

FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2014
STATEMENT OF ASSURANCE



DEPARTMENT OF THE ARMY



SECRETARY OF THE ARMY
WASHINGTON

INFO MEMO

29-08-2014 OUT

FOR: SECRETARY OF DEFENSE

FROM: John M. McHugh, Secretary of the Army

A handwritten signature in black ink, appearing to read "John M. McHugh", written over the printed name in the "FROM" field.

SUBJECT: Fiscal Year 2014 Statement of Assurance on Internal Controls as Required Under the Federal Managers' Financial Integrity Act of 1982

- The Army is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). TAB A provides specific information on how the Army conducted the assessment of operational internal controls, in accordance with Office of Management & Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, and provides a summary of the significant accomplishments and actions taken to improve the Army's internal controls during Fiscal Year 2014.
- The Army is able to provide a qualified statement of assurance that operational internal controls of the Army meet the objectives of FMFIA with the exception of six unresolved material weaknesses described in TAB B. These weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of the date of this memorandum. Other than these material weaknesses, internal controls were operating effectively.
- The Army conducted an internal review and assessment of the effectiveness of the internal controls over the integrated financial management systems. Based on the results of this assessment, the Army is able to provide a qualified statement of assurance that the internal controls over the integrated financial management systems as of June 30, 2014, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-123, Appendix D, with the exception of three material weaknesses noted in TAB C.
- The Army also conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, Internal Control over Financial Reporting (ICOFR). Based on the results of this assessment, the Army is able to provide a qualified statement of assurance that the internal controls over financial reporting as of June 30, 2014, were operating effectively, with the exception of 23 material weaknesses noted in TABs D-E. The Army continues to show progress in strengthening the internal control environment through leadership involvement, monthly testing events, and audit readiness training efforts. The ICOFR assessment is based upon a review of key control objectives supporting the Statement of Budgetary Resources. For Army Civil Works Funds, I am able to provide an unqualified statement of assurance based on the unqualified audit opinion achieved in Fiscal Year 2014.

Enclosures

LIST of TABs:

TAB A Assessment, Scope and Results

- TAB A-1 The Auditor General's Assessment (U.S. Army Audit Agency Attestation Report)
- TAB A-2 Description of How the Evaluation Was Conducted
- TAB A-3 Managers' Internal Control Program and Related Accomplishments

TAB B Operational Material Weaknesses

- TAB B-1 List of Uncorrected and Corrected Operational Material Weaknesses
- TAB B-2 Operational Material Weaknesses Corrective Action Plans and Milestones
- TAB B-3 Operational Material Weaknesses Corrected During All Periods

TAB C Internal Controls over Financial Systems (ICOFS) Material Weaknesses

- TAB C-1 ICOFS Summary and List of Uncorrected and Corrected ICOFS Material Weaknesses
- TAB C-2 ICOFS Material Weaknesses Corrective Action Plans and Milestones
- TAB C-3 ICOFS Material Weaknesses Corrected During All Periods

TAB D Internal Controls over Financial Reporting (ICOFR) General Fund Material Weaknesses

- TAB D-1 List of Uncorrected and Corrected ICOFR General Fund Material Weaknesses
- TAB D-2 ICOFR General Fund Material Weaknesses Corrective Action Plans and Milestones
- TAB D-3 ICOFR General Fund Material Weaknesses Corrected During All Periods

TAB E ICOFR Army Working Capital Fund Material Weaknesses

- TAB E-1 List of Uncorrected and Corrected ICOFR Army Working Capital Fund Material Weaknesses
- TAB E-2 ICOFR Army Working Capital Fund Material Weaknesses Corrective Action Plans and Milestones
- TAB E-3 ICOFR Army Working Capital Fund Material Weaknesses Corrected During All Periods

TAB A-1

The Auditor General's Assessment

U.S. Army Audit Agency

MICP Attestation Report



DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE AUDITOR GENERAL
6000 6TH STREET, BUILDING 1464
FORT BELVOIR, VA 22060-5609

SAAG-ZA

2 September 2014

MEMORANDUM FOR Secretary of the Army

SUBJECT: Review of the FY 14 Army's Managers' Internal Control Program (Project A-2014-FMR-0143.000), Attestation Report: A-2014-0098-FMR

1. We reviewed the implementation of the FY 14 Army's Managers' Internal Control Program (MICP). The Federal Managers' Financial Integrity Act of 1982 and DOD Instruction 5010.40 require the program. We performed our review in accordance with generally accepted government auditing standards and with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which would be an expression of opinion on the implementation and adequacy of the Army's MICP. Accordingly, we do not express such an opinion.
2. Nothing came to our attention during our review that caused us to believe that the Army didn't continue its efforts to successfully implement the program. Senior Army leadership remained committed to a program that facilitated the establishment and maintenance of effective internal controls, assessment of areas of risk, and correction of material weaknesses. In FY 14, the Army provided qualified statements of assurance over its operational internal controls, financial reporting, and financial systems. However, reporting organizations had significant challenges complying with key operational and financial internal controls. To increase the Army's assurance in its system of internal controls in future years, organizations must take significant action and maintain focus on improving their compliance with key controls.
3. Army leaders demonstrated their commitment by:
 - Conducting quarterly meetings of the Senior-Level Steering Committee/Senior Assessment Team to review ongoing program issues and to work toward correcting previously reported Army-level nonfinancial operating, financial reporting, and financial systems material weaknesses.

SAAG-ZA

SUBJECT: Review of the FY 14 Army's Managers' Internal Control Program (Project A-2014-FMR-0143.000), Attestation Report: A-2014-0098-FMR

- Holding quarterly meetings of the Army Audit Committee to review results of monthly testing and exams as well as providing updates to the Vice Chief of Staff, Army to discuss testing results and needed corrective action plans with all Army principal commands.
- Maintaining an Army Internal Control portal on Army Knowledge Online and an email network of commands and Headquarters, DA Internal Control Administrators to provide internal control information and guidance, and address issues in a timely manner.
- Maintaining a user-friendly accountability and audit readiness Army Knowledge Online site with valuable information on internal control self-assessments and on improving controls for audit readiness.
- Including audit readiness as part of the 2014 Army Campaign Plan.
- Taking action to assess and improve internal controls essential for successful audits of the FY 14 General Fund Schedule of Budgetary Activity and all FY 17 Army financial statements. For example, the Army conducted monthly testing of controls and transactions for the Schedule of Budgetary Activity and existence and completeness of equipment.
- Employing internal audit capabilities to identify and correct internal control weaknesses. They continued to request that the Army Audit Agency conduct audits of areas of concern.
- Continuing to work to implement recommendations in a timely manner. As of 9 July 2014, Army organizations reported 182 unimplemented Army Audit Agency recommendations – a 15-percent decrease from the 215 unimplemented recommendations reported as of 26 July 2013. Of these 182 recommendations, only 41 exceeded their originally agreed-to target dates for implementing corrective actions by 6 months or more. We periodically notify you and your principal leaders of overdue unimplemented recommendations to maintain a sharp focus on this area.

In addition, actions taken by the Accountability and Audit Readiness Directorate in the Office of the Deputy Assistant Secretary of the Army (Financial Operations) continued to positively affect the overall program. The directorate's actions included:

- Providing computer-based MICP training to key Army internal control personnel, enabling them to identify and access needed training more easily.

SAAG-ZA

SUBJECT: Review of the FY 14 Army's Managers' Internal Control Program (Project A-2014-FMR-0143.000), Attestation Report: A-2014-0098-FMR

- Identifying, reporting, and monitoring material weaknesses. During FY 14, the Army reported 32 uncorrected material weaknesses (6 operational, 23 financial reporting, and 3 financial system weaknesses). The directorate continued to actively monitor the status of these weaknesses and assist material weakness owners in ensuring timely resolution.
- Providing periodic updates to the Army Audit Committee and to the Vice Chief of Staff, Army during Strategic Readiness Updates.
- Sampling monthly test controls that are key to financial statement audit readiness as well as recommendations to implement or improve internal controls.
- Requiring, for the first time, the use of the Army Commanders' Audit Readiness Checklist to assess and report in the Annual Statement of Assurance the effectiveness of control activities over the Statement of Budgetary Resources and existence and completeness of assets.

4. Although senior Army leadership remained committed to a program that facilitated the establishment and maintenance of effective internal controls, assessment of areas of risk, and correction of material weaknesses, some had significant challenges complying with internal control processes and procedures. During FY 14, Army activities fell short of achieving the goal of successfully passing 95 percent of the existence and completeness, and Statement of Budgetary Resources related control tests. Our review of the Army's compliance with key internal controls through regularly scheduled audits showed that about 39 percent of the controls we evaluated were in place and operating. Further, we found one of the three direct reporting organizations we reviewed during this attestation didn't sufficiently support the positive assurance that it gave for its controls over financial reporting. Additionally, Exam 3 of the Army's Schedule of Budgetary Activity (the current year activity and appropriations included in the Army's Statement of Budgetary Resources) conducted by an independent public accounting firm identified issues in complying with existing internal controls. Here are some details:

- During FY 14 Army activities continued to fall short of the goal of successfully passing 95 percent of the Statement of Budgetary Resources related and existence and completeness control tests, but there are signs of progress. Early in the year Armywide passing rates ranged from 43 percent to 59 percent. With increased leadership emphasis, compliance rates improved significantly between May and July 2014, with overall pass rates ranging from 72 percent to 80 percent.
- About 39 percent of controls we evaluated during our 105 audits (with reports issued 1 July 2013 through 30 June 2014) were in place and operating. In our

SAAG-ZA

SUBJECT: Review of the FY 14 Army's Managers' Internal Control Program (Project A-2014-FMR-0143.000), Attestation Report: A-2014-0098-FMR

previous five review attestations, we reported that the percentage of internal controls that were in place and operating ranged from 53 percent to 40 percent. Many of the audits we perform are requests from Army leaders based on their concerns or from our risk analysis. Thus, there's a greater likelihood of internal control weaknesses. Therefore, we can't make an overall conclusion on the status of internal controls Armywide. However, these percentages show that there are still challenges for Army organizations in ensuring that key internal controls are in place and operating.

- One of the three direct reporting organizations we reviewed during our attestation gave a positive assertion on controls over financial reporting without any supporting documentation from subordinate organizations. Our review of the organization and its subordinate organizations also found that it hadn't required any MICP training for personnel with key internal control responsibilities since January 2012, likely a contributing factor to the insufficiency of support for the statement of assurance. The other two organizations sufficiently supported their statement of assurance regarding controls over financial reporting (to specifically include an additional assertion on the Statement of Budgetary Resources and existence and completeness of assets) and training accomplishments. During FY 14 and FY 15, we'll include additional audit coverage of selected Army organizations' compliance with the program during our audits of Army's audit readiness efforts.
 - An independent public accounting firm issued an adverse opinion related to the design and operating effectiveness of the Army's control activities over its preparation of the Schedule of Budgetary Activity and the sufficiency and availability of key documentation supporting the schedule. The accounting firm's report, issued on 30 April 2014, identified material weaknesses in six areas: data populations, supporting documentation, internal controls, financial reporting, Army-owned feeder systems, and certain General Fund Enterprise Business Systems controls. The independent public accounting firm also opined that going through an audit would provide the Army with better insight on areas that it may need to address. The Army plans to assert that it is ready for an audit on its Schedule of Budgetary Activity in the fourth quarter of FY 14. We agree that an audit will provide the Army with additional insight on its financial reporting strengths and weaknesses and help it improve its processes
5. We also provided input on updating internal control-related content in various Army regulations and continued to provide recommendations to help the Army develop solutions to various issues. Specifically:
- We reviewed 67 regulations and determined that functional proponents could better meet requirements in AR 11-2 (Managers' Internal Control Program) by

SAAG-ZA

SUBJECT: Review of the FY 14 Army's Managers' Internal Control Program (Project A-2014-FMR-0143.000), Attestation Report: A-2014-0098-FMR

ensuring that regulations include the terminology or format provided in the regulation as well as a process to evaluate whether key internal controls are in place and being used as intended. Twenty-five regulations had statements that addressed internal controls, but they didn't use the correct terminology. Thirteen regulations didn't include processes to examine whether controls were in place and being used as intended. We communicated these needed improvements to the responsible Army functional proponents.

- We continued to make recommendations during our audits to strengthen controls and Army leaders have demonstrated their commitment to implementing our recommendations. For example, as of 30 June 2014, Army commanders implemented about 95 percent of the recommendations we made during FY 12.
6. Although significant opportunities for improvement exist, we didn't 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

DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

Guidelines for the Evaluation

Army senior leaders evaluated the system of internal accounting and administrative controls in effect during the fiscal year ending September 30, 2014, 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.

TAB A-2

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 2014 (FY14), 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.

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 Headquarters, Department of the Army (HQDA):
 - o The Army's Senior Level Steering Group/Senior Assessment Team (SLSG/SAT), a senior management council, as recommended by OMB Circular A-123, met quarterly during FY14 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-

TAB A-2

going internal control issues, and worked toward correcting previously reported material weaknesses by developing a sound and jointly agreed upon action plan.

- o Working with the SLSG/SAT, Office of Deputy Assistant Secretary of the Army (Financial Operations) (ODASA (FO)) personnel, continue to monitor the status of open material weaknesses and provide assistance to the material weakness owners to ensure timely resolution of the weaknesses by developing a sound and jointly agreed-upon scope of condition and action plan by representatives from the weakness owners' office and the USAAA.
- o Army Audit Committee was established and Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)) chaired the meeting. The levels of members of the audit committee are at the Assistant Secretary of the Army (ASA) and Deputy Chief of Staff (DCS). Briefed the Vice Chief of Staff, Army (VCSA) quarterly at the Strategic Readiness Update on monthly audit readiness test results and correction actions. The VCSA directed each Commander to acknowledge the test results and provide specific corrective actions for monthly Statement of Budgetary Resources (SBR) test failures.
- o Developed and implemented the Commander's Audit Readiness Checklist which requires commanders to report on the status of control effectiveness, testing results, and corrective action implementation.
- o Maintained an Army Internal Control Web site, an Internal Control portal on Army Knowledge Online (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.
- o Continued coordination with the Office of the Under Secretary of Defense (Comptroller) to ensure the Managers' Internal Control Program include 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.
- o Office of the Secretary of Defense (OSD) and Army Anti-deficiency Act (ADA) Program caseload is reconciled on a monthly basis and all preliminary and formal reports of investigation are reviewed to ensure that the reports are thorough, supportable and compliant with Army and OSD policy. Reports of external audit agencies and Army data is analyzed for trends that indicate weaknesses in internal controls and additional measures are recommended to reduce recurrence of similar violations. Senior leaders are briefed on a weekly basis and ADA guidance for Army staff and commands is formulated, coordinated and disseminated. Meetings and teleconferences with commands are conducted as needed to monitor the progress of investigations and manage the conduct of the ADA investigations.
- Strong "Tone at the Top" support for the Manager's Internal Control Program was also demonstrated throughout the Army. Here are some examples:

TAB A-2

- o 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 FY14. Through memorandums and staff meetings, Commanders solicited support from all key personnel and managers to make the Managers' Internal Control Program (MICP) first-rate without exception. The memorandums helped illustrate the OTSG/MEDCOM leadership involvement in the MICP and the emphasis they place on the program at all organizational levels.
- o Army Materiel Command (AMC) 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 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. Major Subordinate Commands (MSCs) signed and issued Command Emphasis memorandums on the Command Internal Control Process. It addresses preventing waste, fraud, and abuse through diligent application of sound internal control principles.
- o U.S. Army Training and Doctrine Command (TRADOC) senior leaders were directly involved in the evaluation of internal controls. TRADOC's 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.

