits of the Army Managers' Internal Control Program (MICP), our review of internal controls identified in Army regulations that were in the staffing process during the period 1 July 2010 to 30 June 2011, as well as results of tests of internal controls for our other audits with published reports.

Results of Review

The Army, as an entity, continued its efforts to make sure a system of controls exists in accordance with requirements of the Federal Managers' Financial Integrity Act of 1982 and DOD Instruction 5010.40 (Managers' Internal Control Program Procedures). During FY 11, nothing came to our attention that would indicate the Army didn't remain committed to making sure that the Army MICP was effective. The Army reflected its commitment through:

- Continued emphasis on leadership, training, and process execution in its day-to-day operations.
- The quarterly meeting of its Senior Level Steering Group to review ongoing program issues and work toward correcting previously reported Army-level operating and financial reporting material weaknesses.

In addition, actions taken by the Management Services Directorate in the Office of the Deputy Assistant Secretary of the Army (Financial Operations) had a continued positive effect on the overall program. It took actions to:

- Implement a computer-based MICP training program that will enable key internal control personnel to more easily identify and access needed training. Over 5,000 personnel have received training since the July 2010 inception of the program.
- Identify, report, and monitor material weaknesses. During FY 11, the Army reported 4 operational and 24 financial reporting uncorrected material weaknesses. The Army reported the previously identified Logistics Asset Visibility and Accountability operational material weakness as corrected. U.S. Army Audit Agency reviewed the Army's corrective

actions and reported that nothing came to its attention that would lead it to believe the material weakness shouldn't be reported as corrected. The Management Services Directorate continued to actively monitor the status of the other material weaknesses and provide assistance to the material weakness owners to ensure timely resolution.

Specific Army MICP Audits

For our audits of the Army MICP, we concentrated on direct reporting organizations to assess their implementation of the MICP. We performed our audits at the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (ASA (ALT)) and U.S. Army Training and Doctrine Command (TRADOC) and four subordinate organizations. We found ASA (ALT) and TRADOC:

- Leadership continued to emphasize the MICP through their actions. Specifically, the leaders issued command guidance to assessable units, distributed Deputy Assistant Secretary of the Army (Financial Operations) MICP guidance to all assessable units, and signed all Annual Statements of Assurance as required.
- Organizations had processes established to identify, report, and track material weaknesses. Senior leadership generally evaluated material weaknesses identified by external inspection and audit activities and reported those weaknesses considered material.
- Internal control administrators prepared feeder statements that organizations consolidated into an annual statement of assurance properly signed by senior leadership.

However, we found Army organizations had opportunities for improving the execution of the MICP that could be addressed by making sure personnel with MICP responsibilities received sufficient training. The Management Services Directorate's actions to implement a computer-based MICP training program and process for tracking training completion should assist organizations in addressing those opportunities. The issues we identified were not sufficiently significant to change our overall conclusion on the effectiveness of the Army's internal control program.

Internal Control Tests Conducted During Audits and Examination Attestations

We evaluated key internal controls during audits and examination attestations and, when necessary, made recommendations to fix internal 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.

For this review, we developed trend data to identify areas that warrant focus to provide the greatest benefits in continuing a strong control environment. From 1 July 2010 through

30 June 2011, we issued 236 reports including evaluations of key internal controls related to the 5 internal control standards identified in AR 11-2 (Managers' Internal Control Program) – control activities, control environment, information and communications, monitoring, and risk assessment. Our evaluations showed that a significant number of key controls evaluated were not fully in place and/or operating – many relating to the internal control standard entitled “control activities.” Control activities include the policies, procedures, techniques, and mechanisms that make sure management’s directives are carried out. We normally expect a high number of tested controls in this area to require strengthening. This is because, in addition to performing audits in response to requests (which normally indicate a senior leader has concerns about the effectiveness or efficiency of the area audited), we focus our audits on suspected high-risk areas or where programs are new and controls may not have fully matured.

Implementation of agreed-to recommendations addressing the control weaknesses and focusing on agreed-upon actions will strengthen the control program. We make recommendations during our audits to strengthen controls that were not in place or not operating. To have a fully effective control environment, the recommendations need to be implemented in a timely manner. As of July 2011, Army organizations reported 415 unimplemented Agency recommendations – a 53 percent decrease from the 882 unimplemented Agency recommendations reported as of July 2010. Of these, 65 recommendations exceeded the target completion date for implementing corrective actions by 24 months or more.

Army Regulations in Staffing Process

During FY 11, we reviewed 20 regulations in the staffing process and found that 7 (about 35 percent) of the regulations didn’t meet AR 11-2 requirements. For example, Army functional proponents sometimes didn’t:

- Include an Army Internal Control Process Statement.
- State that the regulation contained internal controls.
- Identify correctly the key management controls to be evaluated.

We communicated the needed improvements for each of the seven regulations to the responsible Army functional proponent.

Planned MICP Audits

In FY 12, we will continue to assess selected aspects of the Army MICP. As part of our annual assessment, we plan to assess the Army National Guard Bureau’s implementation of the MICP. This work, combined with our review of the tests of internal controls in our other audit and attestation work, will help to provide the Army assurance that it has controls in place to protect

its resources from abuse and illegal acts. Included in our efforts this year is an evaluation of internal controls related to Arlington National Cemetery Gravesite Identification – an area of current special interest to the Army and Congress.

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(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, 2011, in accordance with the guidance provided in Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," as implemented by Department of Defense (DOD) Instruction 5010.40, "Managers' Internal Control Program (MICP) 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 Fiscal Year (FY) 2011, 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 program supports commanders and managers in meeting their inherent responsibilities by providing a process for implementing a comprehensive internal control program to include: identification of assessable units, establishment of a positive control environment, assessing risk, evaluating control activities, providing a communication framework, implementing and monitoring corrective actions, and developing and supporting an objective annual statement of assurance that fully discloses known material weaknesses.

Developing and supporting an objective assurance statement is accomplished through 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, the Army continued to emphasize internal control over financial reporting (ICOFR) in compliance with OMB, Circular A-123, Appendix A.

Using the following processes for conducting the evaluation, the Army evaluated its system of internal and administrative controls and maintains sufficient documentation to support its evaluation and level of assurance. The process for conducting the evaluation of internal controls is on a continual basis and encompasses the items detailed below.

Establishing a Positive Control Environment: "Tone at the Top"

- Senior Army leadership has consistently demonstrated strong support for the managers' internal control program at all levels within the Army. Here are some examples for HQDA:
 - The Army's Senior Level Steering Group/Senior Assessment Team (SLSG/SAT), a senior management council, as recommended by Office of Management and Budget (OMB) Circular A-123, met quarterly during FY 2011 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

toward correcting previously reported material weaknesses by developing a sound and jointly agreed upon action plan.

Working with the SLSG/SAT, Office of the Deputy Assistant Secretary of the Army (Financial Operations) (ODASA(FO)) personnel monitor the status of open material weaknesses and provide assistance to the material weakness owners to ensure timely resolution of the weakness by developing a sound and jointly agreed upon scope of condition and corrective action plan.

- Conducted periodic face-to-face meetings with funded activities having outstanding Antideficiency Act (ADA) investigations throughout FY 2011. The purpose of these meetings was to reinforce Army and DOD guidance and metrics while facilitating a climate at the highest echelons of command that support enhanced internal controls; address root causes that contribute to ADA violations and provide a forum to identify and attack impediments to completion of adequate investigations in accordance with regulatory requirements for prompt submission. These additional internal controls resulted in the closure of five formal and 27 preliminary investigations.
- Continued managerial oversight of the Army Government Travel Charge Card Program centrally billed accounts (CBA) to achieve a delinquency rate of 1.04 percent on transactions totaling over \$670 million for the 3rd quarter, FY 2010 through 1st quarter, FY 2011. Commanders, transporters and resource managers were engaged, and along with OASA(FM&C) personnel, developed a strategy to streamline the CBA reconciliation process resulting in timely payments, lowered Prompt Payment Act interest and increased rebates.
- Strong “Tone at the Top” support for the Manager’s Internal Control Program was also demonstrated throughout the Army. Here are some examples:
 - Army Material Command (AMC) Deputy Commanding General, Executive Deputy to the Commanding General and Principal Staff elements conducted senior level meetings to discuss how Assessable Unit Managers (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 Teleconference (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.
 - The HQ AMC Commander’s memorandum on “Stewardship and the Army Manager’s Internal Control Program”, dated 22 Feb 11, emphasized how a strong internal control program will provide assurance to Army leaders and the American people that we properly account for and effectively use resources, property, dollars, and manpower. Furthermore, the memorandum reiterated that commanders and managers at every level must understand their responsibilities in an effective control program and the importance of their mission in this process.
 - The Forces Command (FORSCOM) Deputy Commanding General/Chief of Staff signed FY11 ASA instructions, dated 4 Jan 11, addressed to the senior mission

commanders and Headquarters staff. These memorandums also emphasized the importance of internal controls and leadership's involvement. Feeder statements are required from senior mission commanders and Headquarters staff organizations. The Headquarters functional proponents review every material weakness and issue/concern submitted to:

- (a) determine which one(s) should be forwarded to the Department of the Army,
 - (b) provide any additional information to ensure completeness and accuracy, and
 - (c) provide feedback information for the
- The Training and Doctrine Command (TRADOC) Deputy Commanding General, LTG Sterling, issued an internal control memorandum, dated 11 Jan 11, to TRADOC's principal commanders, commandants, and key staff officers at the HQ staff offices, Major Subordinate Commands, and the TRADOC schools and activities. The memorandum stressed the responsibility for senior leaders across the Command to operate and assess an effective internal control program aimed at reducing error rates, the detection and correction of fraud, waste, abuse, and mismanagement of resources. Guidance was provided to the commanders and commandants of the TRADOC schools and activities for preparing their FY 11 feeder statements and the requirement to document their process and methodology for the standards applied. Further emphasis was placed on their active involvement in the entire internal control process coupled with prompt reporting and resolution of any weaknesses and areas of concern identified.

Risk Based

The Army recognizes the importance of establishing a risk based internal control program, and has incorporated risk assessment in both regulatory guidance and training. AR 11-2, Managers' Internal Control Program requires that functional proponents "determine, through risk assessment, the key internal controls." Risk assessments are also used as the basis to determine areas to be evaluated, and frequency of evaluations.

Some examples of how Army reporting organizations evidenced risk based programs follow:

- FORSCOM:
 - Performed risk assessment prior to all deployments and training events with particular emphasis on protecting the unit's personnel and equipment.
 - Performed risk assessments prior to training events and before weekends and holidays. Evaluated checklists and conducted reviews of internal and external risks to minimize or eliminate risks.
- The Military Surface Deployment and Distribution Command (SDDC):
 - Commanding General (CG) supports the program, setting the example for managers. The CG attended the initial MICP briefing by the Army Materiel Command's (AMC) Internal Review Office (IR) 01 Nov 2010. Each of the 5 Brigade Commanders, the Directors and Staff Principals also support the program and attended the briefing session. At the brief, the CG emphasized the importance of making risk assessments and

performing evaluations of controls to minimize those risks. The CG also issued an MICP policy letter on 17 Feb 2011.

- Intelligence and Security Command (INSCOM)
 - The requirement for subordinate commands to use HQs INSCOM Key Controls High Risk Listing to select specific topics for their respective Organizational Inspection Programs and MICP Five Year Plans.
 - IR reviews are planned annually and conducted on command programs and processes that were identified as potential high risk areas by command leadership. Special IR reviews are conducted throughout the year when potential problems are identified or suspected.
- Office of the Surgeon General/Medical Command (OTSG/MEDCOM)
 - Continued to stress the need for command and management emphasis of the MICP at all levels in FY11. Through memorandums and staff meetings, Commanders solicited support from all key personnel and managers to make the MICP first-rate without exception. The OTSG/MEDCOM Chief of Staff issued memorandums to leaders of OTSG/MEDCOM subordinate organizations for preparing Statements of Assurance on Internal Controls, 22 Feb 11, and Internal Control Evaluation Plans and Risk Assessment Plans, 1 Dec 10. The memoranda helped illustrate the OTSG/MEDCOM leadership involvement in the MICP and the emphasis they place on the program at all organizational levels. In addition, we report, by assessable unit the results of risk assessments performed on specific functional areas as required by the TRICARE Management Activity (TMA) as part of the Defense Health Program MICP.
- AMC
 - G-4 placed emphasis on the Army's Diminishing Manufacturing Sources and Materiel Shortages (DMSMS) Program, with a focus on risk mitigation actions to single points of failure within the sources of supply that impact Army sustainment and production of materiel.
- Assistant Secretary of the Army – Acquisition, Logistics and Technology (ASA(ALT))
Program Executive Office Ground Combat Systems (PEO GCS)
 - The PEO GCS Risk Management Program is aligned with the Risk Management Guide for DoD Acquisitions. A Risk Management Integrated Process Team has been established and meets weekly. PEO GCS leadership is briefed routinely on risk management activities and findings. A risk management standard operating procedure has been established and implemented across the PEO. The PEO has established partnerships with Research Development and Engineering Command, Mine Resistant Ambush Protected, Tank Automotive Command and other organizations to heighten risk awareness and leverage mitigation efforts. Risk management information is stored on a PEO central database called "Risk Recon."

Communication Framework

- HQDA maintains a strong communication network through:
 - Maintaining an Army Internal Control Web site, an Internal Control portal on Army Knowledge On-line (AKO), and an e-mail network of Commands and HQDA Internal Control Administrators (ICAs) to provide internal control information and guidance, and address issues in a timely manner.
 - Continued coordination with the Office of the Undersecretary of Defense – Comptroller, and Office of the Deputy Assistant Secretary of the Army Financial Operations Financial Reporting and Internal Review Directorates, to ensure the Managers' Internal Control Program includes requirements of OMB Circular A-123 regarding Internal Controls over Financial Reporting and are aligned with the Chief Financial Officer's Strategic Plan and the Financial Improvement and Audit Readiness Plan.
 - Distributing Internal Control Program information Army-wide through a variety of media sources such as internet, telephone, e-mail, video-teleconferences, briefings, Senior Level Steering Group/Senior Assessment Team meetings, working groups, newsletters, Resource Management Publications and memoranda.
- Effective communication is also demonstrated throughout Army assessable units, some examples follow:
 - TRADOC senior managers are directly involved in the evaluation of internal controls. Leaders used the top-down approach to place emphasis on internal controls by using policy letters, quarterly reviews, briefings and analysis presentations, town hall meetings, Code of Ethics training, newsletters, mentoring programs, and monthly status reports to communicate the command's philosophy. In addition to monitoring the effectiveness of internal controls, periodically one-on-one sessions were held, as well as Chief of Staff's Board of Directors meetings and numerous council and committee meetings (Environmental Quality Control Council, Installation Safety and Occupational Safety and Health Advisory Council, Mayor's Council, etc.). Command and staff meetings were also ways leadership disseminated internal control information, emphasized proactive involvement, and received feedback on the effectiveness and resolution of internal control issues throughout the command.
 - INSCOM management control information is distributed on an ongoing basis to maintain a high profile. A distribution list composed of all ICAs is utilized to transmit all information and taskers associated with the MICP such as: inspection checklists, plans, policy letters, training slides, other training sources (e.g., ASAFM web page) and suspense memoranda. Information from the HQDA Management Control Process Steering Group is another resource which is sent to all-ICA's for further distribution. As part of SI Office Inspections, the INSCOM ICA meets with each inspected Unit Commander/ AUM and ICA to provide an MICP update and discuss specific priorities. Each subordinate organization AUM and ICA has their own training and distribution methods such as: Command Inspection Program, online/home pages, brochures, staff meetings, councils, town hall meetings etc.

- FORSCOM maintained an electronic mail (e-mail) network for all FORSCOM ICAs and Internal Review and Compliance (IRAC) Offices, and numerous other commands throughout the Army in order to quickly disseminate MICP-related information.
- FORSCOM maintained a MICP website, which includes FORSCOM ICA directory, training and briefing materials, other resource materials, VTC schedule, training opportunities, website links, and other useful MICP information:
<https://fcportal.forscom.army.mil/sites/CommandGroup/ManagementControl/default.aspx>.

Identification of Assessable Units

- Assessable units reporting directly to HQDA Army are identified in regulation AR11-2, Army Managers' Internal Control Program, and updated when reorganization requires. For FY11 two new direct reporting assessable units were added, and two were made subordinate to other direct reporting assessable units. There are currently 44 direct reporting organizations.
- A data call in 2010 to the 44 Army direct reporting assessable units requested a listing of their immediate subordinate reporting assessable units. This listing identifies over 1500 assessable units.