Risk-Based Program

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 (MICP) 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 are:

- Office of the Surgeon General/Medical Command (OTSG/MEDCOM)
 - o OTSG/MEDCOM used a variety of organizational evaluation and assessment methods to support the statement of assurance. It used an organizational inspection program, risk assessments, functional team reviews, audits, inspections, investigations, staff assistance visits, and special reviews to ensure adherence to regulations, directives, and other policies.
- Assistant Secretary of the Army, Acquisition, Logistics and Technology (ASA (ALT)) Program Executive Office Ground Combat Systems (PEO GCS).
 - o 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

TAB A-2

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.

Communication Framework

- Headquarters, Department of the Army 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 Army-wide Internal Control Program information 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 as follows:
 - The OTSG/MEDCOM Internal Control Administrator used email and the newsletter as the principal means to disseminate information throughout our MICP network. Its improved MICP internet website provides such items as executive correspondence, training information, and MICP guidance. Its MICP website also includes online MICP training videos. It used e-mail networks to accelerate resolution of emerging issues affecting internal controls and, specifically, material weaknesses reported. It held video and audio teleconferences within the OTSG/MEDCOM and with the TRICARE Management Activities (TMA) to discuss MICP issues in the areas of education, program execution and material weakness resolution and monitoring.
 - U.S. Army Forces Command (FORSCOM) maintained an 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 also maintained a MICP website, which includes FORSCOM ICA directory, training and briefing materials, other resource materials, video teleconference (VTC) schedule, training opportunities, website links, and other useful MICP information.

TAB A-2

Identification of Assessable Units

- o Assessable units reporting directly to HQDA (direct reporting organizations) are identified in regulation AR11-2, Army Managers' Internal Control Program, and updated when reorganization requires.
- o There are currently 45 direct reporting organizations. A total of 1,539 assessable units were identified as subordinate reporting assessable units under the 45 reporting organizations.

Assignment of Responsibilities

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

- o AMC maintained a framework for pinpointing responsibility and accountability to achieve Federal Managers Integrity Act objectives. AMC established and maintained a network of ICAs to:
 - o Distribute Management Control guidance and requirements.
 - o Provide training, instructions, and assistance to managers.
 - o Provide status of reported management control weaknesses.
 - o Identify positions warranting inclusion of management control responsibilities within job performance standards.
 - o 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).
 - o Keep the commander and senior managers advised to ensure a sound basis for the annual statement of assurance.

Reliance upon Subordinate Certification Statements

In FY14 supporting feeder statements were received from all 45 Army reporting organizations. In turn, reporting organizations also require feeder statements from their subordinate assessable units. For example, U.S. Army Cyber Command's Headquarter Staff and Major Subordinate Commands (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, Army Commands, Army Service Component Commands and Direct Reporting Units prepared FY14 assurance statements with documented evidence of internal control training completed by their activities. The following is a summary of internal control training initiatives for FY14:

TAB A-2

- Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA (FM&C)):
 - Held monthly meetings with material weakness sponsors to ensure progress towards resolution. Continued to hold quarterly Managers' Internal Control Program (MICP) video-teleconferences with representatives from all 45 direct reporting organizations to share the latest internal control requirements, regulatory changes, and to address all questions, concerns and issues impacting the Army MICP.
 - Participated in workshops, seminars and training sessions either as guest speakers or as instructors with Department of Defense, Army commands, Army service component commands, direct reporting units and Headquarters Department of the Army Principal Officials.
 - Initiated daily, weekly, and monthly teleconferences with representatives from all Army Commands (ACOMs), HQDA staff, Defense Finance and Accounting Service (DFAS), OSD, and other key stakeholders to identify, issues, develop corrective actions and disseminate latest internal control requirements, regulatory, policy, or statutory changes and updates and address all questions, concerns and/or issues impacting the Army.
 - Throughout FY 2014, ASA (FM&C) personnel developed, in coordination with the Army Learning Management System (ALMS), an internal control computer-based training (CBT) program. The CBT consists of seven courses that pertain to the student's role in the Army MICP: 1) Internal Control Administrator; 2) Internal Control Administrator Refresher; 3) Assessable Unit Manager; 4) Senior Responsible Official; 5) Army Manager; 6) Personnel Conducting Evaluations and 7) Internal Controls in Army Regulations. All courses require students to register and complete an exam (70 percent pass/fail). Upon successful completion, the student receives a generated certificate of completion. Since July 26, 2010, 49,895 personnel have successfully completed the training. This training is available Army-wide at no cost through AKO on the ALMS portal.
- Training and Doctrine Command (TRADOC)
 - A vital element in TRADOC's Internal Control Program was continuous and up to date training for all personnel involved in any aspect of the program. TRADOC continued its training at all levels to ensure that managers and employees were aware of their responsibilities for an effective internal control program in all areas of their organizations. TRADOC ICAs provided training to Assessable Unit Managers (AUMs), as well as facilitated onsite training, desk-side reviews, and conducted periodic refresher training for ICAs and one on one session, as personnel turnover dictates. 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 current training opportunities, updated and current regulatory guidance, and conferences that included the topic of internal controls.

TAB A-2

- Assistant Chief of Staff Installation Management (ACSIM) and Installation Management Command (IMCOM) established aggressive MICEP training to ensure all personnel are aware of and understand their roles and responsibilities, how to apply them in daily operations, and understand the incremental responsibilities for using the Army's standardized evaluations or acceptable alternative reviews for day-to-day guidance and periodic formal application.
- Army Test and Evaluation Command (ATEC): Through the use of formal, in-house, desk-side and other methods of training, a total of 86 personnel within ATEC have been trained this year, according to their role, on the internal control program. ATEC has adopted HQDA Army Learning Management System (ALMS) training as a minimal requirement for all roles. The ATEC ICA attended DA sponsored quarterly VTCs and provided minutes to all subordinate commands and directorates.

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.

- AMC Portal. AMC created an integrated master schedule (IMS) to direct, manage and control the Logistics Information Warehouse (LIW) project. This project increased reliability and dependability of strategic supply chain metrics by inclusion of non-Enterprise Resourcing Plan (ERP) data into LIW. It will allow the repository to be federated with the enterprise resource planning systems to include Logistics Modernization Program (LMP), Global Combat Support System-Army (GCSS-A), Army Materiel Master and General Fund Enterprise Business System (GFEBS). The benefits of the structure IMS include: greater clarity of leadership's intent for those performing tasks; empirical metrics of mission accomplishment versus plan; consumable executive-level metrics regarding the progress of LIW; and a well-defined project management map used by project managers to ensure the project scope remains within time, cost and performance boundaries throughout the project lifecycle. It has also allowed insight into discrete milestone achievement inside the overall project.
- FORSCOM. The Commander's Financial Management Health Report (FMHR) establishes the framework for the FORSCOM ICOFR program and provides commanders with the knowledge and understanding required to enforce fiscal standards within their organizations through visibility, accountability, transparency, oversight and control of their financial information. The FMHR provides a monthly assessment of the command's overall financial readiness and is one more tool to assist in achieving full auditability. The 52 metrics within the FMHR assist commanders to objectively and reliably measure progress against the Army's overall financial performance goals. The FMHR also incorporates all Audit Readiness controls into an Audit Readiness annex and is very similar to the OASA(FM&C) Commander's Audit Readiness Checklist. Further, the FMHR helps commanders understand what is transpiring in the financial systems on a given day and the risks "not met" metrics pose to audit readiness and the overall financial health of the command. The FMHR and Audit Readiness annex allows commanders to take deliberate action where and when appropriate within the systems to

TAB A-2

improve combat readiness, maximize buying power, improve internal controls and to move toward unqualified auditable financial statements. This will ensure the public's continued trust and confidence in FORSCOM's ability to be exceptional stewards of taxpayers' dollars.

Use of Performance Standards

Army Regulation (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:

- o The Joint Munitions Command (JMC) Executive Director (Acting Commander) signed and issued a memorandum titled "Internal Controls Statements of Responsibility in Performance Agreements." 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.
- o Army NORTH 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 Army NORTH Internal Control Plan.

MICP Instruction/Regulations

- Assistant Secretary of the Army (Financial Management and Comptroller):
 - o FY 2014 annual guidance on the preparation of the annual statement of assurance was distributed to all 45 direct reporting organizations on October 7, 2013. The FY 14 guidance included detailed guidance on Statement of Budgetary Resources, Existence and Completeness audit readiness checklists.
 - o All Army regulations are required to identify key internal controls. ASA (FM&C) has reviewed over 180 Army regulations in FY 2014, and provided the Army Publishing Directorate, Office of the Administrative Assistant to the Secretary of the Army, with internal control guidance and comments 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."

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 will be conducted in one of two ways:

- o 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.
- o 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. 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.

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. 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. The Auditor General supports the

TAB A-2

development of the Secretary Army's annual statement of assurance by identifying potential Army material weaknesses for consideration by HQDA functional proponents.

MANAGERS' INTERNAL CONTROL PROGRAM AND RELATED ACCOMPLISHMENTS

Assistant Secretary of the Army (Financial Management & Comptroller) (ASA (FM&C))

Description of Issue: Improvement of Internal Controls throughout the Department of the Army.

Accomplishment: To further the Army's implementation of the Chief Financial Officers Act of 1990, ASA (FM&C) continued our work to refine the Army Financial Improvement Plan (FIP) to reflect the department's new priorities; existence and completeness (E&C) of mission critical assets and assertion of the Statement of Budgetary Resources (SBR). The FIP is the Army's roadmap for meeting these requirements through improved business processes and systems. As these business processes improve, so too will the quality of the information vital to the Army's decision makers. It also includes actions required to correct previously identified internal control weaknesses (both operational and those the auditors identify each year during their annual review of the Army's financial statements). To ensure that the FIP is kept current, ASA(FM&C) continues to work closely with stakeholders and solicit updates on a quarterly basis, as well as conduct executive level meetings (called the Army Audit Committee) to monitor progress, review action plans and update the FIP as required.

The ASA (FM&C) is focused on the Department of the Army's audit readiness efforts and continue work to correct financial reporting material weaknesses. To that end, it has taken initiative to work directly with our Enterprise Resource Planning (ERP) developers to ensure to build compliant general ledgers and place tight controls around the journal voucher and adjustment processes for our financial reports. The Army has fully resourced and is executing a comprehensive audit readiness plan to achieve the Undersecretary of Defense (Comptroller's) priorities of focusing on the SBR and the E&C of mission critical assets. Additionally, the plan will enable Army to achieve Congressionally-mandated audit readiness requirements by September 2017. More importantly, Army's plan is designed to sustain an auditable environment.

The Army's approach to audit readiness is aligned with the deployments of ERP financial management systems. The approach focuses heavily on training and developing Army personnel across all business processes in order to support and sustain audit readiness. To execute this plan, the Army is implementing reliable internal controls across its business processes and systems. Audit Readiness Teams deploy to Army installations documenting business processes, testing existing internal controls, and communicating corrective actions to develop, improve or implement internal controls, and training personnel to embed audit readiness principles into daily operations. To date more than 24,000 Army Soldiers, Civilians, and Contractors have been trained. The Army also has a dedicated audit readiness team that works cooperatively with the General Fund Enterprise Business System (GFEBS) and Global Combat Supply System – Army (GCSS-Army) Program Management Offices (PMO) to evaluate and establish appropriate manual and automated internal controls within the systems.

TAB A-3

Description of Issue: Army Managers' Internal Control Program (MICP) Computer-based Training

Accomplishment: Since July 2010, ASA (FM&C) has completed development of seven computer-based training (CBT) courses that pertain to the student's role in the Army MICP. 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 and continuing professional education credit. The seven training courses are:

1. Internal Control Administrator
2. Internal Control Administrator Refresher
3. Assessable Unit Manager
4. Senior Responsible Official
5. Army Manager
6. Personnel Conducting Evaluations
7. Internal Controls in Army Regulations

Since July 2010, a total of 49,895 personnel have successfully completed the training. This training is available Army-wide at no cost through Army Knowledge Online (AKO) on the Army Learning Management System (ALMS) portal. In fiscal year (FY) 2013, the DASA(FO) mandated minimum training requirements for personnel with internal control responsibilities. Due to the mandated minimum training requirements issued by the DASA(FO), we have seen a substantial increase in personnel completing the CBT. From 1 March 2013 to 1 March 2014, a total of 16,666 personnel completed the MICP CBT. A breakout is provided below:

Course Title	Total Personnel Trained (26 July 2010-1 March 2014)
Internal Control Administrators (ICA) Course	7,543
Internal Control Administrators (ICA) Refresher Course	1,837
Senior Responsible Officials (SRO) Course	1,056
Assessable Unit Managers (AUM) Course	10,815
Managers' Course	10,822
Personnel Conducting Evaluations	11,853
Internal Controls in Army Regulations	<u>5,969</u>
Total	49,895

Description of Issue: Fund Balance with Treasury Reconciliation.

Accomplishment: The Army has a long-standing problem in reconciling transaction activity in their Fund Balance with Treasury (FBwT) account. The appropriation balances recorded in the accounting records do not agree with the balances held at Treasury. The journal vouchers prepared by the Defense Finance and Accounting Service (DFAS) - Indianapolis to balance the Army's FBwT account with the Treasury are not supported with substantiating documents. Army completed the functional development of its automated reconciliation tool, Army Fund Balance with Treasury Tool (AFT); and began initial operational capability with the tool reconciling Army detail disbursing transactions from ERP accounting systems with the Treasury's Cash Accountability Reporting System beginning with FY 2013 data. In April 2014, Army conducted a

TAB A-3

test of AFT's initial operational capability examining the application controls and reconciliation capability of the tool and determined that the tool is ready to move into production. Army milestone to fully implement AFT reconciliation tool procedures at the Defense Finance and Accounting Service - Indianapolis to substantiate the monthly journal vouchers which balance the Army's FBwT account with the Treasury is June 2014. FBwT will be a part of the Army's 30 June 2014 Statement of Budgetary Activity audit readiness assertion.

Description of Issue: Quarterly Financial Statements.

Accomplishment: In accordance with Office of management and Budget (OMB) requirements, we will continue to produce quarterly financial statements and publish an annual statement for the U.S. Army Corps of Engineers Civil Works fund, the Army's General Fund and Working Capital Fund for FY 2014. We will continue quarterly joint reviews with our service provider, DFAS, to review the accuracy and completeness of the Army's financial statements and explanatory notes. These reviews ensure that we adequately identify the business events that led to major fluctuations between reporting periods, that manually collected financial data is accurate and complete, and that required disclosures are included in the notes to the statements.

Description of Issue: Financial Reporting Efforts.

Accomplishment: We are focused on the Department's audit readiness efforts and continue work to correct financial reporting material weaknesses reported. To that end, we have taken the initiative to work directly with the developers for our ERPs (Logistics Modernization Program (LMP), General Fund Enterprise Business System (GFEBS), and Global Combat Support System-Army (GCSS-A)) to ensure we build compliant general ledgers, place tight controls around the journal voucher and adjustment processes, and execute corrective actions for other general ledger related issues. In addition, we continue concerted efforts to ensure the ERPs are Standard Financial Information Structure (SFIS) and Federal Financial Management Improvement Act (FFMIA) compliant; key components for the systems to be audit ready. The actions we're taking in these areas will help address the longstanding financial material weaknesses related to Financial Management Systems, Abnormal Account Balances, and Accounting Adjustments.

Description of Issue: Audit Readiness Training.

Accomplishment: The Army developed a suite of training modules covering general audit readiness concepts and specific internal control execution for business processes. To date more than 24,000 Army soldiers, civilians, and contractors have been trained at over 130 locations. We continue to roll out audit readiness training via the ALMS and Defense Connect Online (DCO), so that training is accessible to all Army personnel.

Description of Issue: Army Knowledge Online.

Accomplishment: The Army Audit Readiness site on AKO is another key source of information for the audit readiness community, with up to 6,300 visits a month. The site provides users with the latest news and updates on audit readiness and a variety of resources such as control catalogs, business process flows and narratives, briefings to staff at all levels, and the quarterly Army Financial Improvement Plan (FIP) Report Newsletter.

TAB A-3

Description of Issue: Field Level Audit Assessment.

Accomplishment: Concluded field-level site visits for discovery work and gained an understanding of the various processes impacting the Army Working Capital Fund (AWCF) financial statements, across twelve assessable units. Discovery work included developing process flows, narratives, and risk control matrix for three Life Cycle Management Commands, Army Sustainment Command, eight Army Depots and Arsenal, two Army Prepositioned Stock sites, four contractor sites, and fourteen Supply Support Activities. Our current actions involve transitioning to corrective action phase for identified control weaknesses following the Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Guidance. During this period a coordinated effort between the Army Working Capital Fund Audit Readiness Directorate and Army Material Command components will occur, resulting in courses of actions and implementation plans for effective controls.

Description of Issue: Federal Information System Controls Audit Manual (FISCAM).

Accomplishment: Continued development of the information technology infrastructure needed to help the Army achieve its financial improvement and audit readiness goals. Through the testing of the LMP to FISCAM Information Technology General Controls (ITGCs) standards, we developed a working Plan of Action and Milestones (POAM) for remediation of ineffective controls. Of the controls tested, eighty-five percent have completed remediation, with the remaining control status being reviewed during FY 2014. Additionally, we tested FISCAM Business Process Application Controls related to Finance, Controlling, Funds Management, Material Management, Application Security, limited interface controls and Procure to Pay functions in LMP. Of the controls tested, eighty-seven percent passed, with the remaining deemed ineffective and requiring remediation. Finally, we are proactively involved in various LMP improvement workshops, which seek system improvements to achieve an unqualified audit opinion on the AWCF financial statements.

Description of Issue: Audit Readiness Testing for Operating Agency (OA) 22.

Accomplishment: Provided support to Operating Agency (OA) 22 regarding preparation for audit readiness as related to the Army's Financial Improvement Program. OA 22 supports over 70 fund centers for Headquarters, Department of the Army (HQDA) activities. The effort included reviewing the adequacy of supporting documentation for sample General Fund Enterprise Business System transactions to assist in the overall evaluation of the adequacy of internal controls and support for the Statement of Budgetary Resources (SBR). The test results will help identify actions needed by OA 22 to prepare for audit readiness and assurance for the 2014 SBR audit.

Description of Issue: Review of Meal Cost Transfers Made Between Military Personnel, Army (MPA) and Operation and Maintenance, Army (OMA) Appropriations.

Accomplishment: Performed a review at the request of Army Budget Office personnel regarding meal cost transfers made between MPA and OMA appropriations. The review identified improvements needed in internal controls associated with the current process, evaluated the current methodology for allocating obligations, and provided alternative methodologies for improving the accuracy of cost allocations. Application of corrective actions for noted deficiencies may prevent potential ADA violations, fraud, waste, abuse or mismanagement and improve efficiencies.

TAB A-3

Description of Issue: Defense Travel System (DTS) Travel Reviews.

Accomplishment: In response to a request for assistance from the Defense Travel Management Office, performed documentation reviews for a selected group of DTS travel profiles. These reviews resulted in the discovery of potentially fraudulent transactions totaling more than \$200,000. Our travel reviews have served to highlight significant control weaknesses within DTS that, until resolved, will render the system vulnerable to fraud, waste, and abuse.

Description of Issue: Implementation of Audit Command Language (ACL) Audit Exchange.

Accomplishment: We have made significant progress toward implementing the ACL Audit Exchange platform as a comprehensive solution for extracting, compiling, and analyzing the Army's financial data. Once fully operational, this platform will serve as a repository for financial and management data originating from a variety of disparate sources. ACL analytics will be capable of analyzing the entire data set to identify anomalies that may be indicative of control weaknesses or failures impacting the Army as a whole.

Description of Issue: Reduction of Aged Antideficiency Act (ADA) Cases.

Accomplishment: Conducted periodic face-to-face meetings between senior executives of OASA (FM&C) and those of funded activities with outstanding ADA Act investigations throughout this reporting period. 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 seven formal and 29 preliminary investigations by 1 October 2013. The end result of this effort was a zero balance of delinquent formal ADA cases. As of 19 May 2014, an additional 11 preliminary investigations have been closed.

Description of Issue: Defense Travel System .

Accomplishment: Continued to provide Army support for sustainment and operations of the DTS. Soldiers and Army civilians who perform temporary duty travel and local travel use DTS. As of 31 March 2014, DTS had over one million Army travelers registered, processed over 1.9 million DTS travel claims with a dollar value of over \$1.7 billion. We continue to monitor and enforce DTS usage through the Joint Reconciliation Process. DTS is a tool to automate and streamline the Army's temporary duty travel process and in concert with General Fund Enterprise Business System enable prevalidation of travel orders, reduce centrally billed accounts (CBA) prompt payment act interest, and reduce unmatched disbursements. We are proactively involved in the Defense Travel Improvement Board, the Defense Travel Steering Committee, and various other work groups to enhance DTS usability, seek system improvements, and in developing requirements for Next Generation travel software.

Description of Issue: Army Travel Charge Card program.

Accomplishment: Army travelers use the Government Travel Charge Card (GTCC) to pay for all official travel expenses for both temporary duty and permanent duty travel. The Army program is

TAB A-3

made up of 614,000 individually billed accounts (IBA) for which the cardholder has liability for payment and 2,664 centrally billed accounts (CBA) for which the government has liability for payment. CBA are primarily used for transportation expenses, group travel, and by travelers who do not qualify for an IBA. As of 31 March 2014, the travel card program vendor processed over 13.5 million transactions, with a total value of over \$2.2 billion, against the travel card accounts. During this period, Army organizations received over \$17.1 million dollars in rebates

Description of Issue: Fund Control Module (FCM).

Accomplishment: Continued to improve the interfaces between financial and logistical systems. FCM has been fully deployed throughout the Army. The FCM, a Federal Financial Management Improvement Act (FFMIA)-compliant system provides an automated end-to-end interface of supply requisitions to the accounting system. FCM team continues support to the Global Combat Support System-Army (GCSS-Army) data conversion from existing accounting systems into GCSS-Army by participating in workgroups and teleconferences to determine the best course of action for converting DODAACs that are used in SARSS and non-SARSS systems. GCSS-Army is expected to be at full operational capability by September 2016.

Description of Issue: Joint Reconciliation Program (JRP).

Accomplishment: The JRP prescribes standard procedures for Army Resource Managers and their staff to use when conducting joint reconciliation/reviews. The review provides greater assurance of audit ability through the inspection of all recorded commitments, obligations, orders, earnings, disbursements, collections, accounts payable and accounts receivable. All abnormal balances have been identified, researched and reported through HQDA providing more accurate financial statements. The JRP is a quarterly review requirement to ensure our obligations are accurate and increase the effectiveness of our financial operations. The reviews focus on DoD and Army requirements along with current areas of concern. The reviews have been conducted jointly with all stakeholders to include; budget personnel, accounting personnel, contracting personnel, logistics personnel, and supporting DFAS personnel. The ASA(FM&C) provides a certification statement to the Office of Under Secretary of Defense (Comptroller) (OUSD(C)) after each phase of the review to attest to the correctness and completeness of the reviews.

Description of Issue: Theater Disbursing Operations.

Accomplishment: Provided technical assistance and guidance to five disbursing operations within the U.S. Central Command (USCENTCOM) Theater of Operations on discrepancies between the Finance Offices and the Treasury. We continue to monitor the Statement of Differences – Deposits and the Analysis of Unmatched Transactions (AUT) directly resulting in a reduction in dollars for FY 2013 and the first quarter FY 2014 of approximately \$31.5 million or 352 percent for the AUT. Additionally, we continue to review and provide assistance with the Local Depository Accounts (LDAs). This directly assisted with the strategic initiative to reduce cash on the battlefield and thus U.S. operational cost. LDA balances were reduced by \$800 thousand for FY 2013 and the first quarter FY 2014 for an increase of 1 percent.

TAB A-3

Description of Issue: Operational Support Teams (OST).

Accomplishment: The OSTs 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 Mission Rehearsal Exercise (MRX) 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, vendor pay services, accounting, entitlements, and resource management) to deployed and deploying units. Our teams continue to train and exercise deploying units on the Army's new General Fund Enterprise Business System (GFEBS). Thus far in FY 2014, the OST has trained five units and exercised seven units resulting in 236 soldiers receiving either training and/or evaluation, in many cases both. The remainder of FY 2014 will continue to be busy as our OST will train and exercise an additional 10 units as well as supporting other training events such as Diamond Saber that will directly touch over 500 soldiers. Additionally, the OST continues support as required to include systems implementation and training at the Financial Management School (FMS) to help with real world exercises/missions. Some of these missions include; Joint Task Force-Bravo, Honduras personnel training, United States Military Training Mission, Saudi Arabia, Commercial Vendor Services/Deployable Disbursing System set-up in Romania, and other train the trainer events for FM units worldwide.

Description of Issue: EagleCash™ Stored Value Card (ECSVC).

Accomplishment: The EagleCash™ Stored Value Card is a cash management tool designed to support U.S. military personnel deployed in combat zones and on peace-keeping missions around the globe. In FY 2014 the program continued to add value and improve controls through increased force protection, reduction of United States currency in theaters of operation, reduced number of Casual Payments (CPs), reduced Cash Collection Vouchers (CCVs), accountability and losses of funds, reduced number of personal checks cashed (reducing float and processing), improved internal controls (as the system is 100 percent auditable), and reduced man-hour requirements through implementing standard industry automated best business practices. Other improvements and expansion of the program in FY 2014 have focused on the piloting and deployment of new EagleCash™ components and hardware that will bring significant improvements to internal controls, automations capabilities, reporting and streamlined financial management operations abroad. The newly configured applications and components implement mobile kiosk capabilities for use by Financial Management Support Teams (FMST), and new kiosk functionality that allows agency partners, the Army and Air Force Exchange Service (AAFES) and Military Postal Service Agency (MPSA). Additional program improvements, working with all program stakeholders and services, are focused on establishing a single Stored Value Card (SVC) solution with cross-service interoperability and create operational efficiencies.

Description of Issue: Army Banking Program.

Accomplishment: In the continental United States, bank and credit union Liaison Officers (LOs) continue to work with the on-post financial institutions to provide the best services and products. The LOs have a strong partnership with trade associations like the Defense Credit Union Council and Association of Military Banks of America. The LOs provide the senior commanders the tools

TAB A-3

to improvise their services, especially on educating their community on issues such as predatory lending, improving savings and reducing bad spending habits. This helps the commanders improve the quality of life and review their on-post financial institution operating agreements in accordance with the Department of Defense Financial Management Regulation, Volume 5, Chapter 34. Within contingency operations, the continual use of electronic payments or transfers provides a secure environment for vendors, local nationals, and third country nationals to conduct their banking transactions and increase the stability of host nation banking systems. Electronic payments allow tracking mechanisms for illegal activities and research methods for rejected payments. Since 2013, rejected payments have been reduced significantly which allow prompt payments to all our vendors and contractors. As for the Overseas Military Banking Program (OMBP), the Military Banking Facilities have managed to maintain a reduction in cost while providing 36 branches and 156 ATMs. The OMBP also reduced operating cost by 11 percent in 2014.

Description of Issue: Over the Counter Channel Application (OTCnet).

Accomplishment: OTCnet was created from two legacy systems – Paper Check Conversion Over the Counter (PCC OTC) and Treasury General Accounting Deposit Recording Network (TGANet) – and integrates the Check Capture Processing (CCP) element and the Deposit Processing Reporting System (DRS) element. The CCP element of OTCnet converts manual checks presented at Army finance offices into electronic images. Electronic transactions are processed through the Automated Clearing House (ACH) network, resulting in the check writer's account being debited. The DRS element of OTCnet automates the reporting of cash (U.S. dollars), as well as provides a contingency for domestic checks which the CCP module cannot scan. OTCnet is a key component of the Treasury's Collection and Cash Modernization program, as the application is fully auditable. In the first quarter of FY 2014, through its integration with the EagleCash™ Stored Value Card program, OTCnet continued to support a near cashless battlefield, processing 4,000 transactions for \$8.9 million. Other improvements and expansions of the program in FY 2014 have focused on obtaining a new Reciprocity Authority To Operate (R-ATO) and upgrading the CCP software to version 1.4 by the end of FY 2014, which meets requirements for the Government-Wide Accounting (GWA) initiative.

Description of Issue: International Treasury Services (ITS.gov).