Assignment of Responsibilities

Internal control responsibilities are clearly defined and assigned in Chapter 1 of the regulation AR 11-2. Responsibilities are defined for all levels of implementation. Some examples of methods of implementation at the local level follow:

- INSCOM: The Chief of Staff requires all Assessable Unit Managers and Management Control Administrators to be formally assigned MICP duties via support forms and/or orders. Taskers are signed by the Chief of Staff for all program requirements and enhancements.
- AMC: Commands across AMC maintained a framework for pinpointing responsibility and accountability to achieve Federal Managers Integrity Act objectives. Commands established and maintained a network of ICAs to:
 - Distribute Management Control guidance and requirements.
 - Provide training, instructions, and assistance to managers.
 - Provide status of reported management control weaknesses.
 - Identify positions warranting inclusion of management control responsibilities within job performance standards.
 - Disseminate information on weaknesses at other activities, both within and outside command identified by sources outside the command (e.g., audits, inspections, and the media).
 - Monitor overall compliance with management control objectives.

- Keep the commander and senior managers advised to ensure a sound basis for the annual statement of assurance.
- IMCOM: On 26 August 2010, Policy Memorandum 11-2-1 was signed which designated the IMCOM Senior Responsible Official (SRO) and Internal Control Administrator, Assessable Units (AU) and Assessable Unit Managers (AUMs). In addition, the policy memorandum requires that each AUM designates an ICA in accordance with AR 11-2. The policy also established IMCOM's training requirements. Policy memorandum can be found at: <https://www.us.army.mil/suite/doc/26093409>.

Reliance upon Subordinate Certification Statements

In FY 11 supporting feeder statements were received from all 44 direct reporting Army assessable units. In turn, reporting organizations also require feeder statements from all their subordinate assessable units. A few samples from this year's statements follow:

- MEDCOM Internal Feeder Statements. In support of our FY11 statement of assurance, we obtained feeder statements of assurance on internal controls from 15 subordinate organizations including Ft. Detrick, MEDCOM Healthcare Acquisition Activity, US Army Medical Information Technology Center and, US Army Health Facility Planning Agency. In addition, we obtained feeder statements from 17 reporting offices within the OTSG/HQ, MEDCOM. Changes to the MICP reporting process continued during FY11. Within OTSG/MEDCOM, we continue to report the number of internal control evaluations scheduled on ICEPs and the number completed.
- The FORSCOM Deputy Commanding General/Chief of Staff signed FY11 ASA instructions, dated 4 Jan 11, addressed to the senior mission commanders and Headquarters staff. These memorandums also emphasized the importance of internal controls and leadership's involvement. Feeder statements are required from senior mission commanders and Headquarters staff organizations. The Headquarters functional proponents review every material weakness and issue/concern submitted to
 - (a) determine which one(s) should be forwarded to the Department of the Army,
 - (b) provide any additional information to ensure completeness and accuracy, and
 - (c) provide feedback information for the originator.
- INSCOM. The determination of reasonable assurance is based on a general understanding and adherence to the GAO Standards for Internal Controls and reliance on the methods I believe continuously evaluate and monitor the adequacy of management controls in the command. Some of the methods and programs supporting my determination include:

A review of the feeder statements provided by the Assessable Unit Managers (AUM) of our subordinate organizations and headquarters staff offices describing how the management controls process was conducted within their organizations by INSCOM's Internal Controls Administrator (ICA).

- Army Cyber Command's Headquarter Staff and MSCs were tasked to submit input for the Commander's ASOA. These feeder reports contain information and data concerning the execution of the programs at the HQ and MSC level as well as a discussion of any material weaknesses and/or areas of concerns found. The feeder reports were then consolidated and used in making an overall assessment of the command.

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 2011 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 2011:

- Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C)):
 - Continued quarterly Managers' Internal Control Program (MICP) video-teleconferences with representatives from all 44 direct reporting organizations to disseminate the latest internal control requirements, regulatory, policy, or statutory changes and updates and address all questions, concerns and/or issues impacting the Army.
 - Maintained continuous coordination with personnel from the Graduate School (formerly USDA Graduate School) to ensure the program of instruction on internal controls specific to the Army remained up-to-date.
 - Participated in the 2011 DOD FIAR/ICOFR Workshop, January 20-21, 2011, Fort Belvoir, Virginia; the 2011 DOD Business and Financial Improvement Leadership Training Conference, March 23-24, 2011, Washington, DC, and the DOD FIAR Training Conference, March 29-31, 2011, Washington, DC.
 - Throughout FY 2011, participated in workshops, seminars and training sessions either as guest speakers or as instructors with DOD, Army commands, Army service component commands, direct reporting units and Headquarters Department of the Army Principal Officials.
 - ODASA(FO) personnel developed, in coordination with the Army Learning Management System (ALMS), an internal control computer-based training (CBT) program. The CBT consists of six CBT courses that pertain to the student's role in the Army MICP:
 - Internal Control Administrator
 - Assessable Unit Manager
 - Senior Responsible Official
 - Army Manager
 - Personnel Conducting Evaluations
 - Internal Controls in Army Regulations

- All courses require students to register and complete an exam (70 percent pass/fail). Upon successful completion of each module, the student receives a generated certificate of completion. From July 2010 to March 2011, 5,044 Army personnel have successfully completed the computer-based training. This training is available Army-wide at no cost through Army Knowledge On-line (AKO) on the ALMS portal. The tuition fee to attend a two-day vendor sponsored on-site MICP training course is approximately \$595. With the use of this computer-based training, the Army has realized a potential cost avoidance of \$3 million ($\$595 \times 5,044$). This potential cost avoidance does not factor in travel costs to/from the vendor sponsored on-site MICP training course. A breakout of training is provided below:
- The Office of the Surgeon General (OTSG):
 - Training. MICP training was made mandatory for OTSG/MEDCOM personnel during FY11 depending on the MICP role of personnel within each organization. Training was made available to OTSG and MEDCOM personnel at all levels to include the Army Managers' Internal Control Program courses, briefings, and on-site training by the OTSG/MEDCOM ICA. The most widely used form of training was the OTSG/MEDCOM FY11 MICP Training Brief and a new MICP Training Video produced by the OTSG/MEDCOM MICP ICA soon to be posted on the OTSG/MEDCOM MICP website for easy access. The MICP training statistics for OTSG/MEDCOM in FY11 are shown in the table that follows. We use these statistics and our evaluations of subordinate activities' Statements of Assurance to develop and improve future training.
- Headquarters 8th Army:
 - The 8th Army internal control administrator presented nine training sessions – directly briefing 81 AUMS, managers and internal control coordinators during FY11. The majority of the command-wide internal control training involved one-on-one guidance at the unit-level.
 - During FY11, 8th Army placed emphasis on risk assessment, and successful completion of effective internal control evaluations.
- Training and Doctrine Command (TRADOC):
 - TRADOC continued its training at all levels to ensure that managers and employees were aware of their responsibilities for implementing an effective internal control program in all areas of their organizations. TRADOC ICAs provided training to AUMS, as well as facilitated onsite training, desk side reviews, and provided periodic refresher training for all new and existing ICAs, as needed. Several ICAs at the TRADOC schools and activities conducted training sessions for their commanders and other managers in their organizations. These sessions allowed direct interaction and exchanges on internal controls. TRADOC ensured its community was notified of training opportunities and conferences which included the topic of internal controls. Available training included HQDA Quarterly Managers' Internal Control VTCs, the

redesigned web-based training tools available through the Army Learning Management System.

- Over 1,700 individuals at all levels and capacities (including AUMs, MCAs, managers, and action officers) received training as follows:
 - Classroom presentation - 214 trained.
 - Desk side/administrative initial and refresher training - 196 trained.
 - Telephonic briefings provided to 17 individuals throughout TRADOC.
 - DA hosted training VTC - 11 attended.
 - Local VTCs - 41 attended.
 - Web-based training/modules/training videos - 282 received training.
 - Electronic briefing charts - provided to over 585 TRADOC personnel
 - Four hundred and seventeen individuals attended formal training and other courses that provided sessions and workshops that included topics and information relative to internal control. Training included the American Society of Military Comptrollers (ASMC) PDIs, Graduate School CA Course, Distributed Learning Fiscal Law Course, GSA Smart Pay Travel Card Conference, Enhanced Defense Financial Management Course, Association of Government Accountants (AGA)/ASMC 2-day Professional Development Conference, Defense Travel Administrator Seminar, local Government Purchase Card sessions, Acquisition Management and Oversight and Contracting Officer Representative training, Anti-deficiency Act Overview, Analysis of Violations and Prevention, Global Combat Support System Army Integrated Planning Team Conference, and multiple General Fund Enterprise Business System training courses.
- Army Materiel Command (AMC):
 - Trained a total of 7,590 personnel on the internal control program. All Assessable Unit Managers/Staff Principals, division chiefs and supervisors receive management control refresher training on an annual basis, pursuant to guidelines established in the 12 Jan 07, memorandum. This requirement complements the familiarization training on GAO Standards/AR 11-2 regulatory requirements already provided to the Resource Management (RM) staff each year. The training is documented and reported to the Internal Review and Audit Compliance Office.
- US Army South (ARSOUTH):
 - Trained a total of 304 personnel on the internal control program. The Command ICA developed and provided assessable units with a standardized spreadsheet to be used as a baseline to follow-up on training requirements outlined in OASA FM&C memo, dated 2 Nov 2010, Subject: Training Requirements for the Managers' Internal Control Program.

The ALMS MICP awareness and GAO standards for Internal Controls modules have been added to this baseline as a training requirement for all personnel in ARSOUTH and will be part of the Command MICP Directive to be published during the third quarter of FY 11.

- Developed and disseminated electronic MICP briefings for ICAs to use for internal training purposes and updated MICP-related information on the command's website. This page contains training briefings, articles, the Internal Control Evaluation Plan and links to other program related sites.
- US Army Space and Missile Defense Command (SMDC):
 - Trained a total of 955 personnel on the internal control program. The command updated and provided the FY 11 online MICP training course. The training brief is located on the Command MICP website for easy access to all USASMDC/ARSTRAT employees. To date 955 command employees have completed the training; a significant increase from last year's total of 698.
- Army Test and Evaluation Command (ATEC):
 - Continued training of ATEC personnel so they fully understand the complexity and benefits of strict adherence to Internal Control standards. Through the use of formal, in-house, desk-side and other methods of training, a total of 995 personnel within ATEC have been trained this year on the internal control program.

Tools and Techniques

The Army used numerous tools and techniques to implement the internal control program and processes. They included Lean Six Sigma, SharePoint, Balanced Scorecard and other systems to streamline processes and reduce risk. A few examples from reporting organizations are included below.

- Variability in Task Order Process for Procuring Technical Engineering Services AS (ASA (ALT) PEO EIS)
 - A Lean Six Sigma Green Belt Project was sponsored to improve the Technical Engineering Services task order process. The goals of the project were to reduce cycle time to complete a requirements package, improve process standardization, and reduce non-value added (NVA) steps. The project successfully reduced the cycle time by 37.7% (from 61 days to 38 days), improved process standardization from 8% to 75%, and reduced NVA from 33% (8 steps) to 4% (1 step). These improvements created a projected first-year cost avoidance of \$80.7K and a seven-year (FY11-17) cost avoidance of \$700.8K.
- Knowledge Management – SharePoint (ASA(ALT) PEO Integration)
 - PEO Integration transitioned to a SharePoint Knowledge Management solution. This portal provides easy to manage access controls and simple collaboration abilities,

allowing the PEO to better utilize its time and efforts. This was related to last year's SharePoint project launch.

- Lean Six Sigma (LSS) Pilot Program (PEO MS)
 - Program Executive Office, Missiles and Space (PEO MS) continues to leverage Lean Six Sigma to achieve continuous process improvements and create project savings. PEO MS partnered with PEO AMMO to develop a reduced program of instruction (POI) for training both Green and Black Belts across the organization. The Department of Army and ASA(ALT) approved a one year pilot program for this training, which is currently underway, and reduces the LSS training time by half.
 - Trained: 1,783 Yellow Belts, 307 Green Belts (85 during pilot), and 67 Black Belts throughout PEO MS
 - LSS Projects: 241 Total, 111 Completed, 53 Active, \$224M Cost Avoidance and \$67M in Cost Savings
 - LSS Certified: 95 Total Belts Certified, 79 Green Belts and 16 Black Belts, (25 Belts Certified during the Pilot)
- Completion of a Lean Six Sigma (LSS) Project: Cruise Missiles Defense Systems (CMDS) Project Office Travel Reduction (ASA (ALT) PEO M&S)
 - This project was completed and briefed to PEO Missiles and Space since our last Statement of Assurance. Excessive TDY was costing CMDS lost work opportunities. By closely analyzing travel, it was determined that CMDS could reduce cost and increase employee productivity hours, thus reducing waste, by using VTCs when possible and minimizing travel by closely coordinating travel with other CMDS offices. Minimizing CMDS travel may results in approximately \$96K in annual cost avoidance or a total of \$876K in cumulative cost avoidance over seven years and was entered into the Power Steering database. CMDS realized an annual reduction of approximately 10 percent in total travel days and gained an additional 1166 man hours and a process Sigma Quality Improvement of 3.0.
- Electronic transfer accountability of equipment fielding to gaining commands (ASA(ALT) PEO Soldier)
 - Completed a Property Book Unit Supply Enhanced (PBUSE) Lean Six Sigma Project during FY 2010. Efforts attained a decrease in the average monthly open lateral transfers by 84%. Accountability transfer of all PM SSL equipment is now executed at the fielding site immediately after the joint serial number inventories—this greatly exceeds the HQDA goal to complete the transfer within three working days. In addition, PM SSL should achieve a combined \$19.7M in cost avoidance via its accountability transfer process over the next seven years. PM SSL has been recognized by HQDA G-8 as the best PM in the Army related to accountability transfers. In March 2011, PM SSL earned an Office of the Secretary of Defense (OSD) Acquisition Technology and Logistics (ATL) Team Excellence Award for its unparalleled accomplishments with accountability transfers.

- Materiel Fielding Consolidation (PEO Soldier)
 - Completed a Consolidated Fielding Lean Six Sigma Project in FY 2010. The change in process has resulted in reducing an average of seven “touches” per gaining command to a maximum of two “touches” and accordingly reduced cost to field by 40%. The change should result in \$17M cost avoidance over the next seven years and less time needed on the gaining command’s schedule.

- Lean Six Sigma (LSS) Initiatives (JPEO JTRS)
 - The JPEO JTRS has a well laid out Continuous Process Improvement (CPI) plan that focuses on realizing operational efficiencies through development, maintenance and implementation of sound and consistent processes and procedures. In addition, we have developed a Lean Six Sigma (LSS) deployment strategy that is in alignment with the ASA(ALT) guidance. The JPEO has released a “JPEO JTRS Enterprise Business Process Development and Maintenance Policy” with the intention of establishing the framework for the institutionalization of quality and standardized procedures for Business Processes within the Enterprise. In support of the JPEO Mission, the Enterprise developed the 2009 Strategic Plan which set forth five primary goals. One of the strategic goals is focused on Process – “to continually analyze, refine, and improve the JPEO JTRS’ Enterprise processes to ensure optimal performance and execution in accordance with requirements, budget, and acquisition authority guidelines.” A direct initiative linked to this goal was the establishment of the Enterprise Process Action Team (ePAT). The ePAT provides a chartered forum to identify, define, document, and improve JPEO JTRS key Enterprise processes. The Enterprise has successfully documented, standardized and streamlined over 30 organizational processes. The end goal of this team is to increase overall efficiency and eliminate ineffective redundancies through the use of CPI initiatives, including LSS.

 - The Leadership Team within the Enterprise has been CPI trained – LSS Awareness/Champion Training. JPEO JTRS is aggressively targeting Leadership training to ensure we have Champions and Sponsors in place to help facilitate LSS deployment initiatives. Our training plan also includes Green Belt and Black Belt training to develop a robust LSS infrastructure.

 - The JPEO JTRS is well underway with its CPI initiatives. We have successfully completed five LSS projects. Processes reviewed included the cycle time of the Contracts Data Requirements List, Contracts Document Review, JPEO Signature Routing, Security and Policy Review and the New Hire Check In/Check Out processes. These processes were conducted as Define, Measure, Analyze, Improve, and Control (DMAIC) or Rapid Improvement Event projects. We currently have five more projects in progress as Rapid Improvement Events which impact: the efficiency of acquisition, contracting and administrative operations within the organization, and across the Enterprise. The JPEO JTRS team expects to complete additional five CPI improvement initiatives targeting efficiencies in hardware and software procurement and risk management for the enterprise by Sept 2011.