Accomplishment: ITS.gov, a comprehensive payment system, is for processing international electronic payments to nearly 200 countries in multiple currencies. All Army payments are submitted through the Federal Reserve Bank of New York and are cleared through the Office of Foreign Assets Control (OFAC), which ensures payments comply with economic and trade sanctions. The Army utilizes ITS.gov to pay vendor contracts, fund Local Depository Accounts (LDA), and process pay allotments for personnel stationed in Europe. In the first quarter of FY 2014, ITS.gov delivered 4,500 electronic funds transfer payments totaling \$272 million for Army Disbursing Station Symbol Numbers (DSSNs). ITS.gov continues to increase the number and value of electronic funds transfers for vendor payments and deposits to LDAs, including within Operation Enduring Freedom (OEF). Over 95 percent of Commercial Vendor Service (CVS) payments sent to Afghanistan were made in local foreign currency for the first quarter of FY 2014, which fosters the Army's goal of reducing U.S. currency per Central Command Fragmentary Order (FRAGO) while increasing the auditability of payments. ITS.gov is in partnership with the U.S. Department of the Treasury and the Federal Reserve Bank of New York.

TAB A-3

Description of Issue: GFEBs Miscellaneous Payments.

Accomplishment: Worked jointly with the Army National Guard and Defense Finance and Accounting Services to update a standard set of operating procedures to assist GFEBs miscellaneous pay sites. This process eliminated the requirement for submitting a certified SF 1034 as required, along with the required supporting documentation, with manual miscellaneous payments. Substantiating documentation is attached to the miscellaneous payment in GFEBs when processed ensuring a complete audit trail. The implementation of the electronic certification of miscellaneous payments in GFEBs has proven successful. On average three validated manual miscellaneous payments are authorized per month, due to agencies using legacy systems, miscellaneous payments not currently in GFEBs, and/or lack of personnel not having the necessary roles to complete the transactions where GFEBs recently deployed.

Description of Issue: Military Pay and Expenditure Accounting in GFEBs.

Accomplishment: Continue to move forward with the systems development and process changes required to move the accounting for the three Army military pay appropriations worth \$60B from Standard Finance System (STANFINS) to GFEBs in order to improve the accounting and support an auditable Statement of Budgetary Resources. In conjunction with this, the development of the capability to perform the Treasury expenditure reporting and related accounting is also being added to GFEBs. These are two of the three remaining functions in STANFINS which must be moved in order to complete the replacement of STANFINS. By moving the expenditure reporting, not only can military payroll disbursements be accounted for; but it facilitates moving away from overaged in-transits and cross disbursing which has significantly impacted the auditability of the Army's financial statements.

Description of Issue: Special Review Office (SRO) Activities

Accomplishment: During 2014, SRO conducted 33 oversight reviews for the Army's sensitive activity community. These inspections have expanded from various CONUS sites to Germany, Honduras, and Saudi Arabia. SRO has also implemented oversight responsibility for the U.S. Debit Card program for four brigades of the U.S. Army Criminal Investigation Command as well as U.S. Army Southern Command. Additionally, U.S. Army Central Command and Special Operations Command are inspected by SRO for their special mission funding which uses the Eagle Cash Stored Value Card. In addition to performing on-site evaluations, the SRO also serves as the official repository for classified and sensitive financial documents. As part of their on-going quality assurance and oversight responsibility, SRO reviews these financial documents every month using a 25 percent sample.

Description of Issue: Army Budget Office (ABO) is Concurrently Executing Through Two Financial Control Systems

Accomplishment: Command execution is monitored regularly and formal reviews are conducted at quarterly intervals. In addition, ABO monitors and compares the two financial control systems and follows standard operating procedures to track financial information. Additionally, this year's budget execution in a Continuing Resolution, new appropriation late in the year, and reductions

TAB A-3

under the Bipartisan Budget Act drives more frequent reviews across all appropriations, and with senior Army leaders.

Chief Information Office (CIO)/G-6

Description of Issue: Opportunity to achieve more progress by planning data center consolidation annually and documenting the plans.

Accomplishment: During FY 2013, the Department of Defense (DoD) Chief Information Officer (CIO) levied on all Components a requirement to prepare and submit an annual data center consolidation implementation plan. The document identifies the current situation, an overview of the strategy, objective capabilities, resource requirements and potential issues/risks. The implementation plan must be resubmitted annually, which allows the Army to examine the current strategy and look toward the future while assessing potential risk areas and thinking through how to mitigate identified risk. The first iteration of this plan was prepared by the Army Data Center Consolidation Plan (ADCCP) team and filed by the Army CIO/G-6 on 2 February 2014. This plan will be updated annually and updates will be based on future DoD CIO guidance.

Description of Issue: Opportunity to achieve more progress in application disposition by increasing focus on this issue, in addition to consolidation of data centers.

Accomplishment: Initially, the ADCCP focused on data center closures as a way to gauge progress and identify efficiencies. As the effort has progressed, it has become apparent that cost savings would come primarily from the termination and the reduction of applications maintained. Application owners and portfolio managers must look at identified applications and, through application rationalization, decide which will be sustained, modernized or terminated. When an application is migrated to another data center or terminated, this disposition is annotated in the ADCCP tracking tool. The tracking tool allows the community to track program progress, identify application cost savings and show status to senior leaders once the application's disposition is resolved.

Description of Issue: In alignment with DoD objectives and desired outcomes for the Joint Information Environment (JIE), the Army has an opportunity to: achieve Joint interoperability and full-spectrum superiority; improve mission effectiveness; increase security; and realize IT efficiencies in delivery of network capabilities and information technology.

Accomplishment: The Army participates at each organizational level of the DoD JIE management construct. The CIO/G-6 has established the core team that plans, coordinates and synchronizes Army contributions to the JIE. The team routinely engages other HQDA staffs, Combatant Commands, Program Executive Office Enterprise Information Systems, Army Cyber Command, NETCOM and Army organizations to ensure that Army equities are included in IT infrastructure architectures, standards and detailed specifications, and are driven by and aligned with Joint requirements.

Network Enterprise Technology Command (NETCOM)

Description of Issue: Source Selection Evaluation Board (SSEB)/Assessment of Contract Efficiencies (ACE) Packages.

TAB A-3

Accomplishment: “Source selection” is the selection process used in competitive, negotiated contracting to select the proposal that offers the best value to the Government. “Best value” means the expected outcome of an acquisition that, in the Government’s estimation, provides the greatest overall benefit to the Government in response to the Government’s requirement. The Cost Panel’s portion of the SSEB is to assess cost realism and determine the most probable cost in accordance with the provisions of Federal Acquisition Regulation 15.404-1, Proposal Analysis Techniques. The Government then utilizes the most probable cost of each offer in making the best value determination. Business transformation office team members participated in an SSEB Cost Panel in FY14. One item was a major acquisition with an estimated value greater than \$1 billion. The reorganization within the contracting office stipulates that we send all reports to the U.S. Army Contracting Command. The cost evaluation is now subject to a much more rigorous analysis of the offer or cost proposal than in the past, and requires extensive detail to back up the Cost Panel findings.

Description of Issue: Global Combat Support System – Army (GCSS-A) Implementation.

Accomplishment: Army logistics began to migrate its business processes to the new GCSS-A enterprise resource planning (ERP) system in FY13. The new “federated” approach integrates GCSS-A and GFEBS to link like ERP logistics and finance systems for better funds control and execution management. HQ NETCOM worked with the GCSS-A Project Management Office to provide overarching Command direction and guidance for initial fielding group deployments to Network Enterprise Centers at Forts Lee, A.P. Hill, Meade, Myer and Bragg. The HQ NETCOM accounting team will continue to support some 20 future Wave 1 NETCOM fielding through the middle of FY16. Wave 2 fielding will begin in FY15 to move unit supply, property book and maintenance activities to GCSS-A.

Provost Marshal General/Criminal Investigation Command (PMG/CID)

Description of Issue: Knowledge Management/Social Media Initiatives.

Accomplishment: Office of Provost Marshal General (OPMG) lacked a platform to communicate internally and externally within the MP community. As a result, a public (21 March 2013), internal (migrated on 24 January 2014), Common Access Card (CAC)-only access (14 May 2013) websites and an OPMG Facebook Page (20 November 2013) were developed.

- **OPMG Website:** Designed to provide Law Enforcement (LE) news, videos, information and linkages pertaining to PMG/CIDC for public knowledge. It also provides the public with strategic communications regarding LE with an avenue to solicit responses to general inquiries and to review Frequently Asked Questions (<http://www.army.mil/OPMG>).
- **Army Policing Portal:** The portal, which replaces the former OPMG Army Knowledge Online environment, is a designated CAC-only access knowledge center of OPMG. It provides the military policing community with on-line resources and connections to other websites and organizations. Portal viewers have access to news articles, mission statements, leadership biographies, points of contact, and document libraries.

TAB A-3

- **OPMG Internal SharePoint Site:** Designed to provide an online working environment for the OPMG internal support staff. The internal environment provides the staff with a resource for working documents and information sharing. Connections to other websites and organizations, as well as documents and information resources, are available within this environment to provide the internal staff with the tools necessary to complete day-to-day requirements.
- **OPMG Facebook Page:** Designed as the External Official Presence (EOP) for OPMG, providing the public with a social media connection to Army LE news, videos and information. It also provides the audience with an avenue to comment and reply to content (<https://www.facebook.com/armyopmg>).

Description of Issue: Audit Readiness Program.

Accomplishment: The majority of the Internal Review (IR) efforts since March 2012 were spent establishing the Army Audit Readiness Program with only one person in the IR office. This effort included coordinated training events, Staff Assistance Visits, compiling subordinate commanders' checklists and conducting monthly testing for the SBR and the Military Equipment/General Equipment Existence and Completion programs. The IR office is the lynchpin of the USACIDC Audit Readiness program to ensure the command is trained and ready for audit execution, clearing all provided-by-client documentation prior to submission to the Army Audit Document Repository. The entire command supports the Audit Readiness Program. The USACIDC office was successful in guiding the ASA(FM&C) Audit Directorate with workable solutions to modify internal controls or testing methodology to maximize effectiveness and reduce unnecessary administration in the field. The Army Commander's Audit Readiness Checklist was continuously monitored for changes and updates, and passed to subordinate commands to adjust practices and policies. The IR reduced the 35 page checklist to only 5 pages for USACIDC specific internal controls to keep the audit readiness program from overwhelming subordinate commands.

Deputy Chief of Staff, G-4

Description of Issue: Army Regulation states that Army Commands (ACOM), Army National Guard Bureau (ARNG), United States Army Reserve Command (USARC), Army Service Component Command (ASCC), and Direct Reporting Units (DRU) will report compliance to the applicable Life Cycle Management Command (LCMC) in accordance with SOU message time line. Commands would report compliance via mail or electronic mail to Program Manager/Item Managers. The previous reporting process made compliance tracking difficult. The effectiveness of SOU risk mitigation efforts was unknown.

Accomplishment: The G-4 led a Lean Six Sigma (LSS) project to improve SOU compliance. Team members of the core group consisted of Army Materiel Command (AMC), Aviation and Missile Command (AMCOM), Tank and Automotive Command (TACOM), Communications Electronics Command (CECOM), Forces Command (FORSCOM), and Training and Doctrine Command (TRADOC). The team analyzed the current compliance process for challenges and identified that the process was insufficient for reporting and tracking compliance. The Army system currently in use for tracking Modification Work Orders (MWO) within the Materiel Management Information System (MMIS) was determined to be the right platform to improve SOU

TAB A-3

reporting and compliance. By employing MMIS as the platform for SOU reporting and compliance, tracking the Soldier implementing the corrective actions stays within a system that he is familiar with and already using on a regular basis. The MMIS familiarity and accessibility will increase SOU compliance and risk mitigation. Furthermore by utilizing the established MMIS platform the programming expenses were minimized and the training requirement was nominal. A benefit of the MMIS is the standardization of the process across the field to ease Soldier reporting and Program Managers/Item Managers recording the compliance results. MMIS is available from the Army senior leadership levels to the junior Soldier executing the SOU solution. Every subscriber to the MMIS has the ability to track SOU distribution and message compliance to assure the risk mitigation measures employed.

Description of Issue: The senior leaders within HQDA G-4 expect succinct presentations of multiple projects to render timely decisions. Numerous ongoing equipment upgrade initiatives and emerging requirements affecting equipment readiness within Southwest Asia (SWA) required analysis, staff coordination, and concise presentations to effectively brief senior leadership.

Accomplishment: The G-4 collaborated with various Program Managers, Joint Program Office(s), DA G-8 and the DA G-4 Logistics Operation Center to track and analyze progress for ongoing equipment upgrade initiatives within SWA. The staff analysis of these initiatives demonstrated the impact on equipment readiness. Some of the programs analyzed and tracked were: Double V-Hull Stryker production and fielding; M-ATV Underbody Improvement Kit fielding and installation; M-ATV exhaust patch kit production and distribution; HET C-Kit development, testing and fielding and HET Automated Fire Extinguisher System (AFES) fielding and installation. Upon conducting the analysis on these and other equipment upgrades, G-4 developed concise briefing slides for the senior leaders depicting the status of equipment upgrades and highlighting any issues affecting equipment readiness. These briefing products facilitate better delivery of information to assist decision-making.

Chief of Engineers (COE) / U.S. Army Corps of Engineers (USACE)

Description of Issue: Integrating safety into every phase of the Hurricane Sandy mission.

Accomplishment: Throughout the planning and operational phase, safety continues to be integrated into every fiber of the recovery mission. Leaders at HQUSACE and North Atlantic Division (NAD) clearly articulated their expectations regarding safety and protecting the workforce. It was evident and encouraging to witness USACE personnel (responders) accepting the risk manager role in addition to their other responsibilities. Additionally, fielding a safety team to conduct safety integration site visits, to include dispatching a mobile Personal Protective Equipment (PPE) and cold-weather clothing vehicle to replenish PPE needs for our workforce proved vital and increased morale. To date there have only been two contractor lost-time accidents and one USACE personnel lost-time accident during the entire response and recovery mission. A refreshing reminder that safety allows us, even in the midst of difficult time, to manage risk to an acceptable level while maintaining mission flow and achieving mission accomplishment. This is a true testament to management leadership-employee involvement and proves that “none of us alone can achieve as much as all of us together”.

Leadership Emphasis: The USACE senior leadership demonstrated continued support for the internal control process by supporting the use of internal control mechanisms throughout the

TAB A-3

command. These control mechanisms include Senior Leader Conferences, meetings of the National Management Board, Regional Management and Quality Review Boards, Command Councils, monthly financial reviews, Program Budget Advisory Committee (PBAC) meetings, operating budget and manpower reviews, Project Review Board meetings, line item reviews, Directorate and Command Management Reviews, Community of Practice (CoP) / Sub-CoP teleconferences, and a revolving review of Consolidated Command Guidance (CCG) metrics on a monthly basis. In addition to regularly scheduled mechanisms and in response to budget reductions and changing strategy within the Department of Defense, the USACE Commanding General established seven Focus Area Review Groups (FARGs) to best allocate Military Programs and Civil Works resources throughout USACE.