- Program Documentation (PEO Soldier)
 - Weekly Verification and Validation (V&V) meetings enabled status reviews of required documentation for current and future programs of record. These meetings enabled focused communication among the leadership to synchronize efforts for compliance with acquisition policies and directives.
 - Implemented extensive use of the Acquisition Business Enterprise for preparation, staffing, submission and approval of key documents and reports.
 - Implemented SharePoint for data sharing and collaboration between PM SSL, PEO Soldier, and selected stakeholders. This enabled enhanced information sharing across multiple commands and various Integrated Product Teams (IPTs).
- Strategic Communications Division's – First Pass Yield (FPY) for Communication Products (ASA(ALT) Acquisition Support Center)
 - The results of a LSS project led to development of a standard documented process with appropriate control measures to achieve quality objectives and minimize the potential for unwanted and unnecessary cost overruns. Cost avoidance over the POM: \$71,343.31
- SharePoint Portal (AMC)
 - Through use of the SharePoint Portal, AMC continues to realize efficiencies by reducing the amount of email traffic and providing users the ability to send a link vice an attachment. It enables a BRAC transition functional capability (collaboration and file storage) transition so there is no loss of capability as result of the move. Automated workflows provided by SharePoint reduced man hours associated with manual administrative functions allowing them to be used for other tasks. The AMC gained efficiencies by providing a collaboration suite that is integrated with our office applications.
- Software Engineering Process (AMC)
 - The Logistics Support Activity (LOGSA) completed a Value Stream Mapping (VSM) exercise focused on improving the process of application development from requirements determination to system sustainment. As a result of the VSM a new Software Engineering Process was created to decrease development time, improve software quality, minimize cost, and reduce program risk. Several sub groups were created to manage this process to include the Change Advisory Board, the Architecture Design and Review Board, and the Change Control Board. Requirements and resources are vetted, prioritized, and approved, and adequate control of these are provided to ensure LOGSA's tools and techniques are developed and sustained in the most effective and efficient manner to support the Army.

- Balanced Scorecard OTSG/MEDCOM
 - Used throughout the OTSG/MEDCOM to help accomplish the mission, improve operations and strengthen internal controls. The “Balanced Scorecard” is now tied to the Army Medicine “Top Ten Issues” to ensure the issues are resolved as planned.

Use of Performance Standards

AR 11-2 mandates that supervisors must include an explicit statement of responsibility for internal controls in the performance agreements of commanders, managers and ICAs responsible for the execution or oversight of effective internal controls, down to and including assessable unit level. Implementation at the reporting organization level is illustrated below:

- ATEC
 - Internal control responsibilities are included in the performance objectives for senior staff to ensure subject mission objectives align with function objectives.
- TRADOC
 - The DCS, G-6 stressed the requirement to include responsibility for internal controls in the performance agreements of managers responsible for the execution and/or oversight of internal controls in accordance with AR 11-2, paragraph 2-11. Directors were personally involved and committed to effectively executing those responsibilities. In addition, they attended and conducted staff meetings, reviews and studies, met with HQDA and activities in working group and VTCs to surface and resolve problems, collaborated with other Army commands on like issues, established points of contact for information management at TRADOC activities and HQDA, and ensured managers received mandatory training on the objectives and techniques of the Army internal control process.
- AMC
 - The Joint Munitions Command Executive Director (Acting Commander) signed and issued a memorandum titled “Internal Controls Statements of Responsibility in Performance Agreements” dated 11 August 2010. It deals with the requirement that the JMC Installation Military Commanders are required to have an explicit statement for the execution and/or oversight of effective internal/management controls in their Officer Evaluation Report Support Form performance agreements.
- Army NORTH
 - On Feb 2011, Senior Responsible Officer (SRO) and Assessable Unit Managers (AUMs) were designated in accordance with AR 11-2, Management Control which emphasized the importance of the Managers’ Internal Control Program and stressed the criticality of their involvement in the program. The responsibility for management controls is

included in the SRO's and AUMs performance agreement and is evaluated in the annual appraisal process. The SRO supported and participated in the required MICP training, and reviewed and provided functional updates to the USARNORTH Internal Control Plan

MICP Instruction: (Regulations)

- Assistant Secretary of the Army (Financial Management and Comptroller):
 - The Army has a comprehensive regulation governing the internal control program, AR 11-2, Army Managers' Internal Control Program. It was completely revised in 2010, and we have recently completed staffing of a rapid action revision (RAR) to incorporate new policies, with HQDA Principal Officials, Army commands, Army service component commands and direct reporting units.
 - Yearly guidance on the preparation of the annual statement of assurance is distributed to all 44 direct reporting organizations. FY11 guidance was distributed on 16 Dec 10.
 - All Army regulations are required to identify key internal controls. ASA(FM&C) recently provided the Army Publishing Directorate, Office of the Administrative Assistant to the Secretary of the Army, with internal control guidance for distribution to all functional proponents that are updating or writing Army regulations. Regulation writers are also provided the opportunity to complete the Army Managers' Internal Control Program computer-based training "Internal Controls in Army Regulations." This provides regulation writers interim guidance pending the update to AR 25-30, The Army Publishing Program, and DA PAM 25-40, Army Publishing: Action Officers Guide.
- Army assessable units also issued local guidance and included internal control provisions in regulations:
 - Army Health Care Regulations. The review and update of Army health care regulations for key internal controls continued since our FY10 statement of assurance. We recently began an effort to identify all OTSG publications of record and have collaborated with the US Army Publishing Directorate to reconcile any differences. In addition, in FY11 we updated our OTSG/MEDCOM "Guide for Developing Internal Control Evaluations for Regulations" and we're still working towards training all regulation writers to facilitate efforts to update or rescind all regulations over 3 years old.
 - The OTSG/MEDCOM ICA updated the Army's inventory of regulations containing evaluations for FY11 to ensure assessable units had the most current information possible when developing their Internal Control Evaluation Plans (ICEPs) and to assist ASA (FM&C) in this effort as well. In addition, the OTSG/MEDCOM, Chief of Staff, Senior Responsible Official for the MICP and the ICA provided detailed suggestions for improving the draft revision of AR 11-2 due for release later in FY11.

- Eighth U.S. Army (EUSA):
 - The 8A CG and USFK Chief of Staff approved revised internal control program guidance (USFK Pamphlet 11-1, 22 Dec 2010) – effective through FY12. This pamphlet presents the command’s umbrella internal control evaluation plan, and provides guidance to HQ 8A staff and subordinate commands on effective internal control measures and procedures.

Description of Internal and External Audits/Inspections

Formal internal control evaluations of key internal controls must be conducted at least once every five years. Commanders/managers may require more frequent evaluation based on leadership emphasis, personnel turnover, audit/inspection findings, change in mission, and so on. The ASA (FM&C) maintains a current inventory of functional areas on the ASA (FM&C) web site of areas where HQDA functional proponents have identified key internal controls as well as information on the governing Army Regulation and any suggested or required methods for conducting the evaluation.

HQDA functional proponents may identify an internal control evaluation process for use in evaluating key internal controls. All internal control evaluations are will be conducted in one of two ways:

- Internal control evaluations: The HQDA functional proponent may develop an internal control evaluation and publish it as an appendix in the governing AR for use by managers in evaluating key internal controls. The evaluation identifies the key internal controls and provides managers a tool to evaluate the effectiveness of these controls. Commanders and managers may use an evaluation to conduct their internal control evaluations or, as an alternative, they can use an existing management review process of their own choosing, so long as the method chosen meets the basic requirements of an evaluation outlined in this paragraph.
- Existing management review processes: In many areas, existing management review processes may meet, or can be modified to meet, the basic requirements of an internal control evaluation. Some of these processes are unique to a specific functional area, while others are more generic, such as the use of local inspector general, IR personnel or the command review and analysis process. HQDA functional proponents may suggest an existing management review process for evaluating key internal controls; or they may require the use of a specific functional management review process, so long as it is an existing Army wide process and one for which they are the functional proponent. HQDA functional proponents must provide the necessary information as an appendix to the governing AR. Unless the HQDA functional proponent requires the use of an existing Army-wide functional management review process, commanders and managers are free to choose the method of evaluation.

Use of internal review, audit and inspection reports:

HQDA functional proponents, commanders, and AUMs can often take corrective or preventive action based on problems identified in IR, audit, and inspection reports. Such reports may address an internal control problem at only one installation, but managers throughout the Army can use

these reports to identify potential problems in their own areas of responsibility and take timely preventative action.

Internal review, audit and inspection organizations ensure distribution of their reports to managers with primary and collateral interests at all reporting organizations. In addition, The Auditor General and Army IG organizations prepare summaries of internal control weaknesses identified in their reports. DODIG also publishes periodic summaries of internal control weaknesses identified in its reports and those of GAO. ASA (FM&C) periodically distributes these summaries to ICAs at reporting organizations in order to facilitate correction and mitigation of reported weaknesses and to ensure that managers can benefit from lessons learned at other activities. Finally, The Auditor General supports the development of the SA's annual statement of assurance by identifying potential Army material weaknesses for consideration by HQDA functional proponents.

Examples of internal and external methods of inspection and evaluation at the reporting organization level are provided below:

- MEDCOM
 - We used a variety of organizational evaluation and assessment methods to support the statement of assurance. We used an organizational inspection program, risk assessments, functional team reviews, audits, inspections, investigations, staff assistance visits, and special reviews were performed to ensure adherence to regulations, directives, and other policies. We also used evaluations scheduled on assessable units Internal Control Evaluation Plans (ICEPs). Thus far during FY11, OTSG/MEDCOM personnel have completed 922 of the 1949 evaluations scheduled on ICEPs.
- U. S. Army Training and Doctrine Command (TRADOC):
 - Assessment of the effectiveness of the internal control process throughout the command continues to be a high priority for TRADOC. Each manager at the HQ TRADOC staff, schools, and activities has a vested interest in management controls. Managers performed evaluations of key management controls, which is reflected in their current 5-year IC Plan. Several organizations supplemented their plan by conducting additional and more frequent evaluations than required in areas determined to be at greater risk. All evaluations of internal controls are a component of command, staff, or audit inspections.
 - Renewed the emphasis on the Command Logistics Review Program (CLRP) by including elements of the CLRP in the Quality Assurance Accreditation visits and Initial Military Training (IMT) "Quick Look" Assessment visits. This is in addition to the already established TRADOC Command Supply Discipline Program (CSDP) that requires TRADOC parent-level organizations to submit an annual assessment of their organization's CSDP. The CSDP includes detailed checklists for accreditation team members. Members of the Logistics Directorate rigorously enforced the importance of property accountability and adherence to supply policy during each IMT and accreditation visit.
 - Internal Review and Audit Compliance (IRAC) emphasized the importance of meeting internal review quality control standards throughout the year in monthly staff calls,

meeting weekly with the Assistant Chief of Staff, and at least quarterly with the Deputy Commanding General/Chief of Staff. The director serves on DA's Internal Review Steering Group, as chairperson, and actively participates in identifying various ways of improving the review process. IRAC had an independent expert conduct an external peer review of quality controls for the review process for IRAC's overall organization and internal review support. The results provided assurance to the TRADOC commander that IRAC continues to perform work in accordance with all applicable regulations

- FORSCOM
 - Continued the effort to update the HQ FORSCOM Internal Control Evaluation Plan (ICEP) based on the thorough scrub (performed by MEDCOM's ICA) of the regulations posted on the Army Publishing Agency's website. This plan includes responsible staff proponent and scheduled year for completion. Headquarters staff feeder reports include statement certifying scheduled evaluations were conducted. All applicable evaluations are conducted a minimum of once every five years. However, within FORSCOM Headquarters, there are several examples where the frequency is increased based on leadership emphasis and personnel turnover. Examples include but are not limited to: the Government Purchase Card (GPC), Travel Charge Card, Defense Travel System (DTS), and locally-developed FORSCOM Headquarters' property accountability evaluations, which are conducted annually; Representation Funds of the Secretary of the Army is conducted every two years; and information management-related evaluations are conducted every three years. The FORSCOM G-8 continues to monitor military interdepartmental purchase requests (MIPRs).
- The Center for Army Analysis (CAA):
 - The Center's internal control over study/analysis projects was administered by means of CAA's Analysis Review Board, which meets to review every analysis project at the project's inception and completion; an automated system of accounting for each CAA person's hours spent on each project; thorough reviews of the final report of each analysis project, by the CAA Quality Assurance Advisor and at least three senior analysts; and the CAA Project Director's Guide, updated in December 2006. This management guide is specifically employed in support of the Center's internal control program. The Center ensured effective managers' internal controls were in place, that provisions for study project internal control responsibilities were outlined in employee performance agreements, and that the performance standards of the assessable unit managers include a statement of responsibility for adequate controls to preclude fraud, waste, and abuse. Internal controls of functions other than study projects were evaluated in FY11, as stated in the managers' internal control plan updated this year, by means of checklists that are obtained from the appropriate regulations, or by other established review processes. The evaluations were documented in DA Form 11-2.
- The U.S. Army Test and Evaluation Command (ATEC):
 - ATEC supported Formal Management Reviews (e.g., Early Strategy Reviews, Test Concept Plans, and Program Budget Advisory Committees (PBACs)) to ensure that the

test and evaluation (T&E) process is working properly and resources (time, personnel, equipment, and funds) are being safeguarded and used efficiently and effectively.

- The U. S. Army Materiel Command (AMC):
 - The Army Sustainment Command Internal Review and Audit Compliance Office utilized a DAIR database developed to identify and track corrections of all internal and external audit findings. While higher headquarters elements (AMC/DA) are responsible for corrective actions on a number of the audit findings, the database provides an excellent tool for monitoring weaknesses within the ASC.
 - The ASC Internal Review and Audit Compliance Office utilized a DAIR database developed to identify and track corrections of all internal and external audit findings. While higher headquarters elements (AMC/DA) are responsible for corrective actions on a number of the audit findings, the database provides an excellent tool for monitoring weaknesses within the ASC.

(TAB A-2)

**The Army Assessment of Acquisition Functions under Office of Management and Budget
(OMB) Circular A-123**

In April 2009, the Office of Undersecretary of Defense (Acquisition, Technology and Logistics (OUSD(AT&L))) provided components guidelines for the Assessment of Internal Controls over Acquisition Functions in response to OMB.

These guidelines assigned DoD Components responsibility for:

- Determining the scope of the acquisition assessment based on the definition of acquisition provided in the guidance.
- Completing the DoD Assessment of Internal Control over Acquisition Functions Template using the guidelines in the OMB Acquisition Assessment Template to evaluate acquisition functions.
- Determining if there are any new deficiencies or material weaknesses and developing corrective action plans. Material weaknesses and corrective action plans will be reported in the annual Statement of Assurance in TAB B, in accordance with Federal Managers Financial Integrity Act (FMFIA) and annual OUSD (Comptroller) guidance.
- Explaining briefly in TAB A of the annual Statement of Assurance, how the DOD Template and OMB Template guidance were used to determine deficiencies and weaknesses.
- Monitoring the progress of the corrective action implementation.

To complete the Army Assessment of Internal Control over Acquisition Functions OASA(ALT) used the Template provided by OUSD(AT&L). An Army functional proponent organization was identified for every "Control Environment" element in the identified in the template.

Those functional proponents assigned appropriate Subject Matter Experts (SME) to complete the assessment. Those SME's identified the relevant risks to proper implementation of the standards or objectives, the policies and procedures that help ensure the necessary actions are taken to address risks and the monitoring activities or separate evaluations necessary to assess performance over time. Results were reported to OASA(ALT) and incorporated into this report.

A-3

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

Description of Issue: Imbalance between Funds Control Module and Standard Army Financial Systems – US Army Reserve Command

Accomplishment: The Resource Management (RM) cell worked over 22,000 documents with errors or with an imbalance between Funds Control Module (FCM), SARSS, and Standard Army Financial System (STANFINS) residing in FCM. The RM cell continues to work to clear prior year documents for Commands inactivating in Fiscal Year (FY) 10. During 4th quarter of FY10, \$800K was recouped that was erroneously obligated due to Funds Control Module incorrectly calculating the initial quantity. There were 62 documents with erroneous Delta Bills entered into arbitration in Exchange pricing totaling \$456K. The Reserves received a favorable outcome on \$410K, which was returned back to the Reserves. Subject Matter Expert for the RM Cell attended several meetings to discuss the future of General Fund Enterprise Business System (GFEBs) and Global Combat Support System-Army (GCSS-Army). The Subject Matter Expert also attended a quarterly Control Configuration Board (CCB) meeting with representatives from all MACOMs army wide to discuss current problems with Funds Control and Exchange Pricing, and future changes to the system.

Description of Issue: The Department of Defense Directive (DODD) 1225.6 Payback Accountability – G-8

Accomplishment: The Force Development (FD) Directorate's established DoDD 1225.6 Team continues to work closely with elements within Headquarters, Department of the Army (HQDA), the National Guard Bureau and United States Army Reserve Command on a routine basis. Integrated Process Teams between these agencies continue to meet on a bi-monthly basis. In FY11, the DoDD 1225.6 Tracking System/ Checkbook will be migrated from Microsoft Excel spreadsheet format to Secure Sheets module, an online database tool, in the Army Equipping Enterprise System. This module serves as a transparent, collaborative and accurate tool to monitor the quantities removed, sourced and returned to the Reserve Components.

Description of Issue: Army Safety Office Audit Program Trends Analysis - Army Safety Office

Accomplishment: For FY 11, ASO conducted nine Safety Audits on Army Commands (ACOM), Army Service Component Commands (ASCC), and Direct Report Units (DRU). To develop trends analysis ASO employs a tracking system that identifies various Army safety program strengths and deficiencies found during the Army Safety Audit process. This process identifies Army level systemic defect areas as well as areas that simply require more emphasis at a senior leadership level. Briefing of the process and trends analysis occurred during the Senior Safety Symposium whose audience included most of the Army's Senior Safety Directors.