Assistant Secretary of the Army, Acquisition, Logistics & Technology (ASA (ALT))

Description of Issue: The USD (AT&L) PEO Ammunition issued guidance and sets forth ways to achieve productivity growth, i.e., do more without more. The Better Buying Power 1.0 guidance containing 23 principal actions across five major areas and the BBP 2.0 guidance containing 36 principal actions across seven major areas directs improvement in efficiency and productivity. The guidance requires a “Should-cost” analysis of each major program justifying each element of program cost and showing how it improves annually by meeting other relevant benchmarks for value. PEO Ammunition validates should-cost for each program in the portfolio yearly, during the Portfolio review process.

Accomplishment: PEO Ammo has embraced the tenets of the Better Buying Power (BBP) initiative and has achieved a cost savings/avoidance of over \$6B over the POM. The PEO has integrated these functions into our day-to-day practices and processes and has used multiple means to inculcate a mindset of efficiencies. The PEO Ammo vision, mission and priorities are linked to the Army and OASA (ALT) mission and priorities and consistently address efficiencies addressed in each of these areas. Each employee was provided a pocket sized quick reference guide and efficiency performance objectives were added to the support forms for the military PMs and to the contribution plans of the key civilian leaders.

PEO Aviation Internal Control Program: PEO Aviation recently completed several internal control evaluations during FY14, the Army’s Purchase Card Program, Army Travel and Conference Assessments and the Army Managers’ Internal Control Program. Key internal controls used within the Program Management Offices were found to be in place, operating as intended and effective. Project management reviews, conferences and meetings provide leadership the status and direction of the programs are extensively discussed and evaluated by major stakeholders. Acquisition status reporting such as the annual Selected Acquisition Report, Quarterly Defense Acquisition Executive Summary, and Monthly Program Status Reviews indicate if programs are healthy, appropriately managed and on track with no significant control issues or deficiencies. During the year there are major external audits on-going or initiated by the Government Accountability Office, Department of Defense Inspector General, Department of the Army Inspector General and U. S. Army Audit Agency. PEO Aviation has a full-time Security Director and managers who are employed to oversee compliance with security regulations, policies, and procedures. Security personnel are responsible for training, assisting, and counseling managers and employees in fulfilling security-related responsibilities such as the proper making, downgrading, declassification, safeguarding, transmittal and destruction of security information.

Deputy Chief of Staff, G-1

Description of Issue: Lack of declaring a Material Weakness over failing to collect Basic Allowance for Subsistence (BAS) in Field Training. This issue had been reported by AAA two previous times without action being taken.

Accomplishment: As a result of increased awareness of the Internal Control processes and responsibilities, the Plans and Resources Directorate came to the conclusion that a Material Weakness should be reported. Consequently, the Secretary of the Army issued guidance to all Army commands to adhere to the requirement to collect BAS for government provided meals during field duty to achieve audit readiness by 2017.

Office of Administrative Assistant to the Secretary of the Army (OAA)

Description of Issue: Optimization of common access card (CAC) services.

Accomplishment: The Human Resource Management Directorate (HRMD) Common Access Card and ID Card Office provide service to over 15,000 customers at two locations: Fort Belvoir and Crystal City. Both offices operate in accordance with guidance for ID cards for members of the uniformed services, their eligible Family members, and other eligible personnel. Each location provides service to all categories of eligible Department of Defense (DoD) customers. Both offices use the DoD appointment scheduler and self-service applications to offer customers a quick and efficient experience during each phase of the CAC and ID card process. Verifying Officials were trained to implement the "Same Sex Marriage Policy" passed by Congress during FY 14 and made sure customers understood the policies and requirements for ID card issuance. Site Security Managers were available at all times at each location. Consumables were properly secured and accounted for. Damaged cards were properly destroyed or shipped in accordance with regulatory requirements. The CAC and ID offices received thousands of satisfactory observations as documented through U.S. Army Installation Management Command's Interactive Customer Evaluation system.

Description of Issue: Process improvement for Army committee management.

Accomplishment: OAA is responsible for managing Army committees. At the beginning of FY 14, HQDA organizations reported that 103 committees were operating at an estimated cost of \$13.5 million. Of those, 16 committees had current charters, 28 had expired charters, and 59 were operating based on some other form of approval but not in compliance with AR 15-1 (Committee Management). Analysis showed that the committees were required to continue to accomplish the varied missions of the functional sponsors and did not find any evidence of redundancy in mission or scope among the committees. Sponsors determined which committees were no longer needed; they terminated 19 committees before the data call and recommended 7 for termination (although they are not currently active). In addition, the analysis did not identify excessive travel or use of contractors in support of committees. The program manager's observations led to the conclusion that the definition of the term "committee" was not clear and the process to charter a committee was not documented or known.

TAB A-3

At the direction of the Secretary of the Army, OAA drafted a new publication, AR 15-XX (Department of the Army Intergovernmental and Intragovernmental Committee Management Program) that provides policy consistent with DoD Instruction 5105.18 (DoD Intergovernmental and Intragovernmental Committee Management Program) and identifies responsibilities for establishing and continuing advisory committees. The definition of the term “committee” is clearer, and new templates to format a charter and a cost worksheet to document a committee’s operational costs have been provided. Other controls in place include: set the default charter renewal period to every three years, require sponsors to provide a list of recommendations made in the last three years whenever they request renewal of a charter, require sponsors to review their committees annually and provide their inventory to the Administrative Assistant by 31 December, and establish the Secretary of the Army as the committee establishment authority with the option to delegate. To accelerate the availability of a well-defined policy, the program manager prepared draft Army Directive 2014-XX (Army Policy on the Establishment and Continuation of Intergovernmental and Intragovernmental Advisory Committees), which is anticipated to be published in June 2014. The directive will be superseded with the publication of AR 15-XX.

U.S. Army Forces Command (FORSCOM)

Description of Issue: Issues associated with qualifying statements on FORSCOM’s Year End Certification statements which included the following concerns: 1) missing or erroneously posted disbursements in GFEBS; 2) public accounts receivable created from DTS debt; 3) DTS travel advances; 4) questions surrounding input done on the behalf of FORSCOM; and 5) system decrements of contract obligations in GFEBS.

Accomplishment: Based on the financial risks identified above, FORSCOM DCS, G-8 hosted a teleconference to discuss the concerns. Senior leaders from the following organizations participated: Assistant Secretaries of the Army for Financial Management and Comptroller (ASA(FM&C)), Financial Information Management (FIM) and Financial Operations (FO), Army Budget Office (ABO), General Fund Enterprise Business System (GFEBS) Program Management Office (PMO), and Defense Finance and Accounting Service (DFAS) Rome. Collectively, the attendees reviewed each concern to determine the root cause and developed mitigation strategies.

U.S. Army South (ARSOUTH)

Description of Issue: Controlling / Reducing IT Operating Costs.

Accomplishment: The ARSOUTH G-6 continued concerted efforts to cut overall IT operating costs while maintaining or increasing operational effectiveness. Through elimination of desktop computers and providing docking stations to personnel that had both desktops and laptops, the command enabled personnel to perform ad hoc telework, perform business travel, and set up key personnel for Continuation of Operations (COOP) work. With the continuation of best business practices, it eliminated a multifunction device maintenance contract by performing our own preventive maintenance and only using the vendor for items it did not have the capability to service, significantly reducing operations cost. Furthermore, it had a plan in place to continue to reduce printers within the Command by making better use of the printers on hand and not replacing printers as they wore out. G6 set up a media through multicast system (Cable TV links on the computer) that allowed it to reduce cable TV drops throughout the command and reduced cost while providing

TAB A-3

more access to cable news for the command. All of this also met the intent of reducing energy usage in the DoD.

U.S. Military Academy (USMA)

Description of Issue: SECARMY directed commands to become audit ready no later than FY14. The challenge with becoming audit ready has and continues to be the ever-evolving audit environment for SBR controls, resulting in changing and misunderstandings of the audit readiness standards.

Accomplishment: To mitigate these issues and prepare towards meeting audit readiness standards as mandated by all levels of leadership (Congressional, DoD, and HQDA), the USMA G-8 has established weekly, internal audit readiness training sessions for all G8 employees. Every Friday, the USMA G-8 conducts an audit readiness stand-down session reviewing audit results and internal controls and processes, ensuring transactions comply with governing regulations, and developing standard operating procedures for regular and recurring business processes.

U.S. Army Materiel Command (AMC)

Description of Issue: Without proper controls within the functional communities, AMC will not achieve audit readiness.

Accomplishment: Accounting and Systems Division, G-8, has concurrently monitored audit readiness efforts for both General Funds (GF) and AWCF throughout the year. Several initiatives have been ongoing to ensure AMC's ability to meet the applicable goals. U.S. Army Materiel Command (AMC) G-8 has put into place a robust communications management effort that includes an Audit Readiness SharePoint site and the establishment of a monthly G-8 led Audit Readiness Boots on the Ground (BOG) video-teleconference (VTC) for audit readiness action officers. This provides a venue to communicate, identify challenges and seek resolution to ensure we become audit ready. With the completion of the Commanders Checklist and monthly testing for GF, AMC was able to identify potential risks that could prevent us from being audit ready. With the identification of these risks, corrective actions are being implemented to ensure AMC is adequately prepared.

During 2013-2014, GF and AWCF audit readiness efforts included discovery and gap analysis, testing, and corrective action of Statement of Budgetary Activities (SBA) across the Army, civilian payroll processes, Existence and Completeness (E&C) assets, Fund Balance with Treasury processes and systems, and other business information systems in support of audit readiness. U.S. Army Materiel Command (AMC) is currently participating in a "mock audit" of all material General Fund Enterprise Business System (GFEBS) activity that began in July 2013. We also coordinated and participated in monthly internal control tests of design and operating effectiveness of SBR business processes, Military Payroll, E&C, including all material GFEBS activity. U.S. Army Materiel Command (AMC) also participated in the quarterly In-Process Reviews (IPRs) and Audit Committee meetings to engage stakeholders at all levels as well as bi-weekly SBA teleconferences.

The Division also continued with efforts for the implementation of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS), a Treasury initiative and Single Line of

TAB A-3

Accounting (SLOA), a DOD initiative. In addition, began the process of identification and requirements gathering for corrective action on the findings of a DoDIG audit on the LMP procure-to-pay process and an USAAA audit on the LMP downward obligation process, as well as continuing to resolve the issues identified by the OSD during an informal review of the AWCF financial statements.

Description of Issue: Military Basic Allowance for Subsistence (BAS).

Accomplishment: In 2013-2014, U.S. Army Sustainment Command (ASC) identified a potential BAS deficiency in which government meals may have been provided to Soldiers without appropriate BAS being deducted. However, steps have been taken to implement procedures to comply with regulatory requirements. The steps include: 1) Ensure appropriate forms and vouchers are submitted to the Finance Department along with the training roster and amount of days for meal deductions; 2) Ensure all Soldiers assigned to the Brigade are briefed/informed on AR 37-104-4 and 3) guidance gathered from the Management Control Review of BAS.

Description of Issue: To meet the mission requirements of the U.S. Army Contracting Command (ACC), a culture of Continuous Process Improvement (CPI) must be institutionalized at every contracting office, center, and operating activity where contracting is being performed. We must increase transparency and visibility of contracting activities for management and headquarters to monitor and measure progress throughout the command. We must standardize how we accomplish the mission of Army Contracting and share information and tools to ensure that contracts are executed and managed efficiently and effectively support the Warfighter and the Nation.

Accomplishment: Command Leadership has been briefed and endorsed the CPI Program for ACC. The HQ's CPI team has been established and staffed. The Deployment Director and a staff of two CPI Specialists are onboard and beginning to work toward transforming the culture of ACC. Special assistance visits (SAV) have been conducted with the Executive Director, ACC – Redstone Arsenal (RSA) to examine the strategic plan and find projects to begin to develop the CPI program at that center. The two CPI Specialists at ACC HQ have gotten LSS Blackbelt projects and slated to begin LSS Blackbelt Certification Training. The team had strategic meetings with HQ AMC CPI Deployment Director and gained support and assistance for the stand up of the program. Deputy Assistant Secretary for Procurement (DASA(P)) was briefed and is advocating on our behalf to secure Defense Acquisition Workforce Development. We have also laid the groundwork for succession planning with the identification of an additional Master Black Belt Candidate for HQ ACC. Two CPI projects were funded by U.S. Army Sustainment Command (ASC) for ACC. These projects will institutionalize success for the young workforce as the seasoned GS 1102 (contracting) workforce decreases through attrition; those projects are the Master Action Plan (MAP) Analysis Program (AP) and the Source Selection Support Centers of Excellence (S3COE) projects. The MAP AP project is building an automated, web-based Contract Management Process Guide, link sites (commands and centers) within the enterprise to create a more collaborate and global community.

U.S. Army Testing and Evaluation Command (ATEC)

Description of Issue: Execution of Continuous Process Improvement (CPI) Program.

TAB A-3

Accomplishment: The ATEC CPI team has established partnerships in process improvement, providing instruction and mentoring expertise to an array of personnel across ATEC and with other commands. Understanding and conveying Lean Six Sigma (LSS) concepts requires years of experience with project development, execution and completion, and ATEC has that capability. Established new command relationships by utilizing resident Black Belts (BBs) as Green Belt (GB) instructors for PEO C3T GB students. The HQ ATEC resident MBB(c), recently provided BB instruction to III Corps at Fort Hood, Texas. All ATEC MBBs support local DA training and in-house training as required. From the period 1 April 2013 to 30 April 2014, execution of LSS projects resulted in 114 projects completed: approximately \$50 million in financial benefits over the POM; and certification of 15 BBs and 10 GBs.

Description of Issue: Identification and management of high risk operations throughout ATEC.

Accomplishments: Commanders were tasked to identify their highest risk operations. Based on the lists provided, HQ ATEC identified four categories of operations for more comprehensive review. The four broad areas encompassing high risk operations are OSHA/Industrial Operations, Ammo/Explosive Operations, Aviation Operations, and Special Vehicle Operations. The reviews look at underlying issues with staff training and certification and environmental conditions that might heighten risk. Site visits are performed at one or more ATEC sites and an audit of documentation from all ATEC field sites. Reviews are led by an action officer from the ATEC Safety Division and include subject matter experts (SMEs) throughout the command. By combining and utilizing SMEs, ATEC identified the command's safety program weaknesses and those actions necessary to bring programs to a higher state of safety readiness. The first review, OSHA/Industrial Operations placed special emphasis on: Cranes (Mobile and Overhead), and Towers and Elevated Work Platforms. A formal report was sent to command Safety Directors on 20 November 2013. Subordinate organizations are conducting risk assessments and surveys, updating SOPs and emergency action plans, and implementing changes to internal controls to manage high risk operations.

U.S. Army Europe (USAREUR)

Description of Issue: The use of Commercial Mobile Devices (CMDs: BlackBerry and cell phones) was not being adequately tracked throughout the command, leading to unauthorized usage and abuse.