Description of Issue: Reduction of Aged Antideficiency Act (ADA) Cases – ASA(FM&C)

Accomplishment: Conducted periodic face-to-face meetings between senior executives of OASA(FM&C) and those of funded activities with outstanding antideficiency act investigations throughout FY 2011. The purpose of these meetings was to reinforce Army and DOD guidance and metrics, while facilitating a climate at the highest echelons of command that supports enhanced internal controls; addresses root causes that contribute to ADA violations; and provides a forum to identify and attack impediments to completion of investigations on time. These additional internal controls resulted in the closure of five formal and 27 preliminary investigations.

Description of Issue: Army Managers' Internal Control Program (MICP) Computer-based Training – ASA(FM&C)

Accomplishment: Developed six computer-based training courses that pertain to the student's role in the Army MICP. The training courses are available through Army Knowledge On-line on the Army Learning Management System (ALMS) portal. All courses require students to register and complete an exam (70 percent pass/fail). Upon successful completion of each module, the students receive a generated certificate of completion. The six training courses are:

- Internal Control Administrators (ICA) Course
- Assessable Unit Manager (AUM) Course
- Senior Responsible Official (SRO) Course
- Managers Course
- Personnel Conducting Evaluations Course
- Internal Controls in Army Regulations Course

From July 2010 to March 2011, 5,044 Army personnel completed the training. A breakout is provided below:

| Course Title | Total Personnel Trained (July 2010-March 2011) |
|--|---|
| Internal Control Administrators (ICA) Course | 1,196 |
| Senior Responsible Officials (SRO) Course | 127 |
| Assessable Unit Managers (AUM) Course | 1,673 |
| Managers' Course | 758 |
| Personnel Conducting Evaluations | 951 |
| Internal Controls in Army Regulations | 339 |
| Total | 5,044 |

This training is available Army-wide at no cost. The tuition fee to attend a similar two-day vendor sponsored on-site MICP training course is approximately \$595. In just six months, 5,044 personnel completed the MICP computer-based training. With the use of this computer-based training, the Army has realized a cost avoidance of \$3 million (\$595 X 5,044). This potential cost avoidance does not factor in travel costs to/from the vendor sponsored on-site MICP training course.

Description of Issue: Lean Six Sigma Project (LSS) on Army Procurement Fraud Recovery Funds – ASA(FM&C)

Accomplishment: To resolve a long-standing audit deficiency concerning Procurement Fraud funds, OASA(FM&C) personnel conducted an enterprise-level LSS project with several agencies outside Army. Funds recovered by the Courts and Department of Justice were being forwarded to Defense Finance and Accounting Service (DFAS) without a case identifier. Funds received by DFAS without sufficient identifying information were placed in a suspense account. Unidentifiable funds remained in suspense for an average of 912 days before being resolved, after which time the funds generally cancelled. The project established strong controls through a tracking mechanism from case creation through the Court to DFAS. The project also developed an Interagency Standard Operating Procedure, which governed how agencies would share information using a form which captured the four key data elements DFAS needed to establish an accounts receivable. A memorandum of understanding was signed in June 2010 and implemented in FY 2010-2011. To date, the project has returned \$14.6 million (M) in funds to commands, collected \$44M in cancelled funds from another court settlement and DFAS has resolved \$92.6M in suspense.

Description of Issue: Implementation of Integrated Personnel/Pay System-Army (IPPS-A) – ASA(FM&C)

Accomplishment: During the last year, OASA(FM&C) actively led Army efforts to identify the required transfer of functions and responsibilities between the finance community and personnel community. We continue to be actively engaged in the overall IPPS-A development effort and lead planning strategies for addressing accounting interface requirements from IPPS-A into the General Fund Enterprise Business System (GFEBS). We have been actively involved in the revision of implementation strategies for an incremental delivery approach to program funding constraints. We continue to be actively engaged in the overall IPPS-A development effort, as well as the planning for training and transition to ensure continued accuracy of pay. The ASA(FM&C) is teaming with the Assistant Secretary of the Army (Manpower and Reserve Affairs) (ASA(M&RA)), Deputy Chief of Staff, G-1 (DCS, G-1), Human Resources Command (HRC), Installation Management Command (IMCOM) and the Army IPPS-A Program Office to identify and clarify functions and responsibilities required by legislation, regulation and transition that are covered by the program. IPPS-A requires significant business process reengineering across Army personnel, finance and installation management activities, and DFAS. Military pay responsibilities will transfer at all levels of the Army from financial management organizations to human resources organizations and commands. Most of the \$130 million bill to the Army for DFAS military pay support will be eliminated as workload is internalized by the Army. OASA(FM&C) is responsible for supporting Army human resource proponents in the functional development and testing of IPPS-A requirement; realigning military pay proponentcy from the OASA(FM&C) to the ASA(M&RA); and transitioning DFAS support.

Description of Issue: Theater Disbursing Operations – ASA(FM&C)

Accomplishment: Provided technical assistance to seven disbursing operations within the U.S. Central Command (USCENTCOM) Theater of Operations on discrepancies between the Finance Offices and the Treasury. This allowed for a more accurate reconciliation of the Statement of Accountability between the Treasury and the local Finance Offices in Theater. Additionally, we were able to identify 11 issues within disbursing to simplify the reconciliation process. The result

was reconciliation of approximately \$2 billion in payments from the Local Depository Accounts (LDAs) in Theater to further reduce discrepancies in the Finance Office Statement of Accountability. This directly assisted with the strategic initiative to reduce cash on the battlefield.

Description of Issue: Operational Support Teams (OST) – ASA(FM&C)

Accomplishment: The OSTs were created to provide standardized, unit level technical training and assistance to deploying and deployed Army financial management units. OSTs provide on-site or remote training and assistance in CONUS/OCONUS operating environments to both the active and reserve components. The objectives of the OSTs are to assist, train and provide a Pre-Deployment Training Exercise (PDTE) for units on financial management systems and Core 1 and Core 2 level competencies. The OST teams provide valuable financial training across the spectrum of financial operations (disbursing, entitlements, accounting and resource management) to deployed and deploying units. During FY 2011, the OST trained 18 units and evaluated 15 units resulting in approximately 680 Soldiers receiving either training, or an evaluation, or both. In FY 2011, we continue to use the Fort McCoy Warrior Training Center to provide PDTEs for Reserve and Active Component financial management units as well as preparing to move OST Operations from Fort McCoy, Wisconsin, to Fort Dix, New Jersey.

Teams have trained and/or conducted a PDTE for 79 financial management units since the beginning of FY 2010 and are responsible for the training and PDTE for three additional units that will be deploying during the remainder of FY 2011. Additionally, we continue to provide support as required to include systems implementation and training at the Financial Management School (FMS), taskers to help with real world exercises/ missions (Lucky Strike/Warrior, Joint Task Force-Bravo Honduras, Commercial Vendor Services/Deployable Disbursing System training in CENTCOM) and a growing number of additional requirements. We are partnering with the Battle Command Training Center, FMS and ARCENT to provide resource management training/PDTEs to financial management units. We have the OST Web site, which is available to financial management units to supplement training. During FY 2011, the OST has worked with the 13th Financial Management Center (FMC) in developing responsibilities and roles to assist the 13th FMC's training of Active component CONUS financial management units.

Description of Issue: Pay Support Provided to Wounded Warriors – ASA(FM&C)

Accomplishment: The Army, in partnership with DFAS, National Guard and U.S. Army Reserve, continued to provide improved military and travel pay support to Wounded Warriors and their Family Members. We continue to train the Warrior Transition Unit (WTU) and Community Based Warrior Transition Unit (CBWTU) financial management specialists on the fundamentals of military pay; travel pay and Wounded Warrior pay account maintenance. We also conducted structured training teleconferences and training forums with the WTUs and CBWTUs and visited WTUs to train and assist financial management specialists in their daily finance functions. FY 2010 was the first year of conducting official Organizational Inspection Program (OIP) in pay operations for the WTUs on behalf of U.S. Army Medical Command. We inspected all of the WTUs within six months of their first OIP that did not receive a "Green" rating. Overall, 75 percent of the WTUs received a "Green" rating in FY 2010. We reviewed and managed more than 84 thousand Wounded Warrior accounts for pay and allowance accuracy and timeliness. The dollar amount for remission and waiver requests decreased from \$938 thousand in FY 2009 to \$744 thousand in FY 2010 with a similar decrease expected for FY 2011. We continue to meet or exceed the standard three-day travel payment turnaround time for Wounded Warriors and their Family members. Family

members were provided immediate access to travel fund advances using the Family Support Debit Card Program. Today, there are 11 sites (e.g., Walter Reed Army Medical Center, Brooke Army Medical Center), up from nine sites the previous year, offering Family members this Card service. To date, over \$1.1 million has been advanced to Family members using the Card.

OASA(FM&C) and DFAS have provided training, technical support and services, resulting in continuous improvement in the overall pay support to Wounded Warriors and their Family members. The financial management specialists in the WTUs and CBWTUs continue to provide the one-on-one human dimension service and are the focal members to an effective pay support to Wounded Warriors and their Families.

Description of Issue: Cost Benefit Analysis (CBA) Process – ASA(FM&C)

Accomplishment: The ASA(FM&C) is responsible for reviewing, validating, tracking and reporting all CBAs submitted to HQDA. Prior to this period, the process was manual and information was stored in disparate locations including file systems and e-mail. As more CBAs were submitted to OASA(FM&C), it became apparent that a workflow process and central database repository were needed to strengthen internal controls by providing transparency, data integrity, auditability and accountability. During this period, OASA(FM&C) implemented and released the CBA Workflow Tool to the Army. As a result, submitters and reviewers have a current, updated and centralized view of CBAs and management has access to current reports and information.

Description of Issue: Army Banking Program (domestic, overseas and theater) - ASA(FM&C)

Accomplishment: The Army conducted three site visits to installations with on-base financial institutions. During the site visits we provided training and guidance to the Garrison Bank/Credit Union Liaison Officers. Through these efforts, we improved interdepartmental relationships and identified three unauthorized automated teller machine deployments, eliminated two pieces of financial education materials which violated DOD regulations and improved access and cost for consumer financial products and services. Our coordination with the bank and credit union trade associations ensures their financial institutions comply with DOD and federal regulatory banking policies. Additionally, the Army has denied two requests for a waiver to the “one bank, one credit union” rule, thus protecting on-base financial institutions and commanders from unfair and/or unauthorized outside competition and facilitating improvement to services available for Service Members and their Families. On-base financial institutions have provided hundreds of financial education briefings/classes and created various loan products to combat predatory lending.

Within the Overseas Military Banking Program (OMBP), the Army worked with the contracted bank to improve operational practices resulting in a reduction of bad debt expenses by 30 percent. We identified the need to review internal control procedures that will improve the foreign currency exchange rates at overseas locations. We are leveraging existing technology (ITS.gov) to facilitate global electronic funds transfers that will reduce costs and provide access to funding in remote locations. We have issued a request for information, to interested financial institutions, for the upcoming OMBP contract renewal in 2012. In support of Operation New Dawn/Operation Enduring Freedom, the OMBP funded only \$17 million in U. S. currency through the 266th Financial Management Command central funding; this is a decrease from an average of \$1.5 billion annually in previous years. The U. S. Army Central Command (CENTCOM) Banking Team and the Theater Financial Management Center located in Kuwait have reduced cash disbursements to

\$16 million (between 1-2 percent of disbursements), reduced Cash Holding Authority to \$176 million, Limited Depository Account balances reduced to \$30 million, a 70 percent reduction, and increased Electronic Funds Transfer success rate to 98 percent. The team coordinates with the State Department, U. S. Department of Treasury and the Federal Reserve Banks to move local and U. S. currency electronically and assists to mitigate the risks of doing business with a local bank. The team assisted and negotiated lower transaction fees and improved services with foreign banks to support CENTCOM requirements. These efforts improve our ability to track payments to reduce opportunities for illicit or terrorist financing and improve the host countries economy and banking infrastructure.

Description of Issue: Late Filing of TDY Vouchers (XVIII Airborne Corps, Fort Bragg) - FORSCOM

Soldiers did not submit TDY vouchers in a timely manner causing funds to be obligated but not dispersed.

Accomplishment: Established an unsubmitted voucher reporting process. Soldiers are briefed prior to travel about the Brigade's voucher process and the expectations upon their return from travel. Soldier's place of duty on the first day of return to work is the DTS office to process their travel voucher. For all travel not processed on the fourth day of return, the DTS section will notify the appropriate unit commanders. This process has decreased the number unsubmitted/late vouchers by 75% and further resulted in expeditious disbursement of funds.

Description of Issue: Equipment Survey Program (ESP) Savings - HQ FORSCOM, G-3/5/7. The Equipment Survey Team conducts independent, on-site reviews to ensure equipment authorizations are fully justified; equipment is properly documented; excess equipment is identified and returned to supply system; and property accountability records and authorizations documents are reconciled.

Accomplishment: The ESP is now fully compatible with U.S. Army Force Management Support Agency's (USAFMSA) 4610-R Tool. The FORSCOM ESP's information system was changed to allow property book unit supply enhanced (PBUSE) information to be uploaded and converted into a report that is much more functional and user-friendly so the property book can be compared with the table of distribution and allowances (TDAs). Trained ACOMs, Direct Reporting Units (DRUs), and Army Service Component Commands (ASCCs) users in the functionality and upgrades made to the program

Description of Issue: Data Quality Report on Incomplete Armed Forces Health Longitudinal Technology Application (AHLTA) Encounters (OTSG/MEDCOM -Weed ACH) Providers were not closing out all encounters within AHLTA. This practice resulted in an incomplete patient record (information not available to other providers) as well as the loss of workload and a lack of compliance with The Joint Commission (TJC) requirements.

Accomplishment: Data Quality created a daily report that would notify providers of various issues to include open encounters. This report resulted in a significant decrease in open encounters. In the 1st QTR of FY10 there were 57 open encounters, this number was reduced to one for the 1st QTR of FY11. This 98% improvement significantly enhanced the data quality, patient information flow and TJC regulatory requirements for the organization.

Description of Issue: Foreign Civilian Personnel Employee Background Checks - OPMG

Accomplishment: Ineffective management of Foreign Civilian Personnel Employee background checks created accessibility and accuracy problems. Duplicate pseudo social security numbers from the Office of Personnel Management (OPM) and Army Central Clearance Facility (CCF) also contributed to improper management. The 6th MP Group (CID) Personnel Security Manager identified that Foreign Nationals' security records were located in a separate location in the Joint Personnel Adjudication System. The information - nationality, duty location and security management ownership by the 6th MP Group (CID) - was located under another control number. Consolidating the system records allows the USACIDC security specialist, OPM and the Army CCF the ability to manage the clearance of foreign civilian personnel and access in support of CID operations and investigations.

Description of Issue: Internal Control over the distribution of Sustainment Funding in support of Non-Army Working Capital funded facilities.

Accomplishment: The OACSIM Resources Directorate discovered that the internal controls over the distribution of sustainment funding in support of non-Army Working Capital Funded facilities (i.e., indicator code 1 facilities) at Army Materiel Command (AMC) installations were insufficient which led to Child Development Centers and medical clinics and similar facilities failing to receive necessary support, such as to repair broken air conditioning or replace roofs. The lack of controls resulted in a Congressional inquiry regarding a CDC at Pine Bluff Arsenal. Research, review and analysis determined that controls would improve, by narrowing the span of control through the transfer of funding responsibilities from the third party Installation Management Command to the owner and operator of the installations, AMC. The funding distribution process and support to the MWR facilities at AMC installations; are expected to improve since the funds will be in AMC's budget for direct control. The recommended change was accomplished through Army Budget Office funding letter guidance, and the sustainment funding (SAG 132) will be distributed in AMC major subordinate commands, and through a program transfer effective FY13-17.

Description of Issue: The OACSIM Resources Directorate identified a deficiency in the controls governing the development, programming and budgeting of support agreements for Army tenant units on other than Army (OTA) installations. In many cases, a third party command was signing and funding support agreements for other Commands and Direct Reporting Units, and funding the support agreements out-of-hide, which places funding for support of the missions at risk.

Accomplishment: A data call revealed that the majority of commands signed and funded their own support agreements on OTA installations, and cited advantages to continuing the procedures, which included reasonable assurance that the mission support would be properly budgeted on the OTA installation and not pulled by the third party agency. The Resources Directorate collaborated with DAIM-ODO and other ARSTAF elements to develop policy and procedures that enhance controls by stipulating a consistent Army-wide approach for developing, programming and budgeting for the OTA support agreements by the individual commands rather than a third party agency.

Description of Issue: ACA Accreditation of All Elements of the ARMY Corrections System
(Office of the Provost Marshal General)

Accomplishment: The process for the accreditation of all elements of the ARMY Corrections System started back on 2 October 2007 with the establishment of the Army Corrections Command to “standardize and eliminate layers of command, and streamline corrections operations across the Army.” This directive implied an effective Internal Control Program in all operations across all facilities and headquarters staffs. With the US Army Military Police School’s successful completion of their initial accreditation audit by the American Correctional Association (ACA) in June 2011, the Army Corrections System will earn the American Correctional Association’s prestigious "Golden Eagle Award", representing the accreditation of all elements within a correctional program. The Army will join an elite group of corrections systems that have achieved accreditation of all correctional elements, which for the Army, includes all Correctional facilities, the Army Clemency and Parole Board, the Headquarters, Army Corrections Command, and Military Police School. The mission of the ACA Commission on Accreditation for Corrections is to upgrade and improve practices and conditions in adult and juvenile correctional facilities and programs through an accreditation process which is founded on the commitment to accountability, professionalism and respect for basic human rights and which recognizes sound and effective correctional practice while striving toward excellence in the field of corrections. This process is not dictated by the Department of the Army, but is directed and supported by all levels of leadership within the Army Corrections Command and subordinate facilities, the Army Clemency and Parole Board, and Military Police School, and forms the basis of our Manager’s Internal Control Program under the guidance of the Office of the Provost Marshal General. The accreditation process exceeds the MICP standard as the process is required every three years for all elements.

A-4

(TAB A-4)

SUMMARY – ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Department of Defense (DOD) established an additional requirement to report to the Secretary of Defense an explicit level of assurance over integrated financial management systems. DOD components will assess, evaluate, and report the conformance of integrated financial management system compliance with Federal requirements. Army organizations operating information technology systems producing data used in financial statement reporting shall submit a separate statement asserting internal controls over financial systems as part of their annual statement of assurance.

The Army relies on financial systems operated and maintained by “service providers,” such as the Defense Finance and Accounting Service. Many of these service provider systems lack a single, standard transaction-driven general ledger and lack controls to meet audit standards. The Army also needs to upgrade or replace many of its own financial feeder systems so that financial statement reporting requirements may be met. The lack of a single, standard transaction-driven general ledger will continue to prevent the Army from preparing auditable financial statements.

Army’s assessment of internal control over integrated financial management systems and proponent financial systems follows in this TAB.

ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Title and Description: Funds Control Module (FCM). FCM ensures that all supply requisitions processed in Army and DOD supply systems, are properly obligated in the core accounting system. This provides control of funds targeted for supply purchases, and ensures consistency between the requisition and accounting systems.

| Compliance with Federal Financial Management Improvement Act | | | |
|---|-------------------------|---------------------------------------|----------------------------------|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | Yes | Yes Brian Meyer A-2008-0267-FFM | NA |
| 2. Accounting Standards | Yes | Yes Brian Meyer A-2008-0267-FFM | NA |
| 3. USSGL at Transaction Level | Yes | Yes Brian Meyer A-2008-0267-FFM | NA |

FCM Federal Information Security Management Act (FISMA) Accreditation was issued on February 28, 2011, in accordance with DODI 8500.2 and is scheduled to be reviewed again on August 27, 2011. Funds Control has just received approval again for the Authority to Operate (ATO) at the MAC II Sensitive level effective February 28, 2011, with an Accreditation Termination Date (ATD) of September 20, 2013. FCM conducts monthly Program Manager Reviews to ensure the program is on-track and in compliance with Command Maintenance Management Inspection (CMMI) procedures.

The FCM is a FFMIA fully compliant system. The U. S. Army Audit Agency (USAAA) has conducted two audits of the FCM. The first audit report was A-2005-0044FFG, dated November 14, 2004. There were 173 applicable financial functional requirements. FCM passed the audit with no recommendations from USAAA. The second audit completed in September 2008 was requested by ASA(FM&C) to ensure continued compliance after Army-wide fielding was complete. Again, the USAAA found FCM to be FFMIA compliant with no recommendations.

Funds Control continues to provide automated interfaces of supply transactions to STANIFNS, SOMARDS and GFEBS. In addition a new FCM Data Warehouse has been developed to assist customers with queries and to gather information on transactional status and information for reports that assist the resource managers and command representatives with financial reporting.

Compliance with Federal Financial Management Improvement Act

| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
|--|-------------------------|---------------------------------------|---|
| 1. System Requirements | Yes | Yes Anita Bales A-2010-0187-FFM | Not applicable - GFEBS is substantially compliant with FFMIA through release 1.4.0. |
| 2. Accounting Standards | Yes | Yes Anita Bales A-2010-0187-FFM | Not applicable - GFEBS is substantially compliant with FFMIA through release 1.4.0. |
| 3. USSGL at Transaction Level | Yes | Yes Anita Bales A-2010-0187-FFM | Not applicable - GFEBS is substantially compliant with FFMIA through release 1.4.0. |

ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Title and Description: **The Logistics Modernization Program (LMP).** LMP is the Army Materiel Command (AMC) financial system of record for Army Working Capital Funds (AWCF). The LMP provides the accounting system solution and reporting capabilities required for AMC to conduct routine daily business transactions. The LMP receives data input directly through user interfaces as well as through various systems interfaces.

| Compliance with Federal Financial Management Improvement Act | | | |
|---|-------------------------|----------------|--|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | No | N/A | Internal Controls have been identified but not implemented |
| 2. Accounting Standards | No | N/A | Internal Controls have been identified but not implemented |
| 3. USSGL at Transaction Level | No | N/A | Internal Controls have been identified but not implemented |

Reason for Non-Compliance: The LMP is currently non-compliant due to new functionality in process of development, or has been developed, tested and implemented, but has not yet been demonstrated to meet FFMIA requirements. In addition, new FFMIA requirements have been identified which are in process of being scripted and tested to demonstrate compliance. This effort is being overseen by Army Audit Agency (AAA) personnel.

Actions to Achieve FFMIA Compliance: Through a comprehensive review process, LMP personnel have determined there are 1,298 requirements applicable to full FFMIA compliance. Approximately 142 of these requirements are new and have not previously been tested. Team LMP is currently in process of development of test scripts and conducting testing of each of these FFMIA requirements. Compliance is demonstrated through bi-weekly workshops which are attended by AAA and DoDIG personnel.

In addition to new FFMIA requirements, a December 2011 release has been scheduled to implement system functionality currently being developed, which will provide system enhancements and increase compliance with regulatory and FFMIA requirements. Review and testing of all new functionality and FFMIA requirements are on-going and scheduled to be completed by early December 2011.

ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Title and Description: The Corps of Engineers Financial Management System (CEFMS). CEFMS routinely provides reliable and timely financial information for managing the day to day financial operations of the U.S. Army Corps of Engineers. The U.S. Standard General Ledger (USSGL) is integrated in CEFMS at the transaction level and used to produce reliable financial statements. CEFMS has embedded internal controls to ensure data integrity and prevent fraud, waste and abuse through segregation of duties using role based controls. CEFMS is a primary reason USACE has received three Unqualified Chief Financial Officer (CFO) Audit opinions from the Department of Defense Inspector General.

| Compliance with Federal Financial Management Improvement Act | | | |
|---|-------------------------|--------------------|--|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | Yes | PWC/KPMG/ DoDIG | N/A |
| 2. Accounting Standards | No | PWC/KPMG/ DoDIG | Internal Controls have been implemented but not fully tested. DODIG reported, in the FY 2010 CFO Audit report, that USACE had incomplete policies and procedures for review and implementation of accounting standards. Corrective actions will be validated during the FY 2011 CFO audit. |
| 3. USSGL at Transaction Level | Yes | PWC/KPMG/ DoDIG | N/A |

Significant Attributes of CEFMS:

- Electronic Access through Public Key Infrastructure(PKI), utilizing the Common Access Card(CAC)
- Electronic Signature at the transaction level through PKI, utilizing the CAC
- Role Based Access Controls
- Validation of Electronic Signature at the transaction level
- USSGL Compliant at the transaction level
- Authority To Operate (ATO) on the Army network through 17 February 2014, Department of Defense Information Assurance Certification & Accreditation Process (DIACAP) Certified
- Electronic Interfaces with Multiple USACE Automated Information Systems
- External Electronic Interfaces with Non-Corps Customers/Systems

- End to End Business Processing, funds receipt through disbursements, and upward reporting, to include Funds Control/Management, Commitments, Obligations, Government Orders/Customer Orders, Accounts Payable, Accounts Receivable, Unliquidated Obligation Tracking/Review, etc
- Reconciliation of the Integrated data within the CEFMS: subsidiaries, transaction level, to general ledger level
- Foreign Currency Disbursement Capability in YEN, WON, EURO, DINAR, AFGHANI, KRONE, RIYAL
- Electronic Funds Transfer, Check and Intra-governmental Payment and Collection System (IPAC) Disbursement and Collection Capability
- Integrated Travel Order, Voucher and Settlement Processes for Temporary Duty and Permanent Change of Station
- Travel and Small Purchases Credit Card Program Capability
- 60 Production Databases, with Regional Management Capability provided through Interface with USACE Electronic Data Warehouse (EDW)
- Three Consecutive CFO Unqualified Audit Opinions which include Systems Security Reviews

ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Title and Description: The Global Combat Support System – Army (GCSS-A). GCSS-A reaches Milestone C in July 2011. Following that decision point, the PM will conduct IOTE with 2/1 AD at Fort Bliss through 1st Quarter, FY12. Confidence is high that the system will meet compliance parameters although we are not able to assert that as a fact at this time.

| Compliance with Federal Financial Management Improvement Act | | | |
|---|-------------------------|----------------|--|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | No | AAA | Internal Controls have been identified but not implemented |
| 2. Accounting Standards | No | AAA | Internal Controls have been identified but not implemented |
| 3. USSGL at Transaction Level | No | AAA | Internal Controls have been identified but not implemented |

Actions to Achieve FFMIA Compliance

GCSS-Army Version 1.0:

- Currently, the Global Combat Support System (GCSS)-Army v1.0 application is only fielded to the National Training Center (NTC).
- Existing financial processes are being utilized to support this one single unit; Segregation of Duties (SOD) is in effect within the application based on existing GFEBS rules and templates.
- DFAS is executing and applying all current financial controls regardless of the fact that NTC is utilizing GCSS-Army (thus, they are executing tie point analysis, abnormal balance analysis, DDRS processing, etc).
- The current version of GCSS-Army delivers limited financial functionality to the NTC unit (MILSTRIP order processing and associated inter-fund bill processing); it is our position that there is no material difference as compared with execution of the previous processes in the legacy system.
- The partner Army Enterprise Systems Integration Program (AESIP) program mostly impacts General Fund Enterprise Business Systems (GFEBS) at this stage in the lifecycle. All of the existing GCSS-Army financial interfaces are point to point directly to GFEBS, Defense Departmental Reporting System (DDRS), or Defense Cash Accountability System (DCAS)). Logistics interfaces are mostly through AESIP, except for price updates. The latter are through AESIP, which indirectly affects obligation balances. There are compensating controls (in the form of the invoice settlement process); there are also mitigating business rules (AESIP analyzes suspicious changes and forwards them to business users for investigation).
- There are no waivers in place at NTC for financial processes, except for the exchange pricing processes which is not being performed at all as per the waiver.

GCSS-Army Version 1.1:

- Development of this version is not yet complete. IOTE will begin in Oct 11.
- 1201 requirements have been reviewed and reduced to 1,111 items in scope. AAA progress audit noted deficiencies. The PMO proposed two items as remediation: a traceability matrix and realignment and revision of the Quality Center system. The matrix will track all compliance requirements to include FFMIA, U.S. Standard General Ledger (USSGL), General Ledger Account Code (GLAC), Standard Financial Information Structure (SFIS), and Business Enterprise Architecture (BEA). The Quality Control (QC) database and contents will be realigned. In addition, test cases will be rewritten/revised IAW BEA methodology and architecture standards.
- Substantial compliance is expected by Sep 11, and then attestation efforts by AAA will last 4 weeks.
- GLAC and USSGL compliance is expected Nov 11.

GCSS-Army Version 1.2:

- Development of this version is not complete. The PM is working with AAA to obtain an interim FFMIA approval for Milestone C, scheduled for Jul 11.
- 1201 requirements have been reviewed and reduced to 1,111 items in scope. AAA progress audit noted deficiencies. The PMO proposed two items as remediation: a traceability matrix and realignment and revision of the Quality Center system. The matrix will track all compliance requirements to include FFMIA, USSGL, GLAC, SFIS, and BEA. The QC database and contents will be realigned. In addition, test cases will be rewritten/revised IAW BEA methodology and architecture standards.
- Substantial compliance is expected by Sep 11, and then attestation efforts by AAA will last 4 weeks.
- GLAC and USSGL compliance is expected Nov 11.

ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Title and Description: Planning Resource Infrastructure Development and Evaluation (PRIDE). Within the Army National Guard's Installations Division, we recognize that management is responsible for establishing and maintaining effective internal controls over financial systems (ICOFs) to meet the objectives of the Federal Managers' Integrity Act (FMFIA). We are providing no assurance that, as of February 17, 2011, the Planning Resource Infrastructure Development and Evaluation (PRIDE) system's internal controls are operating effectively.

PRIDE is an operational system used for ARNG lifecycle facility management. It is used throughout the National Guard Bureau (NGB) to include all of the 50 States, the three US Territories, and the District of Columbia. There are existing system controls within PRIDE which prevent unauthorized access, enforce segregation of duties, and protect data integrity. However, there has been no testing on the effectiveness of these controls to give us reasonable assurance that internal controls over PRIDE meet the objectives of FMFIA.

ARNG initiated the Federal Financial Management Improvement Act (FFMIA) compliance review of the PRIDE system with the Army Audit Agency (AAA) in October 29, 2009. ARNG and AAA completed reviewing the DFAS Blue Book requirement in May 2010; however, both parties concluded that until the end state system relationship between the General Fund Enterprise Business Systems (GFEBS) and PRIDE was defined further, there were a high number of assumptions over system requirements. GFEBS implementation will change the requirements for financial data elements maintained in PRIDE. Current discussions with GFEBS indicate that real property financial data elements will be split between both systems and passed through the Headquarters Installation Information System (HQIIS). As of this statement, data requirements have not been defined.

ARNG and ASA (FM&C) subsequently adjusted the material weakness timeliness in the Army Financial Improvement Plan (FIP) for PRIDE. The current target date for PRIDE FFMIA compliance is set a 1st Quarter, FY 2012. ARNG is working with the GFEBS Property Plant and Equipment (PP&E) Team to determine system data requirements for both systems.

| Compliance with Federal Financial Management Improvement Act | | | |
|---|-------------------------|----------------|--|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | No | N/A | Internal Controls have been identified but not implemented |
| 2. Accounting Standards | No | N/A | Internal Controls have been identified but not implemented |
| 3. USSGL at Transaction Level | No | N/A | Internal Controls have been identified but not implemented |

Actions to Achieve FFMIA Compliance

ARNG and the GFEBS PP&E Team are working to define system ownership over financial requirements. Requirements meetings are being planned for Quarter 2-3, FY 2011 to assign system requirements. Once requirements are assigned, ARNG will re-coordinate with AAA to restart the FFMIA compliance review process of PRIDE.

FFMIA compliance is expected to be achieved by December 31, 2011.

| Army Financial Improvement Plan - PRIDE Tasks | | |
|--|--|--------------|
| Due Date | Task | Owner |
| 1st Qtr FY 12 | Obtain AAA certification that PRIDE substantially complies with all identified requirements based on the current version of the DFAS Blue Book and JFMIP (Army RP FIP, WBS 3.1.5.10) | ARNG |
| 1st Qtr FY 12 | Conduct FFMIA compliance audit on the added PRIDE Web enhancements and provide report on the system compliance status (Army RP FIP, WBS 3.1.5.11) | AAA |

ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Title and Description: Army Environmental Database Restoration (AEDB-R) and Army Environmental Database and Army Environmental Database Compliance Clean-Up (AEDB-CC). The AEDB-R and AEDB-CC systems collect, manage and store site specific environmental cost estimates for future clean-up and restoration efforts. These systems share the same architecture and are used exclusively to support the planning efforts of the environmental management mission. They were not intended or designed to interface with financial systems that conduct transactions with the US General Ledger. However, these systems do contain a portion of the environmental liability data that is reported on a segment of the Army's financial statements.

The Federal Financial Management Improvement Act of 1996, in an effort to improve financial management throughout the government, mandated that all financial and financial feeder systems use the U.S. Standard General Ledger, be transactional based, and comply with all Federal accounting financial system standards. Each system must have an independent third party validate that the system is compliant. The U.S. Army Audit Agency issued Audit Report A-2006-0222-FFM, dated September 26, 2006.

Currently the environmental liability data used to support the Army's financial statements is extracted from these AEDB-R and AEDB-CC and submitted manually. The Audit Report A-2006-0222 found both AEDB-R and AEDB-CC to be substantially compliant with the Federal Financial Management Improvement Act of 1996. The audit recognized that these databases are non transactional, however it recommended they be upgraded to provide interface that enables ACSIM to submit the environmental liability data electronically.