Accomplishments: USAREUR G-6 produced an authorization document with the title "Commercial Mobile Device Authorization Document" that identifies positions requiring a CMD to meet mission requirements; all other CMDs were to be terminated. USAREUR G-6 conducted a 100-percent data call and developed an automation table of equipment to document CMD authorizations by assigned positions, rather than by grade or rank. USAREUR MSC commanders and HQ USAREUR staff principals were given the opportunity to concur or provide comments to the drafted "CMD Authorization Document" for adjudication. Approximately 500 CMD SIM cards were identified for termination with an expected termination fee cost of €50.8K and an estimated monthly recurring savings of €24.5K. The projected cost avoidance for the following 4 years is estimated at €243K.

TAB A-3

Office of the Assistant Chief of Staff for Installation Management (ACSIM)

Description of Issue: Management Decision Package (MDEP) Reviews

Accomplishment: The OACSIM's Program Integration Division (DAIM-RDI) continued to improve the MDEP requirements and resourcing process. DAIM-RDI hosted Installations Program Evaluation Group (II PEG) MDEP stakeholder training sessions to provide detailed guidance to program managers, and to ensure resources were aligned in accordance with Army priorities, and supported Soldiers, Civilians, and Families. DAIM-RDI also conducted the Installation Program Objective Memorandum (POM) 16-20 Kickoff to disseminate prescribed guidance, responsibilities, and expectations associated with the current fiscal environment in the determination of II PEG requirements, and the programming of resources. This deliberate requirements and resourcing process guided the Requirements Validation Team review of installation management programs in accordance with senior leadership directives regarding programming and resourcing of services and programs under fiscal uncertainty and constraints.

Description of Issue: HQDA Program Review Board (PRB) Initiative for Determining Suitability of Applicants for Child, Youth and School Service (CYSS) Positions on Army Installations

Accomplishment: The Army Analytical Group, in coordination with the Deputy Assistant Secretary of the Army–Civilian Personnel/Quality of Life and OACSIM, developed a Child-Related Employment Suitability Review (CRESR) SharePoint application. The application uses a five-level evaluation process for reviewing cases with derogatory investigative information for employment suitability of prospective and current employees in CYSS programs. The CRESR system provides an automated workflow module for managing child-related suitability reviews flowing from Army garrisons to the HQDA PRB. The automated process standardizes the distribution of case files for review and provides an auditable database of actions to support the HQDA PRB.

Installation Management Command (IMCOM)

Description of Issue: Manpower Requirements Models (IMCOM Headquarters)

Accomplishment: Many of IMCOM's manpower requirements models expired, were about to expire, or required extensive updates to the workload computations. Additionally, previous models were developed using simplistic analytic approaches to manpower requirements determination, which did not allow for varying changes in the functions' dynamics that IMCOM leadership needed for resource planning scenarios. These model flaws hampered IMCOM from using defined common levels of support (CLS) in standardizing business processes and a minimum level of support to their customers.

IMCOM and the U.S. Army Manpower Analysis Agency (USAMAA) are conducting a holistic and complete review of IMCOM CLS to address this issue. The purpose of the review is to produce a quantifiable common level of support for each CLS at each garrison; determine the core manpower requirement for each CLS; and develop a risk assessment to measure risks should resourcing not meet the required need for each CLS. To date, the IMCOM/USAMAA partnership has produced fifteen validated manpower models. IMCOM obtained USAMAA validation and Army G-37/Force Management approval to document and implement the approved models. As a result, the

TAB A-3

validated/approved workload based requirements have been documented on the garrison's TDA by CLS, in accordance with the standard garrison organization structure.

IMCOM Pacific Region:

Description of Issue: Eighth U.S. Army Religious Retreat Center

Accomplishment: A cost benefit analysis (CBA) was performed to identify the operating costs and benefits over the previous five years to support the continued operations of the Eighth U.S. Army religious retreat center. The findings showed that the annual cost to maintain and operate the facility exceeded \$1.1 million/year while the utilization rate was less than 10 percent. The CBA results were used by senior leadership to support the closure of the facility, which was formally closed in November 2013.

Fort Bragg:

Description of Issue: Processing/Tracking Soldiers in the Integrated Disability Evaluation System (IDES)

Accomplishment: The Transition Center implemented three procedures to assist MEDCOM and Fort Bragg commanders in the visibility of Soldiers' processing status in IDES. The Transition Center developed a checklist for physical evaluation board liaison officers (PEBLO) to issue to Soldiers upon receipt of their approved disability rating. The checklist directs the Soldiers to report to the Transition Center upon signing DA Form 199, Informal Physical Evaluation Board Proceedings, which initiates transition processing. The Transition Center also established a procedure for PEBLOs to send signed DA Form 199s to the Transition Center public folder in Outlook. This ensured the Transition Center receives the forms so timely processing can begin, even if a Soldier does not bring the form to the Center. The Transition Center also granted the Corps G-1 and PEBLOs access to the Installation Support Module Transition Processing system, so they can view Soldiers' separation orders for tracking purposes.

List of TABs

- TAB B-1 List of Uncorrected and Corrected Operational Material Weaknesses
- TAB B-2 Operational Material Weakness(es) Corrective Action Plans and Milestones
- TAB B-3 Operational Material Weakness(es) Corrected During All Periods

TAB B-1

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

None

Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	<u>Correction OTR/FY Date</u>		Page #
		Per Last Annual Statement	Per This Annual Statement	
<u>Category: Military Pay</u>				
Collection of Basic Allowance for Subsistence during field duties	FY 2013	4th Qtr FY 2015	4th Qtr FY 2015	B-2-1
<u>Category: Resource Management</u>				
Second Destination Transportation	FY 2013	4th Qtr FY 2017	4th Qtr FY 2017	B-2-3
<u>Category: Supply Operations</u>				
Financial Reporting of New Equipment In-Transit	FY 2008	4th Qtr, FY 2016	4th Qtr, FY 2016	B-2-5
<u>Category: Contract Administration/Procurement</u>				
Oversight of Service Contracts	FY 2006	1st Qtr, FY 2014	4th Qtr, FY 2014	B-2-7
Expeditionary Contracting	FY 2007	4th Qtr, FY 2014	3rd Qtr, FY 2015	B-2-10
<u>Category: Resource Management/Military Pay</u>				
Reporting Accurate Obligations for PCS Program	FY 2010	3rd Qtr FY 2014	4th Qtr, FY 2014	B-2-13

Corrected Weaknesses Identified During All Periods:

Title	Year First Reported	Page #
None		

STATUS OF UNCORRECTED OPERATIONAL MATERIAL WEAKNESSES

Material Weakness Identified In Prior Period

Local ID#: DAG1-2013-001

IC Reporting Category: Comptroller and Resource Management

Title and Description of Material Weakness: “Collection of BAS for government provided meals during field duty”. AAA cited the lack of collection of the cost of meals provided to soldiers during field training exercises. This applies only to soldiers collecting BAS. The AAA reported this issue in 2005, 2010 and 2012.

Senior Official in Charge: Dr. Robert L. Steinrauf - Director, Plans and Resources Directorate (DAPE-PR)

First Year Reported: FY 2013

Target Correction Date: 4th Qtr, FY 2015

Corrective Action Summary: Affected commands will include information in Annex B of their ASOA regarding progress they have made and plan to put internal controls in place to satisfy the requirement of AR 11-2 and the Secretary of the Army’s 4 March 2013 memorandum. AAA will conduct a follow up audit.

Detailed Corrective Action Plan:

DATE	MILESTONE
2009	AAA declares that Fort Bragg and Fort Benning units are not collecting for government-provided meals during field duty
2010	GEN Chiarelli issues guidance to ACOMs and other select commands to put controls in place
2012	AAA audit reveals controls not being followed
4 March 2013	DAPE-PR coordinated the issuance of Memorandum, Secretary of the Army, subject: Audit of Basic Allowance for Subsistence Pay for Soldiers participating in Field Training
In process	Updating AR 37-104-4, Military Pay and Allowances Policy, 8 June 2005, with an internal control test question list
30 May 2013	Affected commands will include information in Annex B of their Annual Statements of Assurance regarding progress they have made and plan to make in putting internal controls in place to satisfy the requirement of AR 11-2 and the Secretary of the Army’s 4 March 2013 memorandum
30 June 2013	PRC review of ASOAs to monitor progress
3Q and 4Q	Provide summary of progress to the Director, DAPE-PR and the

TAB B-2

FY2013	Deputy G-1, for their input to the ASA, FM&C Senior Leader Steering Group (SLSG)
CY2013	Each quarter provide summary of progress to the Director, DAPE-PR and the Deputy G-1, for their input to the ASA, FM&C Senior Leader Steering Group (SLSG) until the Material Weakness is determined to have been corrected
March 2014	Army G1 completes 100% recertification of all E6/SSG and below living in single government quarters and authorized to mess separately
March 2014	Army G1 assumes the proponentcy for AR 37-104-4 and will work with APD to update the publication prior to the end of the FY to include an updated BAS policy for the Army
3Q FY 2014	Army G1 is drafting a comprehensive BAS policy that will address BAS collections for Soldiers participating in field duty and will attend institutional training
4Q FY 2015	Coordinate with ASA, FM&C and the AAA to ensure a follow-on audit is conducted to monitor progress and ultimately validate if the Material Weakness has been addressed

Validation process: Commands with soldiers receiving meals in the field shall address their progress in implementing controls over this function. AAA has indicated they will conduct a follow up audit.

OSD or HQDA Action Required: ASA, FM&C (FO) shall provide copies of ASOAs to HQDA G-1 Plans and Resources Directorate who monitors the progress in this area.

Point of Contact: Mr. JD Riley, DCS G1, Plans and Resources Directorate, Compensation/Entitlements Division.

STATUS OF UNCORRECTED OPERATIONAL MATERIAL WEAKNESSES

Local ID #: DAG4-01

IC Reporting Category: Resource Management

Title and Description of Material Weakness: Audit Readiness of Second Destination Transportation. Hundreds of Transportation Account Codes (TAC) involved. Major problems exist with how field activities assign TACs resulting in substantial fluctuations in financial accounts. Primary SDT Audit Readiness Problems: 1) Documentation nonexistent in GFEBS; 2) Bulk obligations with multiple invoices and transactions; 3) Communication between systems; 4) Non-Army transactions. Shipper/transportation level systems are not integrating well, either to the third party payment system (Syncada), or directly to the financial systems (GFEBS), so the documentation is lost. Purchase requests, purchase orders, and invoices (bulk in Syncada); documentation nonexistent in GFEBS; sampling did not specify a singular shipment or multiple shipments; DFAS consolidated invoices from Syncada. Documentation to approve; no documentation within GFEBS demonstrating the approval authority for shipment (e.g. Requisition and Invoice/Shipping Document); Receiving Report.

First Year Reported: FY 2013

Target Correction Date: 4th Qtr, FY 2017

Corrective Action Summary: The Office of the Deputy Chief of Staff (ODCS), G-4 is scoping the issue by preparing the process maps that identify the regulations, processes and systems involved. Also, the ODCS, G-4 is re-organizing and transforming the SDT program by employing additional staff resources to increase the daily oversight of the program.

Detailed Corrective Action Plan:

a. Completed Milestones:

Date	Milestone
2nd Qtr, FY 13	Problem Identified between G-44D and G-48
3rd Qtr, FY 13	GO/SES meeting with ASA (FM&C) and Army G-4
3rd Qtr, FY 13	Briefed Senior Leaders
3rd Qtr, FY 13	Open Communication with Marine Corp, Navy and OSD about MW
3rd Qtr, FY 13	Prepared MW Statement
3rd Qtr, FY 13	Determine Way Ahead

TAB B-2

b. Planned Milestones:

Date	Milestone
2nd Qtr, FY 14	Reorganization by the ODCS, G-4 SDT to expand oversight of the daily execution of the program. The reorganization includes the additional staff located at the G-4's Forward Operating Agency, Logistics Innovation Agency, located at Fort Belvoir, VA. The new team includes traffic management/logistics specialist and resource managers working in tandem providing greater oversight of SDT funds.
2nd Qtr, FY14	Establishment of new policy and business rules has reduced the number of unlinked e-bills and open transactions across the Army. Also, by working in close coordination with Federal Express, the SDT team has closed over 3,000 inactive accounts.
2nd Qtr, FY14	ODCS, G-4 SDT is employing a new tool to increase oversight to the program. In synchronization with the CMOS role out, the G-4 is deploying the Trackerlite system. Trackerlite is a value added intermediary system between the CMOS transportation module and the third party payment system (TPPS). Trackerlite will provide better management controls, therefore, lowering the amount of billing errors entering TPPS.
3rd Qtr, FY14	Complete Transportation/Financial process maps identifying capability gaps between Army systems and Non-Army systems.
3rd Qtr, FY14	Based upon the capabilities gaps identified in the process maps, ODCS, G-4 SDT will identify: 1) Policies and Regulations requiring updating; 2) Organizations that are key stakeholders in improving the gaps identified; 3) System upgrades and/or changes; and 4) Resources requirements.
4rd Qtr, FY14	Develop Plan of Action and Milestones (POAM)

Validation Process: The U.S. Army Audit Agency (USAAA) will conduct the validation.

OSD or HQDA Action Required: N/A

Point of Contact: Mr. Seth Gladstone, 703-614-4016

STATUS OF UNCORRECTED OPERATIONAL MATERIAL WEAKNESSES

Local ID: DAG4-02

IC Reporting Category: Supply Operations

Title and Description of the Material Weakness: New Equipment In-Transit Reporting. 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 wholesale in-transit transaction remains open which results in the Army overstating its on hand equipment inventory and the value of our capital assets in the quarterly financial statements. The Office of the Deputy Chief of Staff (ODCS), G-4 in coordination with the Assistant Secretary of the Army (Acquisition, Logistics and Technology (ASA (ALT))) researched the Life Cycle Management Command (LCMC) document number transactions for Program Manager (PM) pushed major end items to improve the in-transit visibility reporting through the Logistics Information Warehouse (LIW). ODCS, G-4 provided comments to the Department of the Army Pamphlet DA PAM 700-142-1, Instructions for Materiel Release, Fielding, and Transfer for the instructions for materiel fielding and transfer. In addition, ODCS, G-4 participated in the Total Package Fielding (TPF) requirements for Logistics Modernization Program (LMP) and GCSS-Army resulting in improving the TPF functionality within the Enterprise Resource Planning (ERP) systems.