ACSIM is in the process of upgrading its corporate environmental business data system and plans to incorporate the functionality of AEDB-R and AEDB-CC into that future enterprise system. The design phase is underway and includes consideration of all required interfaces. The completion of that system is currently estimated to be FY 2014.

| Compliance with Federal Financial Management Improvement Act (AEDB-R) | | | |
|--|-------------------------|----------------|----------------------------------|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | Yes | Yes | N/A |
| 2. Accounting Standards | Yes | Yes | N/A |
| 3. USSGL at Transaction Level | N/A | N/A | N/A |

| Compliance with Federal Financial Management Improvement Act (AEDB-CC) | | | |
|---|-------------------------|----------------|----------------------------------|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | Yes | Yes | N/A |
| 2. Accounting Standards | Yes | Yes | N/A |
| 3. USSGL at Transaction Level | N/A | N/A | N/A |

ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS

Title and Description: Integrated Facilities System. The Federal Financial Management Improvement Act of 1996, in an effort to improve financial management throughout the government, mandated that all financial and financial feeder systems use the U.S. Standard General Ledger, be transactional based, and comply with all Federal accounting financial system standards. Each system must have an independent third party validate that the system is compliant. The US Army Audit Agency (USAAA) issued Audit Report A-2006-0066-FFM, dated March 8, 2006.

The Integrated Facilities System is a financial feeder system that provides necessary financial information relative to real property. In FY 2005, with a net book value over \$15 billion, real property was the third largest asset reported on the Army's balance sheet.

USAAA observed user testing and obtained supporting documentation to validate the testing results for 242 fully applicable and nine partially applicable financial functional requirements for the Integrated Facilities System. They determined that the Integrated Facilities System was substantially compliant with the Federal Financial Management Improvement Act of 1996.

USAAA found the test environment secure and well controlled. The responsibility for the tests and results of the tests remained outside the control of the program manager and the system developer. This provided assurance that there was appropriate independence between those conducting the tests, the program manager, and the system developer in order for USAAA to rely on the conclusions drawn from the test results.

USAAA made no recommendations in subject report, because their conclusions were positive. USAAA discussed the results and conclusions with representatives from the Office of the Assistant Chief of Staff for Installation Management and the Assistant Secretary of the Army (Financial Management and Comptroller), and all concurred.

| Compliance with Federal Financial Management Improvement Act (IFS) | | | |
|---|------------------|---------|---------------------------|
| Substantial Compliance Requirements | Reporting Entity | Auditor | Reason for Non-Compliance |
| 1. System Requirements | Yes | Yes | N/A |
| 2. Accounting Standards | yes | Yes | N/A |
| 3. USSGL at Transaction Level | yes | Yes | N/A |

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 # |
|--------------|--|---------------|
|--------------|--|---------------|

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

| | | | | |
|--------------------------------|---------|------------------|------------------|-------|
| Expeditionary Contracting | FY 2007 | 3rd Qtr, FY 2014 | 3rd Qtr, FY 2014 | B-2-4 |
| Oversight of Service Contracts | FY 2006 | 2nd Qtr, FY 2012 | 2nd Qtr, FY 2012 | B-2-9 |

Category: Supply Operations

| | | | | |
|--|---------|------------------|------------------|--------|
| Financial Reporting of New Equipment In-Transit | FY 2008 | 3rd Qtr, FY 2012 | 3rd Qtr, FY 2012 | B-2-13 |
|--|---------|------------------|------------------|--------|

Category: Military Pay

| | | | | |
|---|--------|-----------------|------------------|-------|
| Reporting Accurate Obligations for the PCS Program | FY2010 | 2nd Qtr FY 2013 | 2nd Qtr, FY 2013 | B-2-1 |
|---|--------|-----------------|------------------|-------|

Corrected Weaknesses Identified During All Periods:

| Title | Year First Reported | Page # |
|--|------------------------------------|---------------|
| Logistics Asset Visibility and Accountability | FY 2004 | B-3-1 |

B-2

(TAB B-2)
UNCORRECTED WEAKNESS STATUS OF CORRECTIVE ACTION

Uncorrected Weakness Identified During Prior Periods

Title and Description of Material Weakness: Reporting Accurate Obligations for the Permanent Change of Station (PCS) Program. An automated solution does not currently exist to obligate PCS orders when issued a Department of Defense Financial Management Regulation (DoD FMR) requirement with reliable cost estimates and to reconcile obligations with disbursements. This situation makes it extremely difficult to ensure adequate funds are available to cover disbursements after fiscal year end close, and as a consequence, the Army is vulnerable to Anti-Deficiency Act (ADA) violations. An ongoing Lean Six Sigma (LSS) project is working to provide an automated solution within the Army order-writing system.

Functional Category: Military Pay

Senior Official in Charge: BG Karen Dyson

Pace of Corrective Action:

Year Identified: FY 2010

Original Target Date: 2nd Qtr FY 2013

Target Date in Last Year's Report: 2nd Qtr FY 2013

Current Target Date: 2nd Qtr FY 2013

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

Validation Process: The United States Army Audit Agency (USAAA) must audit the Military Personnel Army (MPA) account to determine whether procedures and systems have been put in place to rectify the above weakness.

Results Indicator: Army will have developed a process/system capable of obligating PCS orders when issued.

Source(s) Identifying Weakness: Military Personnel Division

Major Milestones to Include Progress to Date:

A. Completed Milestones:

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|---|
| Completed | Completion of Other Contingency Operations (OCO) Temporary Change of Station (TCS) Beta Test – Budget Module |
| Completed | Establishment of Council of Colonels (CoC) Project Team (PT) and General Officer Steering Committee (GOSC) Governance structure for PCS system development |
| Completed | LSS team developing system Courses of Action (COAs) for presentation to Army Staff (ARSTAF) leadership on the Department of the Army Mobilization Processing System (DAMPS) or the Business Process Management Tool Suite (BPMS). Developing Budget Cost Analysis (BCAs) for BPMS which will ultimately lead to funding requests through the Budget Review Process (BRP). |
| Completed | BPMS demo briefing to GOSC Steering Group/decision on way ahead |
| Completed | Program Manager hired |

B. Planned Milestones (Fiscal Year 2011):

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|--|
| 3rd Qtr FY11 | Program Manager (PM) will coordinate an assessment of current PCS systems and requirements |
| 4th Qtr FY11 | GOSC decision on automation solution based on BCAs developed by PM/PCS team |
| 4th Qtr FY11 | Contract award for PCS pilot program – system TBD |
| 4th Qtr FY11 | Begin software development through engagement of PCS subject matter experts and pilot site personnel |

C. Planned Milestones (Beyond Fiscal Year 2011):

Date:

Milestone:

2nd Qtr FY 12 Completion of software development

2nd Qtr FY 12 Begin self--assessment of timeliness of PCS obligations at the pilot sites

3rd Qtr FY 12 Request USAAA to audit results of pilot sites

3rd Qtr FY 12 Decision Point – Assessment of system to begin training and development to additional sites

2nd Qtr FY 13 Receive results from USAAA and based on a statement of reasonable assurance

OSD or HQDA Action Required:

- Support process changes and funding of automated solutions.

Point of Contact: James Fasano, SAFM-BUO-M, 703-692-8531

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

Uncorrected Weakness(es) Identified During Prior Periods

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. Lee Thompson, Acting Deputy Assistant Secretary of the Army (Procurement) (DASA (P))

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> | 3rd Qtr, FY 2014 |
| <u>Current Target Date:</u> | 3rd Qtr, FY 2014 |
| <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 management controls conducted by Independent Review and Procurement Management Review.
- Achievement by Army Contracting Command (ACC), Expeditionary Contracting Command (ECC), and US Army Corps of Engineers (USACE) of Subtasks and Staffing, Training, Quality Assurance (QA) program, Central Contractor Registration (CCR), and Policy metrics and milestones.
- United States Army Audit Agency (USAAA) validates results.

Results Indicators: Success is defined as the effective implementation of the procedures and management controls that work effectively for expeditionary contracting operations. Also defines the maturity of the Army's expeditionary contracting workforce by achieving sub-task milestones. 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 collect and distribute lessons learned systematically | 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:

Actions Completed Prior to FY 2010

Milestone:

Formed the Army Contracting Task Force (ACTF) (co-led by ASA(ALT) Military Deputy and Army Materiel Command Executive Deputy Command Director) with participants from a wide range of Army staff elements and contracting operations.

Assigned new leadership and increased staff.

Established reach-back capability to manage active contracts.

Developed internal controls for optimal contract management and surveillance.

Increased engagement of Defense Contract Management Agency in performing contract management and oversight support through the Kuwait Logistics Support Office.

Established contracting officer's representative training program.

Disbanded ACTF and formed the Army Contracting Campaign Plan Task Force to work ACTF findings.

Implemented internal controls for optimal contract surveillance.

Contracting Operations Review team conducted independent verification of compliance with internal control procedures.

Contracting Operations Review team reported internal control review results.

Updated the Management Control Evaluation Checklist and published it in the AFARS Appendix BB.

B. Completed Milestones (Fiscal Year 2010)

| | |
|-----------------|---|
| 3rd Qtr, FY2010 | Continued to have units conduct self-inspections to validate use of Management Control Evaluation Checklist. |
| 3rd Qtr, FY2010 | Identified subtasks associated with material weakness resolution (staffing, training, quality assurance, central contractor registration database, and policy development) and established a milestone schedule for subtask completion. |
| 4th Qtr, FY2010 | Ongoing Independent Review/Procurement Management Review team conducts compliance review of individual subtasks. |
| 4th Qtr, FY2010 | Ongoing process of review teams providing results to DASA(P). |

C. Planned Milestones (Fiscal Year 2011):

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|--|
| 1st Qtr, FY2011 | ACC issues Expeditionary Contracting Strategy to address quality assurance and oversight in deployed environment. Also, the Army Contingency |

Contracting Command's Enhanced Contract Management Concept (ECMC) Plan funded 352 civilians (fielding through 2014) that can provide Contingency Contract Administration Support (CCAS). 166 of the ECMC remain in the Army POM.

| | |
|-----------------------|--|
| 3rd Qtr, FY2011 | USACE issues 51C Construction/Architect and Engineering Contracting Proficiency Guide. |
| 3rd & 4th Qtr, FY2011 | ACC begins hiring Contract Administration (CA) and QA personnel authorized in ECMC. |
| 3rd & 4th Qtr, FY2011 | Ongoing Independent Reviews (IRs) by ECC and USACE teams and Procurement Management Reviews (PMRs) by DASA(P) team conducting compliance review of individual subtasks. |
| 3rd & 4th Qtr, FY2011 | Publish addendum to DASA(P) Contingency Contracting PMR toolkit questionnaires to assess ECC/USACE IR programs and subtask completion. |
| 3rd & 4th Qtr, FY2011 | DASA(P) policy letter requesting quarterly submission of ACC, ECC and USACE reports on expeditionary contracting material weakness corrective actions in a format showing sub-tasks and internal review results. |
| 4th Qtr, FY2011 | Ongoing process of review teams providing results. |

D. Planned Milestones (Beyond Fiscal Year 2011):

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|---|
| 1st- 4th Qtr FY2012 | Independent Review/PMR teams conduct compliance reviews and provide quarterly ACC, ECC and USACE results. |
| 1st- 4th Qtr FY2012 | Review and assess corrective action and IR and PMR validation of sub-task completion for accuracy and completeness. |
| 1st- 3rdQtr FY2013 | IR/PMR teams conduct compliance reviews and provide quarterly ACC, ECC and USACE results. |

| | |
|--------------------|--|
| 1st- 3rdQtr FY2013 | Review and assess corrective action and IR and PMR validation of sub-task completion for accuracy and completeness. |
| 3rdQtr FY2013 | Request USAAA on validation audit. |
| 2nd Qtr FY2014 | USAAA validation audit commences. |
| 2nd Qtr FY2014 | Complete the hiring of 352 ECMC civilians. |
| 3rd Qtr FY2014 | USAAA provides audit results. |
| 3rd Qtr FY2014 | Close material weakness. |
| 4th Qtr FY2014 | Complete fielding of Army Contingency Contracting Officers and Non-Commissioned Officers in the Active and Reserve Components. |

OSD or HQDA Action Required: Continue to endorse the ECMC in the Army POM, and apprise OSD DPAP quarterly of Army progress.

Point of Contact: Mr. Art Rivera, ODASA (Procurement) 703-617-0387

(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 Contracting Officer's Representative (CORs), weak requirements justification and improper use of contractor labor.

Functional Category: Contract/Procurement

Senior Official in Charge: Mr. Lee Thompson – Acting, Deputy Assistant Secretary of the Army (Procurement) (DASA (P))

Pace of Corrective Action:

| | |
|---|------------------|
| Year Identified: | FY 2006 |
| Original Target Date: | 4th Qtr, FY 2010 |
| Target Date in Last Year's Report: | 2nd Qtr, FY 2012 |
| Current Target Date: | 2nd Qtr, FY 2012 |
| Reason for Change in Date(s): | N/A |

Validation Process: DASA(P) validates implementation through recurring reports that identify weaknesses and corrective actions. AAA validates results after DASA(P) verifies acceptable implementation.

Results Indicators: Review contract files to verify compliance with current policy: CORs are trained and appointed, surveillance plans 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 Army Command (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 (1) the review of recent audit organization reports and the conclusions found related to contract administration of

service contracts, and (2) annual review results developed by the ACOM and DASA(P) Procurement Management Review 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. |
| 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. |

| <u>Date:</u> | <u>Milestone:</u> |
|------------------------------|---|
| 3rd Qtr, FY 2008 | U.S. Army IR reported COR compliance results with previously issued guidance to ASA(ALT). |
| 1 st Qtr, FY 2009 | Issued policy mandating inclusion of a performance objective for oversight of service contracts for all contracting professionals involved with the acquisition of services. |
| 2nd Qtr, FY 2009 | DASA(P) signed staffing documents to release the new Army Regulation for the management and oversight of service contracts to the Army Publishing Directorate. |
| 3rd Qtr, FY2009 | Issued policy requiring bi-monthly reporting to the DASA(P) on compliance with service contract surveillance policy and corrective actions being taken to correct deficiencies. |
| 4th Qtr FY 2009 | Reviewed service contract surveillance data and determined weakness requires additional time to implement training, and institutional oversight. |
| 4th Qtr FY 2010 | Issued new Army Regulation 70-13. |
| 1st Qtr FY 2011 | Issued revised COR guidance in October 2010. |
| 1st Qtr FY 2011 | Developed surveillance plan resources for service acquisitions at various dollar thresholds and issued in October 2010. |

B. Planned Milestones for FY 2011:

| <u>Date:</u> | <u>Milestones:</u> |
|-----------------|--|
| 1st Qtr FY 2011 | Monitor field progress in appointing properly trained CORs. |
| 1st Qtr FY 2011 | Monitor field progress in incorporating surveillance plans in contracts and having CORs use to monitor contractor performance. |

| | |
|----------------|---|
| 2nd Qtr FY2011 | Monitor field progress in appointing properly trained CORs. |
| 2nd Qtr FY2011 | Monitor field progress in incorporating surveillance plans in contracts and having CORs use to monitor contractor performance. |
| 3rd Qtr FY2011 | Make determination whether material weakness is properly stated. If not, then determine if current material weakness can be closed without AAA audit, then properly restate material weakness and open a new material weakness. |
| 3rd Qtr FY2011 | If material weakness is not closed out, based on above milestone then coordinate with AAA to develop schedule and determine objectives for validation. |
| 4th Qtr FY2011 | Commence audit. |

C. Planned Milestones (Beyond Fiscal Year 2011):

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|------------------------------|
| 1st Qtr FY2012 | AAA reports results. |
| 2nd Qtr FY2012 | Close-out material weakness. |

OSD or HQDA Action Required: AAA agreement with DASA (P).

Point of Contact: Mr. Steve Jaren, ODASA(Procurement) 703-614-4355

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

Uncorrected Weakness(es) Identified During Prior Periods

Title and Description of Material Weakness: Financial Reporting of New Equipment In-Transit. Equipment issued to units by program and product managers during total package fielding (TPF) is not consistently processed as a receipt in the Army logistics information management systems. When the units gain the equipment by other transactional entries, the in-transit transaction remains open which results in the Army overstating it's on hand equipment inventory and the value of our capital assets in the quarterly financial statements.

Accomplishment: The ODCS, G-4 in coordination with the Assistant Secretary of the Army (Acquisition, Logistics and Technology (ASA (ALT))) conducted a value stream mapping and process improvement event for in transit reporting. The improved process worked successfully in the Commodity Command Standard System, but it was necessary to refocus our study to the enterprise environment with the successful deployment of the Logistics Modernization Program (LMP). In coordination with the Army Materiel Command and the PEO Enterprise Information Systems, the G-4 identified that system changes were necessary to ensure successful management of and closure for equipment issued to units during TPF operations. The LMP system integrator made the required changes and the transactional data is being captured to measure the success of the enterprise based process. The G-4 and ASA (ALT) will as necessary identify any policy changes or compliance enforcement dictated by the results of the analysis.