First Year Reported: FY 2008

Target Correction Date: 4th Qtr, FY 2016

Corrective Action Summary: Unit receipt tracking for major end items for both depot shipments and Program Manager Lateral Transfers is improving with a 95% closure rate for the combined efforts. While the combined rate is significantly improved, the depot shipment closure is still below the 80% range. To address this problem a new transaction is being introduced in LMP. Testing was completed in May/June 2014 and training is on going for a new transaction that creates due-ins to PBUSE for equipment pushed from wholesale to the unit. The new transaction will go live in June 2014 and provide document number information of those transactions pushed to the unit that were not otherwise visible as due-in within PBUSE. Implementation should improve the accuracy and timeliness of PBUSE in-transit closures. Implementation of GCSS-Army and Item Unique Identification (IUID) tracking will further close this gap. The ODCS, G-4 will be monitoring the progress monthly for unit or activity compliance and for improvement resulting from the introduction of this new LMP transaction.

TAB B-2

Detail Corrective Action Plan:

a. Completed Milestones:

Date	Milestone
1st Qtr, FY 13	Analysis expanded to include new equipment in-transit for non TPF shipments. Analysis underway to understand and correct non-compliant transactions that occurred during the transition to LMP. Analysing current data pull; assessing sustainment needs based on recent discovery.

b. Planned Milestones:

Date	Milestone
3rd Qtr, FY 15	Monitor closures based on newly identified gaps in process and introduction of new retail Property Accountability System (GCSS-A).
4th Qtr, FY 15	Monitor the implementation of IUID in the tactical and national Property Accountability system (Required to demonstrate and sustain existence and completeness).
4th Qtr, FY 15	Complete re-mapping the financial process for in transits from LMP and PBUSE/GCSS-Army to GFEBS.
1st Qtr, FY 16	Test the financial reporting of equipment from LMP/DSS and PBUSE/GCSS-Army to GFEBS.
4th Qtr, FY 16	USAAA validates closure of weakness for the financial reporting of equipment in transit of major end item new equipment fielding.

Validation Process: The U.S. Army Audit Agency (USAAA) will conduct the validation.

OSD or HQDA Action Required: Continue funding for ERP development and fielding.

Point of Contact: HQDA G-4 Functional POC: Ms. Carol Kornhoff, 703-692-9584

TAB B-2

STATUS OF UNCORRECTED OPERATIONAL MATERIAL WEAKNESSES

Local ID#: DASA-PP-07-001

IC Reporting Category: Contract/Procurement

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 (FY05) Assurance Statement. Subsequent review by the Senior Level Steering Group in conjunction with U.S. Army Audit Agency (AAA) revealed that oversight of service contracts should be disclosed as an Army- wide material weakness. Specific elements of this weakness include poorly trained CORs, weak requirements justification and improper use of contractor labor.

First Year Reported: FY 2006

Target Correction Date: 4th Qtr, FY 2014

Corrective Action Summary: The original target correction date was 4th Qtr, FY 2010. In the 2013 ASOA report, the date was changed to 4th Qtr, FY 2013. The AAA audit began June 2013 and was delayed due to furlough and the Government shut-down. The report is scheduled to be complete by 3rd Qtr, FY 2014.

Detailed Corrective Action Plan:

Date	Milestones:
1st Qtr, FY 2007	Army COR minimum certification and refresher training requirements standardized.
2nd Qtr, FY2007	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, FY2007	PARCs established COR compliance plans.
2nd Qtr, FY2007	Defense Acquisition University (DAU) established Army COR folder in Acquisition Community Connection.
3rd Qtr, FY2007	DAU begins to collect COR training metrics.
3rd Qtr, FY2007	Establish method of obtaining service metrics from ACOM ASSP review authority. Conduct discussions with PARCs. ASA(ALT) approved. ASSP process metrics; FY06 metrics on services collected and assessed.
2nd Qtr, FY2008	US Army IR reported COR compliance results with previously issued guidance to ASA(ALT).
3rd Qtr, FY2008	US Army IR reported that local contracting offices failed to demonstrate sufficient progress to eliminate the material weakness.

TAB B-2

4th Qtr, FY2008	Target completion date revised from 4QFY09 to 2QFY12.
1st Qtr, FY2009	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, FY2009	DASA (P) signed the 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 reporting to the DASA(P) on compliance with service contract surveillance policy and corrective actions being taken to correct deficiencies.
4th Qtr, FY2009	Reviewed service contract surveillance data and determined weakness requires additional time to implement training, and institutional oversight.
4th Qtr, FY2010	Issued new Army Regulation 70-13.
1st Qtr, FY2011	Issued revised COR guidance in October 2010
1st Qtr, FY2011	Developed surveillance plan resources for service acquisitions at various dollar thresholds and issued in October 2010.
1st Qtr, FY2011	Issued surveillance plan resources for service acquisitions at various dollar thresholds October 2010.
3rd Qtr, FY2011	Monitored field progress in appointing properly trained CORs through use of data calls
1st Qtr, FY2012	Monitored field progress in appointing properly trained CORs through use of data calls.
1st Qtr, FY2012	Monitor field progress in incorporating surveillance plans in contracts and having CORs use to monitor contractor performance.
2nd Qtr, FY2012	Issue DASA(P) memorandum to Head of Contracting Activities (HCAs)/Principle Assistant Responsible for Contracting (PARCs) requiring their plan to attain compliance with monthly status reporting by 30 September 2012.
2nd Qtr, FY2012	Issued DASA(P) memorandum directing use of the VCE COR tool March 2012.
3rd Qtr, FY2012	Began compliance assessment using data reported from the VCE COR tool.
1st Qtr, FY2013	Army contracting community has shown increasing compliance and the Audit has been scheduled to begin April 2013.
4th Qtr, FY2013	Commence audit.
2nd Qtr, FY2014	Establish policy in AFARS that contracting officers will not release any solicitation for services unless the requiring activity has provided an acceptable quality assurance surveillance plan and nominated the requisite number of qualified CORs.
3rd Qtr, FY2014	AAA reports results.
4thQtr, FY2014	Close-out material weakness.

Validation Process: ODASA (P) implemented an automated reporting system called the Virtual Contract Enterprise (VCE) COR Tool that captures training, appointment and

TAB B-2

quality assurance surveillance plans. AAA validates results after ODASA (P) verifies acceptable implementation.

Results Indicators: Reporting pulled from the VCE COR Tool showing compliance with the requirement to input COR data into the system. 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 level Army Service Strategy Panel (ASSP) reviews, success is defined as data reflecting that management controls over service contracts imposed by the ASSP are in place and working effectively.

Additional positive or negative implementation indicators include the review of recent audit organization reports and the conclusions found related to contract administration of service contracts, the annual review results developed by the Army Command (ACOM) and DASA(P) Procurement Management Review (PMR) teams.

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

Point of Contact: Ms. Gail Foley, DASA (Procurement), 703-617-2622.

TAB B-2

Local ID#: DASA-PP-07-002

IC Reporting Category: Contract/Procurement

Title and Description of Material of Weakness: Expeditionary Contracting. The Army's expeditionary 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, through contract management, and contract close-out) is not treated as a core competency. Audit reports conclude that internal controls to mitigate risks in the contracting process are ineffective or non-existent.

First Year Reported FY 2007

Target Correction Date: 3rd Qtr, FY 2015

Corrective Action Summary: The original target correction date was 4th Qtr, FY 2010. In the 2013 ASOA report, the date was changed to 4th Qtr, FY 2013. The AAA audit began June 2013 and was delayed due to furlough and the Government shut-down. The report was scheduled to be complete by 3rd Qtr, FY 2014. The corrective action date slipped three quarters since reported in the USD(AT&L) 2013 SoA. The adjusted closure date for the systemic weakness is based upon information provided at the United States Army Audit Agency (USAAA) entrance conference held on May 21, 2014. While the USAAA validation of corrective action has commenced, the USAAA requires additional time to complete the audit. The completion date is now 3rd QTR FY15

Detailed Corrective Action Plan:

Date	Milestones:
4th Qtr, FY 2007	Form the Army Contracting Task Force (ACTF) (co-led by the ASA(ALT) MILDEP and AMC Executive Deputy Command Director) with participants from a wide range of Army staff elements and contracting operations.
4th Qtr, FY 2007	Assign new leadership and increase staff.
4th Qtr, FY 2007	Establish reach-back capability to manage active contracts.
1st Qtr, FY2008	Develop internal controls for optimal contract management and surveillance.
1st Qtr, FY2008	Established increases engagement of DCMA in performing contract management and oversight support through the Kuwait Logistics Support Office.
2nd Qtr, FY2008	Establish Contracting Officer's Representative (COR) training.
2nd Qtr, FY2008	Disband ACTF and formed the Army Contracting Campaign Plan Task Force to work ACTF findings
3rd Qtr, FY2008	Implement internal controls for optimal contract surveillance.
3rd Qtr, FY2008	Contracting Operations Review team conducts independent verification of compliance with internal control procedures.
3rd Qtr, FY2008	Contracting Operations Review team reports management

TAB B-2

	control review results.
2nd Qtr, FY2009	Updated the Management Control Evaluation Checklist and published it in the AFARS Appendix BB
3rd Qtr, FY2009	Established the Operational Contracting Support and Policy Directorate to manage and oversee Operational and Expeditionary Contracting Operations worldwide.
3rd Qtr, FY2009	Established the Army Operational Contract Support Working Group as a forum to discuss operational contract support issues with key stakeholders.
1st Qtr, FY2010	Developed and G-3/5/7 issued an Execution Order on COR requirements for all deploying units, increasing COR fill from 38% to 92% in theater.
3rd Qtr, FY2010	Developed and the Vice Chief of Staff issued a memo to all Commanders emphasizing COR training requirements
3rd Qtr, FY2010	Continue to have unit conduct self-inspections to validate use of Management Control Evaluation Checklist.
3rd Qtr, FY2010	Identify subtasks associated with material weakness resolution (i.e., manning, training, structure, internal controls) and lay out a milestone schedule for subtask completion.
4th Qtr, FY2010	Ongoing Independent Review/PMR team conducts compliance review of individual subtasks.
1st Qtr, FY2011	ACC issues Expeditionary Contracting Strategy to address quality assurance and oversight in deployed environment. Funding started for the Army Contingency Contracting Command's Enhanced Contract Management Concept (ECMC) (fielding through 2014) that can provide Contingency Contract Administration Support (CCAS).
3rd Qtr, FY2011	USACE issues 51C Construction/Architect and Engineering Contracting Proficiency Guide.
3rd Qtr, FY2011	ACC begins hiring Contract Administration (CA) and QA personnel authorized in ECMC.
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.
1st Qtr, FY2012	CSA directed additional growth of 315 Active duty 51C soldiers through 2013, to ECC and USACE. Increase the active duty force structure to approx 1,211 soldiers authorized. Currently 817 On Hand.
3rd Qtr, FY2012	Quarterly certification review. 51C Officers & NCOs Certification GREEN. 99% of the Officers and 89% of the NCOs assigned are certified w/in 24 mos. More relevant Accreditation Standards will increase 51C NCO availability for Contingency Operations, approximately 101 NCOs accredited.
1st-3rd Qtr, FY2013	IR/PMR teams conduct compliance reviews and provide quarterly ACC, ECC and USACE results.

TAB B-2

1st-3rd Qtr, FY2013	Review and assess corrective action and IR and PMR validation of sub-task completion for accuracy and completeness.
3rd Qtr, FY2013	Request USAAA on validation audit. Complete the staffing for additional 315 soldiers.
3rd Qtr, FY2014	AAA validation audit commences
3rd Qtr, FY2015	AAA provides audit results
3rd Qtr, FY2015	Close material weakness.

Validation Process: ODASA(P) utilizes Unit self-inspection conducted using Army Federal Acquisition Regulation Supplement (AFARS), Appendix BB Management Control checklists and compliance review with procedures and management controls conducted by Independent Review and Procurement Management Reviews (PMR). AAA validates results after ODASA (P) verifies acceptable implementation.

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 training and 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.

OSD or HQDA Action Required: Continue to apprise OSD DPAP on a quarterly basis of Army progress.

Point of Contact: MAJ Thomas McFall, ODASA(Procurement), 703-617-0381

STATUS OF UNCORRECTED OPERATIONAL MATERIAL WEAKNESSES

Uncorrected Weakness Identified During Prior Periods

Local ID: DAFM-01

IC Reporting Category: Comptroller and Resource Management

Description of Material Weakness:

A solution does not currently exist to obligate active duty military PCS orders when issued (Department of Defense Financial Management Regulation 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 violations. An ongoing Lean Six Sigma (LSS) project is working to provide an interim solution to the material weakness until the Integrated Personnel and Pay System-Army solution is fielded.

Year Identified: Internally in FY 2008 / DA-level material weakness in FY 2010.

Target Date in Last Year's Report: 3rd Qtr, FY 2014

Current Target Date: 4th Qtr, FY 2014 Army Audit Agency (AAA) Attestation.

Reason for Change in Date(s): The LSS project designed to address this material weakness has taken longer than anticipated due to the complexity of the orders issuing process. Funding constraints have slowed system enhancement efforts for the Automated Fund Control Orders System (AFCOS) and delayed hiring of a contract staff to administer the "to-be" process.

Corrective Action Summary/Plan:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr FY 2012	Stakeholder business process mapping and documentation
2 nd Qtr FY 2012	To-Be Mapping complete (DRAFT)
3 rd Qtr FY 2012	Pilot to confirm orders log procedures
4 th Qtr FY 2012	Gap & Issue Analysis complete
4 th Qtr FY 2012	To-be process mapping complete (FINAL)
4 th Qtr FY 2012	Cost-benefit analysis and system selection (AFCOS)
1 st Qtr FY 2013	Begin AFCOS system modification
2 nd Qtr FY 2013	Execution Order (EXORD) on inclusion of standard document number on PCS orders
2 nd Qtr FY 2013	Memorandum of Agreement migration into non-system solution (AFCOS)
3 rd Qtr FY 2013	Feasibility assessment of military manpower support
4 th Qtr FY 2013	Implementation plan complete

TAB B-2

4 th Qtr FY 2013	Begin pilot for pre-assertion review: Standard Operating Procedures and Programs of Instruction Change Management Plan Final Gap and Issues Resolution Training Prepare Walk Through Review Execute Walk-through Review
1 st Qtr FY 2014	Execute assertion review
2 nd Qtr FY 2014	USAAA execution of examination attestation
3 rd Qtr FY 2014	USAAA examination attestation report
4 th Qtr FY 2014	Statement of Budgetary Resources-Audit Ready

OSD or HQDA Action Required: Support process change and funding of interim solution.

Point of Contact: Michael Fulton, SAFM-BUP-M, 703-693-2661.

TAB B-3

Corrected Weaknesses Identified During All Periods

None.