Functional Category: Supply Operations

Component: Army

Senior Official in Charge: Mr. Michael W. Brown, Director of Supply, Office of the Deputy Chief of Staff, G-4

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 3rd Quarter, FY 2010

Targeted Correction Date in Last Year's Report: 3rd Quarter, FY 2012

Current Target Date: 3rd Quarter, FY 2012

Reason for Change in Date(s): Revised target date based on GFEBs delays.

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> |
|---------------------|--|
| 1st Qtr, FY 2008 | 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. |
| 2nd Qtr, FY 2008 | Documented and deliver process flowcharts. Developed a follow up process to make sure equipment in-transit is properly and promptly closed upon receipt. Obtained aged Army in-transit reports. Established a threshold for closing in-transits. |
| 3rd Qtr, FY 2008 | Determined where break-downs exist. |
| 3rd Qtr, FY 2008 | Determined the reconciliation process Developed the assessment plan. |
| 1st Qtr, FY 2009 | Tested the process to ensure a follow-up report is produced to catch transactions that failed to process or processed in error. Tested that all systems whether logistical or financial are closing in transit documents. Reviewed current controls inherent to each system, and manual controls directed by policy or regulation. |
| 2nd Qtr, FY 2009 | Developed a follow up process to make sure equipment in-transit is properly and promptly closed upon receipt. Established periodic reviews for identification and corrective action for aged in-transits. Established metrics for open in-transits to track and take corrective action. |

HQDA G-4 evaluated results to see if additional controls are needed or actions required to ensure/enforce controls/processes. Established new key management controls in the flow process of equipment in-transit for the CSDP.

2nd Qtr, FY 2009 Using validation plan, conducted site assistance visits Army-wide (includes accountability analysis, data validation, source documentation validation and creation and other required actions to create auditable records).

1st Qtr, FY 2011 LMP TPF document creation/generation developed/fielded LCMCS.

B. Planned Milestones (FY 2011):

Date:

Milestone:

3rd Qtr, FY11 Complete monitoring of live closure of TPF documents in LMP for six months.

4th Qtr, FY11 Complete mapping the financial process for the transits from LMP and PBUSE/GCSS-Army to GFEBS.

C. Planned Milestones (Beyond Fiscal Year 2012):

Date

Milestone:

2nd Qtr, FY12 Test the financial reporting of equipment from LMP and PBUSE/GCSS-Army to GFEBS.

3rd Qtr, FY12 USAAA validates closure of material weakness for the financial reporting of equipment in-transit of major end item and new equipment fielding.

OSD or HQDA Action Required: N/A

Point of Contact: Carol Kornhoff, 703-692-9584

B-3

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

Identified During Prior Periods

Title and Description of Material Weakness: Logistics Asset Visibility and Accountability. The Army does not have adequate visibility over all requisitions, equipment and supplies transported to, from and within theaters of operations. The supply chain does not effectively support asset visibility and distribution capability.

Functional Category: Supply Operations

Senior Official in Charge: Mr. Mark Averill, Director of Force Protection and Distribution, Deputy Chief of Staff, G-4

Pace of Corrective Action:

Year Identified: FY2004

Original Target Date: 4th Qtr, FY 2008

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

Current Target Date: N/A - CLOSED 1st Qtr FY 2011

Validation Process: Corrective actions and improvements to asset visibility and accountability demonstrated by Office of the Deputy Chief of Staff, G-4 and validated by US Army Audit Agency (USAAA) in AAA Attestation Report A-2011-0015-ALS, dated 29 Oct 10.

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

Sources(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 in Corrective Action:

A. Completed Milestones

Date:

Milestone:

4th Qtr, FY2005
Service
SSA/Log Nodes

Army Radio Frequency Identification (RFID) Strategy. Combat Support Very Small Aperture Terminal Phase One – (Connect Focus Area IPT.)

| | |
|------------------|---|
| 1st Qtr, FY2006 | Established Army Reserve/Retrograde Logistics Reserve Pipeline Committee. |
| 4th Qtr, FY2008 | GCSS-A Initial Operating Capability (IOC) and Fielding. |
| 4th Qtr, FY2008 | G-4 validation of current systems, policies procedures and processes to address lack of in-transit visibility. |
| 2nd Qtr, FY2009 | On 5 Feb 09, requested AAA (SAAG-ALZ) validation of Army's in-transit visibility systems, policies and procedures. |
| 1th Qtr, FY 2010 | Met with USAAA to discuss closure of Material Weakness (MW). |
| 2nd Qtr, FY2010 | Army G-4 sent memo to USAAA for "asserting corrective actions" to validate G-4 processes and closure of Army's in-transit visibility systems policies and procedures. |
| 3rd Qtr, FY2010 | Continued coordination with USAAA to complete assertion and validation for closure of MW. |
| 4th Qtr, FY2010 | USAAA to begin assertion and validation for closure of MW. |
| 1st Qtr, FY 2011 | Completed USAAA validation of Army's in-transit visibility systems, policies and procedures. |

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

Identified During the Period

N/A

c

TAB C

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D-1

(TAB D-1)
**ARMY INTERNAL CONTROLS OVER FINANCIAL STATEMENTS (ICOFS)
 LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES**

General Fund

Uncorrected Weaknesses Identified During the Period:

| Title | Quarter (QTR) and Date (FY) Targeted Correction Date | Page # |
|-------|---|--------|
|-------|---|--------|

None.

Uncorrected Weaknesses Identified During Prior Periods:

| Title | Year First Reported | <u>Correction QTR and FY Date</u> | | Page # |
|--|---------------------------|-----------------------------------|---------------------------------|--------|
| | | Per Last Annual Statement | Per This Annual Statement | |
| Financial Management Systems (General Fund) | FY 2008 | 2nd Qtr FY 2014 | 4th Qtr FY 2015 | D-2-1 |

Corrected Weaknesses Identified During the Period:

| Title | Year First Reported | Page # |
|-------|---------------------------|--------|
|-------|---------------------------|--------|

None.

D-2

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

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, Office of the Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C))

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 2nd Qtr FY 2014

Targeted Correction Date in Last Year's Report: 2nd Qtr FY 2014

Current Target Date: 4th Qtr FY 2015

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

Validation Process: Internal validation will be conducted by the U.S. Army Audit Agency (USAAA).

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

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2010 Army General Fund Financial Statements (9 November 2010); Army Financial Improvement Plan

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

Major Milestones to Include Progress to Date:

A. Completed Milestones:

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|--|
| Completed | Deploy Wave 3 of General Fund Enterprise Business System (GFEBS) to 29 organizations |
| Completed | Deploy Wave 4 of General Fund Enterprise Business System (GFEBS) to 25 organizations |
| Completed | Begin General Fund Enterprise Business System (GFEBS) Wave 1 examination 1 |
| Completed | Deploy Wave 5 of General Fund Enterprise Business System (GFEBS) to 22 organizations |

B. Planned Milestones (Fiscal Year 2011):

| <u>Date:</u> | <u>Milestone:</u> |
|-----------------------------|---|
| 4 th Qtr FY 2011 | Deploy Wave 6 of General Fund Enterprise Business System (GFEBS) to 2 organizations |

C. Planned Milestones (Beyond FY 2011):

| <u>Date:</u> | <u>Milestone:</u> |
|-----------------------------|--|
| 1st Qtr FY 2012 | Obtain USAAA certification that integrated financial management system (IFMS) complies with all identified requirements based on the current versions of the DFAS Blue Book and Joint Financial Management Improvement Program (JFMIP) (Army RP Improvement Plan WBS 3.1.7.15) |
| 1 st Qtr FY 2012 | Deploy Wave 7 of General Fund Enterprise Business System (GFEBS) to 9 organizations |
| 2 nd Qtr FY 2012 | Deploy Wave 8 of General Fund Enterprise Business System (GFEBS) to all remaining organizations |
| 2nd Qtr FY 2012 | Full deployment of General Fund Enterprise Business System (GFEBS) (Army OM&S Financial Improvement Plan WBS 3.1.16.6) |

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

C. Planned Milestones (Beyond FY 2011):

| <u>Date:</u> | <u>Milestone:</u> |
|-----------------------------|--|
| 2 nd Qtr FY 2012 | Begin General Fund Enterprise Business System (GFEBS) Waves 1& 2 examination 2 |
| 1 st Qtr FY 2013 | Begin General Fund Enterprise Business System (GFEBS) Statement of Budgetary Resources (SBR) examination 3 |
| 1 st Qtr FY 2014 | Begin General Fund Enterprise Business System (GFEBS) Statement of Budgetary Resources (SBR) examination 4 |
| 1 st Qtr FY 2015 | Assert Army GF Statement of Budgetary Resources (SBR) |
| 1st Qtr FY 2015 | Deploy Wave 2 of Global Combat Support System – Army (GCSS-A) to all remaining organizations |
| 4th Qtr FY 2015 | Correct remaining identified Financial Management Systems deficiencies |

D-3

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

General Fund Identified During Prior Periods

N/A

E-1

(TAB E-1)
**ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS (ICOFs)
 LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES**

Working Capital Fund

Uncorrected Weaknesses Identified During the Period:

| <u>Title</u> | <u>Quarter (QTR) and Date (FY) Targeted Correction Date</u> | <u>Page #</u> |
|--------------|---|---------------|
|--------------|---|---------------|

None.

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> | |
| Financial Management Systems (Working Capital Fund) | FY 2008 | 2nd Qtr FY 2014 | 4th Qtr FY 2015 | E-2-1 |

Corrected Weaknesses Identified During the Period:

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

None.

E-2

(TAB E-2)
ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS (ICOFs)
UNCORRECTED WEAKNESS STATUS OF CORRECTIVE ACTION

Working Capital Fund Uncorrected Weakness(es) Identified During Prior Periods

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: 2nd Qtr FY 2014

Targeted Correction Date in Last Year's Report: 2nd Qtr FY 2014

Current Target Date: 4th Qtr FY 2015

Reason for Change in Date(s): Received updated full-deployment date for GCSS-A.

Validation Process: Internal validation will be conducted by USAAA.

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

Source(s) Identifying Weakness: Independent Auditor's Report on the FY 2009 Army Working Capital Fund Financial Statements (8 November 2009); Army Financial Improvement Plan

Major Milestones to Include Progress to Date:

A. Completed Milestones:

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|---|
| Completed | Fielded DPAS to required units and activities (SFFAS #6, SFFAS #3) (Army GE Financial Improvement Plan, WBS 3.1.1.1.2.1.1) |
| Completed | Replaced Army Medical Department Property Accounting System (AMEDDPAS) by Defense Medical Logistics Standard Support System (DMLSS) (Army GE Financial Improvement Plan, WBS 3.4.1) |

B. Planned Milestones (Fiscal Year 2010):

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

C. Planned Milestones (Beyond Fiscal Year 2010):

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|---|
| 2nd Qtr FY 2011 | LMP to replace Commodity Command Standard System-Logistics (CCSS-L) (Army Financial Improvement Plan, WBS 3.4.3) |
| 2nd Qtr FY 2011 | Logistics Modernization Program (LMP) to replace Commodity Command Standard System-Financial (CCSS-F) (Army GE Financial Improvement Plan, WBS 3.4.2) |
| 1st Qtr FY 2012 | Obtain USAAA certification that IFS complies with all identified requirements based on the current versions of the DFAS Blue Book and JFMIP (Army RP Improvement Plan WBS 3.1.7.15) |

C. Planned Milestones (Beyond Fiscal Year 2010):

| <u>Date:</u> | <u>Milestone:</u> |
|---------------------|--|
| 1st Qtr FY 2015 | Deploy Wave 2 of Global Combat Support System – Army (GCSS-A) to all remaining organizations |
| 4th Qtr FY 2015 | Correct remaining identified Financial Management Systems deficiencies |

E-3

(TAB E-3)
ARMY INTERNAL CONTROLS OVER FINANCIAL SYSTEMS (ICOFS)
MATERIAL WEAKNESS(ES) CORRECTED THIS PERIOD

Identified During Prior Periods

None.

FY11 ICOPR

ASOA



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

JUL 14 2011

MEMORANDUM FOR Chairman, Department of Defense Senior Assessment Team

SUBJECT: Office of Management and Budget Circular A-123, Appendix A, Internal Control Over Financial Reporting Assessment Results

1. References:

- a. Fiscal Year 2010 Financial Improvement and Audit Readiness Guidance, May 15, 2010.
- b. Fiscal Year 2011 Guidance for implementing Office of Management and Budget Circular A-123, Appendix A: Internal Control over Financial Reporting, October 5, 2010.
- c. Changes to the Annual Internal Control over Financial Reporting Statement of Assurance Reporting Requirements, April 22, 2011.

2. During Fiscal Year 2011, the Army made substantial progress in correcting Internal Control Over Financial Reporting (ICOFR) material weaknesses. The Army fully deployed the Logistics Modernization Program to all Army Working Capital Fund users and successfully deployed three waves of the General Fund Enterprise Business System (GFEBS) to 23,493 users, with the final two waves scheduled for deployment in Fiscal Year 2012. Additionally, the Army asserted audit readiness on General Fund appropriations received, began discovery and evaluation work at GFEBS Wave 1 and 2 locations, and began audit examinations of GFEBS Wave 1 locations and appropriations received. The Independent Public Accountants conducting these examinations will issue final audit reports in early Fiscal Year 2012.

3. The Army conducted an internal review of the effectiveness of the Army's ICOFR for the Financial Improvement Plan (FIP) assessable units identified in the May 2011 Financial Improvement and Audit Readiness (FIAR) Plan Status Report. The May 2011 FIAR Plan Status Report provides information pertaining to the Army's accomplishments and identifies the schedule for the Army FIP assessable units that are currently under evaluation. Those FIP assessable units that are not shown as "under evaluation" were not assessed. Therefore, I can provide no assurance on areas that are not within those listed in the May 2011 FIAR Plan Status Report for Army.

4. The assessment was conducted in strict compliance with the Office of Management and Budget Circular No. A-123, Appendix A, Department of Defense (DoD) ICOFR Guidance for 2011, and the May 2010 DoD FIAR Guidance under the oversight of the Army's Senior Assessment Team (SAT). The Army SAT is designated to provide

SUBJECT: Office of Management and Budget Circular A-123, Appendix A, Internal Control Over Financial Reporting Assessment Results

oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, the Army is able to provide no assurance that its ICOFR assessable units, as of June 30, 2011, were operating effectively. The Army also asserts that the material weaknesses identifies below and related corrective actions included in Enclosure 1 are supported by the detail included in the Army's FIP as of June 30, 2011, section 3.

- **Material Weaknesses:**

- **Army General Fund:**

| | |
|---|---------------------------------------|
| <i>Fund Balance With Treasury</i> | <i>2nd Quarter FY2014</i> |
| <i>Inventory (Operating Materials and Supplies)</i> | <i>3rd Quarter FY2015</i> |
| <i>General Property, Plant and Equipment</i> | <i>2nd Quarter FY2015</i> |
| <i>Environmental Liabilities</i> | <i>1st Quarter FY2015</i> |
| <i>Intragovernmental Eliminations</i> | <i>1st Quarter FY2015</i> |
| <i>Accounting Adjustments</i> | <i>1st Quarter FY2015</i> |
| <i>Statement of Net Cost</i> | <i>1st Quarter FY2015</i> |
| <i>Abnormal Account Balances</i> | <i>1st Quarter FY2015</i> |
| <i>Accounts Receivable</i> | <i>1st Quarter FY2015</i> |
| <i>Accounts Payable</i> | <i>1st Quarter FY2015</i> |
| <i>Statement of Budgetary Resources</i> | <i>1st Quarter FY2015</i> |
| <i>Reconciliation of Net Cost of Operations to Budget</i> | <i>1st Quarter FY2015</i> |
| <i>Contingency Payment Audit Trails</i> | <i>1st Quarter FY 2012</i> |

- **Army Working Capital Fund:**

| | |
|---|---------------------------------------|
| <i>Statement of Budgetary Resources</i> | <i>2nd Quarter FY2015</i> |
| <i>Inventory</i> | <i>3rd Quarter FY2015</i> |
| <i>General Property, Plant and Equipment</i> | <i>2nd Quarter FY2015</i> |
| <i>Intragovernmental Eliminations</i> | <i>1st Quarter FY2015</i> |
| <i>Accounting Adjustments (Other Accounting Entries)</i> | <i>1st Quarter FY 2013</i> |
| <i>Statement of Net Cost</i> | <i>1st Quarter FY2015</i> |
| <i>Accounts Payable</i> | <i>1st Quarter FY2015</i> |
| <i>Reconciliation of Net Cost of Operations to Budget</i> | <i>1st Quarter FY2015</i> |
| <i>Abnormal Account Balances</i> | <i>1st Quarter FY 2013</i> |

- **Corrected Material Weaknesses:**

None

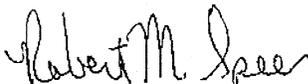
5. I have included a crosswalk of the Army's ICOFR material weaknesses to the DoD material weaknesses in Enclosure 2. Although DoD identified non-appropriated fund (NAF) budget authority as a weakness, the Army did not identify NAF budget authority as an ICOFR material weakness because this activity was not assessed. We will assess NAF budgetary authority in Fiscal Year 2012 and report a material weakness

SUBJECT: Office of Management and Budget Circular A-123, Appendix A, Internal Control Over Financial Reporting Assessment Results

as determined by the Senior Assessment Team. Enclosure 1 identifies each material weakness and current corrective action target date. We are reporting no material weaknesses corrected in Fiscal Year 2011.

6. My point of contact for the Army OMB Circular A-123, Appendix A program is Mr. James J. Watkins at (703) 601-0512 or james.j.watkins@us.army.mil.

Encl


for Dr. Mary Sally Matiella, CPA

(TAB D-2)
SUMMARY OF FUND BALANCE WITH TREASURY (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 2nd Qtr FY 2012

Target Date on Prior Year SOA: 2nd Qtr FY 2014

Status: On Track

Current Target Date: 2nd Qtr FY 2014

Description of Weakness: Inability to reconcile disbursement transactions at the detail transaction level with transactions reported to the Treasury.

Corrective Action: Army will work with DFAS to develop an auditable Fund Balance with Treasury (FBWT) reconciliation process, to include implementation of internal controls that ensure reconciling differences are resolved appropriately. Army is developing a test reconciliation process with DFAS-Indianapolis, which will result in identifying the requirements for an automated solution.

Impediments: The current process employs a myriad of legacy systems and processes operated by DFAS, creating multiple reconciliation points. Consequently, the reconciliation process may not lend itself to an automated solution, and may instead need to be redesigned completely.

(TAB D-2)
SUMMARY OF INVENTORY (OPERATING MATERIALS AND SUPPLIES)
(GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 2nd Qtr FY 2015

Target Date on Prior Year SOA: 4th Qtr FY 2015

Status: On Track

Current Target Date: 3rd Qtr FY 2015

Description of Weakness: 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 cannot produce financial transactions using the U.S. Government Standard General Ledger.

Corrective Action: Full deployment of the General Funds Enterprise Business System (GFEBS) and Global Combat Support System-Army (GCSS-A) provide the required general ledger processing capability. Additional corrective actions are needed to ensure required physical inventories are conducted and properly documented

Impediments: Slippage in the GCSS-A deployment schedule may directly impact Army's ability to resolve the noted weakness. Maintenance of historical cost data may be a costly endeavor providing little value in managing the Army's appropriations.

(TAB D-2)
SUMMARY OF GENERAL PROPERTY, PLANT AND EQUIPMENT
(GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 2nd Qtr FY 2012

Target Date on Prior Year SOA: 2nd Qtr FY 2014

Status: Slipped

Current Target Date: 2nd Qtr FY 2015

Description of Weakness: General Property, Plant and Equipment are not recorded at acquisition or historical cost and do not include all costs needed to bring these assets to a form and location suitable for their intended use.

Corrective Action: The Army will work with the Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) to develop a methodology to report General Property, Plant and Equipment values providing useful and reliable information. Army is currently evaluating and implementing internal controls to ensure General Property, Plant and Equipment assets are accurately recorded and managed in the property systems of record; and ensuring financial accountability systems for all Military Table of Equipment unit property books comply with the Federal Financial Improvement Act of 1996.

Impediments: Army may not have documentation sufficient to support recorded values, and may need to employ alternate valuation methods.

(TAB D-2)
SUMMARY OF ENVIRONMENTAL LIABILITIES (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 1st Qtr FY 2012

Target Date on Prior Year SOA: 4th Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: The Army has not properly estimated and reported its environmental liabilities.

Corrective Action: Army will implement systems, processes and controls to ensure the accuracy of site level liability data for the processes used to report environmental liabilities. Automated systems currently in development will manage, track, and report environmental liabilities by project, which will help address many of the current impediments to an auditable outcome.

Impediments: None at this time.

(TAB D-2)
SUMMARY OF INTRAGOVERNMENTAL ELIMINATIONS (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: DOD and Army are unable to collect, exchange and reconcile buyer and seller Intragovernmental transactions, resulting in adjustments that cannot be verified.

Corrective Action: Army will fully deploy GFEBs and the Standard Financial Information Structure (SFIS) as a means to identify and reconcile intragovernmental trading partner transactions.

Impediments: Since many DOD and Army systems do not capture trading partner data at the transactional level, deploying GFEBs alone may not be sufficient to solve this weakness.

(TAB D-2)
SUMMARY OF ACCOUNTING ADJUSTMENTS (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: During fiscal year 2010 DFAS processed \$27.9 billion in unsupported journal voucher adjustments to prepare the Army's general fund financial statements.

Corrective Action: Army will fully deploy GFEBS in fiscal year 2012 and ensure the system's capabilities are functioning properly. Full GFEBS deployment enables the Army to submit a general fund trial balance directly to DFAS using the Standard Financial Information Structure (SFIS), eliminating unsupported journal voucher adjustments.

Impediments: We anticipate some level of journal voucher processing in the GFEBS environment. Documentation policies will need to be in place and operating effectively to ensure an auditable outcome.

(TAB D-2)
SUMMARY OF STATEMENT OF NET COST (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: 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.

Corrective Action: Army will report the Statement of Net Costs in accordance with programs described in the DOD Strategic and Performance Plans. Army will also fully deploy GFEBS and ensure the system's capabilities are functioning properly.

Impediments: None at this time.

(TAB D-2)
SUMMARY OF ABNORMAL ACCOUNT BALANCES (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 1st Qtr FY 2012

Target Date on Prior Year SOA: 2nd Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: In FY 2010, DFAS did not detect, report, or take action to eliminate the abnormal balances included in the Army General Fund accounting records. 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.

Corrective Action: Full deployment of GFEBS enables the Army to detect and correct abnormal balances through routine general ledger tie point reconciliations and other processes.

Impediments: Abnormal balances may continue with interface partners.

(TAB D-2)
SUMMARY OF ACCOUNTS RECEIVABLE (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2013

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: Inability to document accounts receivable at the detail transaction level, mismatches between entitlement systems and accounting systems, noncompliance with policies and procedures regarding referrals to the Debt Management Office of the Department of Treasury, and inability to age debts and assess interest.

Corrective Action: Implementation of the General Fund Enterprise Business Systems (GFEBS) enables audit of receivables to source transaction posting to the general ledger. GFEBS also provides the ability to age receivables and assess interest.

Impediments: Feeder systems performing entitlement activity may not be able to provide data necessary to properly account for all receivables.

(TAB D-2)
SUMMARY OF ACCOUNTS PAYABLE (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 2nd Qtr FY 2012

Target Date on Prior Year SOA: 3rd Qtr FY 2013

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: Lack of integration between contracting, entitlement, payment, and accounting systems prevents the Army from properly recording and reporting accounts payable.

Corrective Action: The General Fund Enterprise Business System (GFEBS) provides the ability to record payables upon receipt of goods and services. GFEBS also integrates many of the contracting, entitlement, payment, and accounting functions.

Impediments: Non-integrated contracting and entitlement systems may not provide required information to properly record and report accounts payable.

(TAB D-2)
SUMMARY OF STATEMENT OF BUDGETARY RESOURCES (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: 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."

Corrective Action: Army is conducting installation-level audit readiness work to implement effective internal controls over the budget distribution and execution processes. Army will fully deploy the General Fund Enterprise Business System (GFEBS) and ensure the system's capabilities are functioning properly.

Impediments: None at this time.

(TAB D-2)
SUMMARY OF RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET
(GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: Due to limitations in the legacy system environment, the Army cannot accurately represent the relationship between budgetary obligations incurred and Statement of Net Costs.

Corrective Action: Integrated capabilities of the General Fund Enterprise Business System (GFEBS) will enable the Army to represent relationships between budgetary obligations incurred and Statement of Net Costs.

Impediments: None at this time.

(TAB D-2)
SUMMARY OF CONTINGENCY PAYMENT AUDIT TRAILS (GENERAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2009

Original Target Date: 2nd Qtr FY 2009

Target Date on Prior Year SOA: 2nd Qtr FY 2011

Status: Slipped

Current Target Date: 1st Qtr FY 2012

Description of Weakness: The maintenance of substantiating documents by certifying and entitlement activities creates significant challenges in tracing audit trails for support of financial statements.

Corrective Action: Army implemented recommendations from audit reports A-2009-0173-ALL, A-2010-0062-ALL and A-2011-0067-ALL to close this material weakness. Army will follow up with USAAA to validate that the recommendations have been implemented.

Impediments: No known impediments to implementing the corrective action plan.

(TAB E-2)
SUMMARY OF STATEMENT OF BUDGETARY RESOURCES
(WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2009

Original Target Date: N/A

Target Date on Prior Year SOA: 2nd Qtr FY 2015

Status: On Track

Current Target Date: 2nd Qtr FY 2015

Description of Weakness: The Defense Finance and Accounting Service (DFAS) relies on un-auditable crosswalks and other processes when using budget execution data obtained from legacy systems to prepare the Statement of Budgetary Resources.

Corrective Action: Full implementation of the Standard Financial Information Structure (SFIS) in the Logistics Modernization Program (LMP) will enable the Army to submit a trial balance directly to DFAS and eliminate the need to rely on current un-auditable processes when preparing the Statement of Budgetary Resources.

Impediments: The LMP environment continues to rely on legacy business processes and systems that may not enable an auditable outcome without significant corrective actions.

(TAB E-2)
SUMMARY OF INVENTORY (WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 2nd Qtr FY 2015

Target Date on Prior Year SOA: 4th Qtr FY 2015

Status: On Track

Current Target Date: 3rd Qtr FY 2015

Description of Weakness: 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 cannot produce financial transactions using the U.S. Government Standard General Ledger.

Corrective Action: Full deployment of the Logistics Modernization Program (LMP) provides the required general ledger processing capability. Additional corrective actions are needed to ensure required physical inventories are conducted and properly documented, and LMP processes are stable.

Impediments: Ability to reconcile and document actions necessary to correct abnormal balances resulting from legacy system data conversions.

(TAB E-2)
SUMMARY OF GENERAL PROPERTY, PLANT AND EQUIPMENT
(WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 1st Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2014

Status: Slipped

Current Target Date: 2nd Qtr FY 2015

Description of Weakness: General Property, Plant and Equipment are not recorded at acquisition or historical cost and do not include all costs needed to bring these assets to a form and location suitable for their intended use.

Corrective Action: The Army will work with the Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) to develop a methodology to report General Property, Plant and Equipment values providing useful and reliable information. Army is currently evaluating and implementing internal controls to ensure General Property, Plant and Equipment assets are accurately recorded and managed in the property systems of record; and ensuring financial accountability systems for all Military Table of Equipment unit property books comply with the Federal Financial Improvement Act of 1996.

Impediments: Army may not have documentation sufficient to support recorded values, and may need to employ alternate valuation methods.

(TAB E-2)
SUMMARY OF INTRAGOVERNMENTAL ELIMINATIONS
(WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 4th Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: DOD and Army are unable to collect, exchange and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified.

Corrective Action: Army will fully deploy the Logistics Modernization Program (LMP) and the Standard Financial Information Structure (SFIS) as a means to identify and reconcile intragovernmental trading partner transactions.

Impediments: Since many DOD and Army systems do not capture trading partner data at the transactional level, deploying LMP alone may not be sufficient to solve this weakness.

(TAB E-2)
SUMMARY OF ACCOUNTING ADJUSTMENTS (OTHER ACCOUNTING ENTRIES)
(WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 1st Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2013

Description of Weakness: During fiscal year 2010 DFAS processed \$14.9 billion in unsupported journal voucher adjustments to prepare the Army's general fund financial statements.

Corrective Action: The Logistics Modernization Program (LMP) will be compliant with the Standard Financial Information Structure (SFIS) enabling the Army to submit a trial balance directly from LMP to DFAS and eliminating the need for unsupported adjustments.

Impediments: We anticipate some level of journal voucher processing in the LMP environment. Documentation policies will need to be in place and operating effectively to ensure an auditable outcome.

(TAB E-2)
SUMMARY OF STATEMENT OF NET COST (WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 1st Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: 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.

Corrective Action: Army will report the Statement of Net Costs in accordance with programs described in the DOD Strategic and Performance Plans.

Impediments: None at this time.

(TAB E-2)
SUMMARY OF ACCOUNTS PAYABLE (WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 2nd Qtr FY 2012

Target Date on Prior Year SOA: 3rd Qtr FY 2013

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: The Army relies on unsupported adjustments processed by DFAS to report accounts payable balances. These adjustments were required to account for undistributed disbursements and intragovernmental accounts payable.

Corrective Action: Army is working on implementing an upgrade for constructive receipts in the Logistics Modernization Program (LMP) that targets correction of the Accounts Payable accounting and reporting issues. The LMP upgrade is scheduled for December 2011. Additional steps that will solidify correction of this weakness include actions to clean up legacy balances, elimination of record data types (RDTs), correction of trading partner data, and full usage of Wide-Area Work Flow (WAWF).

Impediments: Continued reliance on non-integrated contracting and entitlement processes and systems.

(TAB E-2)
SUMMARY OF RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET
(WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2008

Original Target Date: 4th Qtr FY 2011

Target Date on Prior Year SOA: 2nd Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2015

Description of Weakness: In FY 2010, the Army could not reconcile information reported in Note 21 with the Army Working Capital Fund's Statement of Net Cost without preparing \$2.3 billion in unsupported adjustments to the general ledger accounts to force costs to match obligation information.

Corrective Action: The Army has identified a need for an interim solution to perform tie point analysis between the budgetary and proprietary accounts. Such analysis will aid in identifying the postings and business processes that are creating the unsupported adjustments. These system and process improvements will help address this weakness.

Impediments: The system change request to implement tie point analysis in LMP is an unfunded requirement for FY 2012.

(TAB E-2)
SUMMARY OF ABNORMAL ACCOUNT BALANCES
(WORKING CAPITAL FUND)
CORRECTIVE ACTION PLAN

First Year Reported: 2009

Original Target Date: 1st Qtr FY 2012

Target Date on Prior Year SOA: 1st Qtr FY 2012

Status: Slipped

Current Target Date: 1st Qtr FY 2013

Description of Weakness: In FY 2010, the Army Working Capital Fund Industrial Operations and Supply Management activities (limit-level) reported 81 abnormal account balances, valued at \$2.1 billion, including 33 accounts for \$1.6 billion in the Logistics Modernization Program (LMP) environment. The abnormal balances in LMP are caused by incorrect general ledger attributes.

Corrective Action: Full implementation of the Standard Financial Information Structure (SFIS) in LMP will correct the abnormal balances caused by incorrect general ledger attributes. The remaining abnormal balances will be manually reconciled and corrected.

Impediments: Ability to document manual corrections.

| Current Army Material Weakness | DoD Material Weakness (Provided by OUSD(C)) |
|--|---|
| <ul style="list-style-type: none"> N/A | <ul style="list-style-type: none"> Budgetary Authority – Non-Appropriated |
| <ul style="list-style-type: none"> Statement of Budgetary Resources (General Fund) (WCF) <ul style="list-style-type: none"> Budgetary Authority – Appropriated is not a material weakness for Army because Army successfully completed an internal validation and the subsequent audit by KPMG demonstrates auditability & the presences of a sufficient internal control environment | <ul style="list-style-type: none"> Budgetary Authority – Appropriated Civilian Pay Military Pay Order-to-Cash Procure-to-Pay – Contracts Procure-to-Pay – MILSTRIP Orders Procure-to-Pay – Reimbursable Work Orders (Grantor) Procure-to-Pay – Transportation of People |
| <ul style="list-style-type: none"> Fund Balance with Treasury (GF) | <ul style="list-style-type: none"> Fund Balance with Treasury |
| <ul style="list-style-type: none"> Financial Management Systems (GF) (WCF) (Moved from Army ICOFR to ICOFS.) Accounting Adjustments (GF) Other Accounting Entries (WCF) Statement of Net Cost (GF) (WCF) Abnormal Account Balances (GF) (WCF) Accounts Receivable (GF) Accounts Payable (GF) (WCF) Reconciliation of Net Cost of Operations to Budget (GF) (WCF) | <ul style="list-style-type: none"> Financial Reporting |
| <ul style="list-style-type: none"> Intragovernmental Eliminations (GF) (WCF) | <ul style="list-style-type: none"> Intra-governmental Eliminations |
| <ul style="list-style-type: none"> N/A | <ul style="list-style-type: none"> Health Care Liabilities |
| <ul style="list-style-type: none"> General Property, Plant and Equipment (GF) (WCF) | <ul style="list-style-type: none"> Military Equipment General Equipment Real Property |
| <ul style="list-style-type: none"> Environmental Liabilities (GF) | <ul style="list-style-type: none"> Environmental Liabilities |
| <ul style="list-style-type: none"> Inventory (WCF) | <ul style="list-style-type: none"> Inventory |
| <ul style="list-style-type: none"> Inventory (Operating Materials and Supplies) (GF) | <ul style="list-style-type: none"> Operating Materials and Supplies (OM&S) |
| <ul style="list-style-type: none"> Contingency Payment Audit Trails (GF) | <ul style="list-style-type: none"> N/A |

Enclosure