List of TABs

- TAB C-1 List of Uncorrected and Corrected Internal Controls over Financial Systems (ICOFS) Material Weaknesses
- TAB C-2 ICOFS Material Weakness(es) Corrective Action Plans and Milestones
- TAB C-3 ICOFS Material Weakness(es) Corrected During All Periods

TAB C-1
Internal Controls over Financial Systems (ICOFS)

List of all Uncorrected and Corrected Material Weaknesses

Uncorrected Weaknesses Identified During the Periods:

<u>Title</u>	<u>Targeted Correction Date</u>	<u>Page #</u>
Super User Privileged Access at the Application Layer (GFEBS)	4th Qtr, FY 2014	C-2-1
Configuration Management (GFEBS)	4th Qtr, FY 2014	C-2-3

General Fund 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>	
Army Working Capital Fund (LMP)	FY 2008	2nd Qtr, FY 2015	2nd Qtr, FY 2015	C-2-5

Corrected Weaknesses Identified During the Period:

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

None.

TAB C-2
STATUS OF UNCORRECTED MATERIAL WEAKNESSES

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

IC Reporting Category: Financial Management Systems

Title and Description of Material Weakness: Super User Privileged Management (SPM) access at the application layer.

The Army has not implemented sufficient information technology controls to protect the GFEBs application to achieve the requirements of the DoD FIAR Guidance (March 2013). Specific findings, organized by the U.S. Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM) IT general control review areas, relating to GFEBs are as follows:

Access Controls. The Army did not fully monitor elevated application access, assign logical security mechanisms to restrict access to execute application programs and modify application data and identify and document how application access is restricted for system administration/backend support users based on least privilege considerations.

First Year Reported: April 2014 by Independent Audit.

Target Completion Date: September 2014

Corrective Action Summary: Ongoing monitoring to mitigate risk will continue. Implementing plan in accordance with SPM Guide to appropriately segregate duties and roles across Tier II Help Desk staff.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Sep 2014	Submit waiver request to Higher Headquarters on mission essential needs
Sep 2014	Complete SPM Restricted IDs for Tier II
Mar 2014	Institutionalized continuous monitoring
Feb 2014	Work completed on SPM Restricted IDs for Tier III
Dec 2013	Revised SPM Tier III roles implemented in production system

Date:

Milestone:

Aug 2013

Monitoring process refined and expanded

June 2013

Initial SPM approach defined

Validation Process: Validation of risk mitigation through internal and independent audits will continue.

OSD or HQDA Action Required: Provide additional resources and expand end user training and accountability.

Point of Contact: Mr. Wes Robinson, Director, GFEBS Functional Sustainment, Office of the Deputy Assistant Secretary of the Army - Financial Information Management (DASA-FIM), Office of the Secretary of the Army (Financial Management and Comptroller) (OASA (FM&C))

STATUS OF UNCORRECTED MATERIAL WEAKNESSES

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

IC Reporting Category: Financial Management Systems

Title and Description of Material Weakness: Configuration Management

The Army has not implemented sufficient information technology controls to protect the GFEBs application to achieve the requirements of the DoD FIAR Guidance (March 2013). Specific findings, organized by the U.S. Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM) IT general control review areas, relating to GFEBs are as follows:

Configuration Management: The Army did not test application changes and formally document management approval of application changes prior to implementation into the production environment.

First Year Reported: April 2014

Target Completion Date: September 2014

Corrective Action Summary: Review of the release management process will be completed and appropriate changes for approvals to transport to Production will be implemented to eliminate this material weakness.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Jul-Sep 2014	Monitor updated procedures and tracking methods for verification of review/approval steps for transport list
Jun 2014	Update procedures and tracking methods for verification of review / approval steps for transport list
Jun 2014	Review Release Management procedures for O&S and Release Teams

Date:

Jun 2014
Apr 2014

Milestone:

Implement process / procedure updates
Updated Transport Review Board (TRB) trackers with mappings of transports to change requests / Remedy Tickets (i.e. initiating work and approving migration to PRD)

Validation Process:

OSD or HQDA Action Required: None

Point of Contact: Mr. Wes Robinson, Director, GFEBS Functional Sustainment, Office of the Deputy Assistant Secretary of the Army - Financial Information Management (DASA-FIM), Office of the Secretary of the Army (Financial Management and Comptroller) (OASA (FM&C))

STATUS OF UNCORRECTED ICOFS MATERIAL WEAKNESSES

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

Title and Description of Material of Weakness: Financial Management Systems. The Army Working Capital Fund systems do not collect and record financial information as required by U.S. GAAP. The financial and nonfinancial feeder systems do not contain the required system integration to provide a transaction-level audit trail for the amounts reported in the proprietary and budgetary general ledger accounts. The Government Accountability Office, DOD Office of Inspector General, and U.S. Army Audit Agency continue to issue audit reports that identify significant data integrity and system integration problems, questioning whether the Logistics Modernization Program (LMP) system will record transaction-level data correctly to support the financial statements.

Functional Category: Financial Management Systems

First Year Reported: FY 2008

Target Correction Date: 2nd Qtr FY 2015

Corrective Action Summary: A detailed plan of corrective action and milestones has been put in place to track and monitor progress on corrective action in support of the areas identified.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Completed	LMP developed a detailed Plan of Action & Milestone (POAM) that includes FISCAM Information Technology General Controls.
3rd Qtr FY 2014	AAA issue coordination draft report on the LMP System FFMIA Compliance Validation for the Third Deployment.

<u>Date:</u>	<u>Milestone:</u>
3rd Qtr FY 2014	DASA-FO complete testing of FISCAM Business Process Application Controls for LMP. LMP update POAM as necessary.
2nd Qtr FY 2015	Remediate controls identified in POAM

Validation Process: DASA-FO validates completion of FISCAM POAM items. AAA validates compliance with FFMIA requirements.

OSD or HQDA Action Required: HQDA leadership from G4 and ASA(FM&C) are briefed regularly on POAM remediation progress, and provide guidance when necessary.

Point of Contact: Ms. Margaret A. Powell, Acting Deputy, PM AESIP, Director, Financial Compliance Division Army Enterprise Systems Integration Program (AESIP)

Working Capital Fund Uncorrected Weakness(es) Identified During Period

None.

**TAB C-3
CORRECTED MATERIAL WEAKNESSES**

Identified In All Periods

None.

Local ID #:

IC Reporting Category:

Title and Description of Material Weakness:

First Year Reported:

Correction Date:

Corrective Action Summary:

OSD or HQDA Action Required:

Point of Contact:

List of TABs

- TAB D-1 List of Uncorrected and Corrected Internal Controls over Financial Reporting (ICOFR) General Fund Material Weaknesses
- TAB D-2 ICOFR General Fund Material Weakness(es) Corrective Action Plans and Milestones
- TAB D-3 ICOFR General Fund Material Weakness(es) Corrected During All Peroids

TAB D-1
GENERAL FUND MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

Internal Controls Over Financial Reporting (ICOFR)

General Fund Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Date (FY) Targeted Correction Date	Page #
None.		

General Fund Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Correction QTR and FY Date		Page #
		Per Last Annual Statement	Per This Annual Statement	
Fund Balance with Treasury	FY 2008	3rd Qtr FY 2014	2nd Qtr FY 2015	D-2-1
Inventory (Operating Materials and Supplies) (OM&S)	FY 2008	1st Qtr FY 2014	4th Qtr FY 2014	D-2-3
General Property, Plant and Equipment	FY 2008	4th Qtr FY 2014	4th Qtr FY 2014	D-2-5
Environmental Liabilities	FY 2008	1st Qtr FY 2015	4th Qtr FY 2015	D-2-7
Intragovernmental Eliminations	FY 2008	3rd Qtr FY 2014	1st Qtr FY 2015	D-2-9
Accounting Adjustments	FY 2008	3rd Qtr FY 2014	2nd Qtr FY 2015	D-2-10
Statement of Net Cost	FY 2008	3rd Qtr FY 2014	1st Qtr FY 2015	D-2-12

Title	Year First Reported	Correction QTR and FY Date		Page #
		Per Last Annual Statement	Per This Annual Statement	
Abnormal Account Balances	FY 2008	3rd Qtr FY 2014	2nd Qtr FY 2015	D-2-14
Accounts Receivable	FY 2008	3rd Qtr FY 2014	2nd Qtr FY 2015	D-2-16
Accounts Payable	FY 2008	3rd Qtr FY 2014	1st Qtr FY 2015	D-2-18
Statement of Budgetary Resources	FY 2008	3rd Qtr FY 2014	1st Qtr FY 2015	D-2-20
Reconciliation of Net Cost of Operations to Budget	FY 2008	3rd Qtr FY 2014	1st Qtr FY 2015	D-2-23
Contingency Payment Audit Trails	FY 2009	1st Qtr FY 2014	4th Qtr FY 2014	D-2-24

Corrected Weaknesses Identified During All Periods:

Title	Year First Reported	Page #
None.		

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

Title and Description of Material Weakness: Fund Balance with Treasury (FBWT). DoD and its Components, including the Army, have had long-standing problems in reconciling transaction activity in their FBWT accounts. Appropriation balances recorded in the accounting records do not agree with balances held at Treasury. Collections and disbursements at the detailed transaction level do not reconcile with the records of the Department of the Treasury.

First Year Reported: FY 2008

Target Correction Date: 2nd Qtr FY 2015

Corrective Action Summary: A joint Army/Defense Finance and Accounting Service (DFAS) team is developing an auditable Fund Balance with Treasury reconciliation process, to include implementation of internal controls that ensure reconciling differences are resolved appropriately.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Complete	Identified Requirements to Accurately Report FBWT. Finalized "to be" FBWT Reconciliation requirements document based on feedback received. Fully deploy GFEBS.
Complete	Implement sustainable process to report FBWT and accurately address the reconciliation between the Army's balance and the balance at the Department of the Treasury.
Complete	Internal validation of FBWT (Reconciliation Tool).

<u>Date:</u>	<u>Milestone:</u>
3rd Qtr FY 2014	Transition Army GF FBWT reconciliation tool into Production environment. Set conditions for phased implementation and implement routine processes and procedures.
3rd Qtr FY 2014	Complete and execute corrective action plans (CAPs) for known deficiencies and weaknesses. Identify mitigating controls.
4th Qtr FY 2014	Conduct monthly internal control retesting to confirm corrective actions (processes, controls, documentation or systems) have successfully mitigated deficiencies. Provide commands with a report reflecting testing results, trends, and recommendations.
2nd Qtr FY 2015	Develop implementation plan to execute designed "to-be" solution, including updating policies and procedures, preparing systems design documents, and drafting documentation templates. A plan must be developed for each deficiency identified.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, Office, Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C))

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Plan-to-Stock

Title and Description of Material of Weakness: Inventory (OM&S). Inventories are valued and reported at approximate historical cost using latest acquisition cost adjusted for holding gains and losses. The systems do not maintain historical cost data necessary to comply with Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property." The systems also are unable to produce financial transactions using the U.S. Government Standard General Ledger. Statement of Federal Financial Accounting Standards No. 3 states that OM&S must be expensed when the items are consumed. However, according to independent auditor's reports dated 8 November 2009 and 9 December 2014, the Army has acknowledged that significant amounts of OM&S was expensed when they were purchased instead of when they were consumed.

First Year Reported: FY 2008

Target Correction Date: 4th Qtr FY 2014

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

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Complete	Achieved positive opinion from DoD OIG in April 2013 on 17% of Army's missile program assets, including the Javelin, Hellfire, and TOW assets.
Complete	Provided guidance for valuation of operating expenses associated with the consumption of OM&S in normal operations and establishing the Inventory baseline (i.e., an acceptable value for on-hand OM&S at the time systems are converted to a historical cost method).

<u>Date:</u>	<u>Milestone:</u>
Complete	Incorporated the revised historical cost valuation policy (Consumption Method) for OM&S into the DoD FMR (DoD 7000.14-R).
4th Qtr FY 2014	Assert audit readiness to the existence and completeness of OM&S assets. Complete and execute corrective actions for known deficiencies and weaknesses for OM&S. Identify mitigating controls and/or substantive procedures to support OM&S full assertion scheduled for 30 September 2013. Conduct monthly internal control and substantive retesting to evaluate internal controls and ensure that OM&S assets are accurately recorded and managed in the accountable property systems of record.
2nd Qtr FY 2015	Internal validation of inventory and related property (USAAA)
2nd Qtr FY 2016	Complete Wave 1 deployment of Global Combat Support System–Army (GCSS-Army).
4th Qtr FY 2017	Complete Wave 2 deployment of GCSS-Army.
TBD	Support the validation efforts of management’s assertion to the existence and completeness of OM&S assets.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. Dale Houck, Deputy Chief of Staff, G-4

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Acquire-to-Retire

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

First Year Reported: FY 2008

Target Correction Date: 4th Qtr FY 2014

Corrective Action Summary: The Army is working with the Office of the Under Secretary of Defense (Comptroller) to develop a methodology to report GPP&E values providing useful and reliable information. The Army is currently evaluating and implementing internal controls to ensure that GPP&E assets are accurately recorded and managed in the accountable property systems of record; and ensuring that financial accountability systems for all Military Table of Equipment unit property books comply with the Federal Financial Management Improvement Act of 1996.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Complete	Asserted to the existence and completeness of GE fire and rescue "quick win" assets (31 March 2011).
Complete	Asserted to the existence and completeness of all GE assets (30 December 2013).

<u>Date:</u>	<u>Milestone:</u>
Complete	Asserted to the existence, completeness, and rights and obligations of RP assets at 23 installations (“quick wins”) (12 December 2012). Received clean opinion from independent public accounting (IPA) firm in November 2013.
Complete	Facilitated data conversion and interface development between Army information systems, Property Book Unit Supply-Enhanced, and General Fund Enterprise Business System.
4th Qtr FY 2014	Assert to the existence and completeness of all RP assets by 30 September 2014.
4 th Qtr FY 2014	Continue execution of corrective action plans (CAPs) for known deficiencies and weaknesses across major command organizations that maintain accountability of assets.
4 th Qtr FY 2014	Conduct monthly internal control and substantive retesting to assess status of corrective action plans and mitigation of control weaknesses.
4 th Qtr FY 2014	Support DoD Office of the Inspector General in their validation efforts over the GE assertion. Auditor’s report expected in October 2014.
1 st Qtr FY 2015	Evaluate auditor’s report over the GE existence and completeness assertion and determine actions necessary to remediate remaining internal control weaknesses.
TBD	Support validation efforts of management’s assertion to the E&C of GE assets. Validation efforts are currently underway. Report expected to be released in October 2014.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C); Mr. Robert J. Turzak, Director, Resource Management, U. S. Army Materiel Command.

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: N/A

Title and Description of Material of Weakness: Environmental Liabilities (EL). The Army has not properly estimated and reported its environmental liabilities. For example, the processes used to report environmental liabilities for the Defense Environmental Restoration Program (DERP), Base Realignment and Closure (BRAC) and the non-Defense Environmental Restoration Program (Non-DERP) on the financial statements were not adequate to establish or maintain sufficient documentation and audit trails.

First Year Reported: FY 2008

Target Correction Date: 4th Qtr FY 2015

Corrective Action Summary: The Army is implementing 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 address current impediments to an auditable outcome.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
TBD	The Army is implementing systems, processes, and controls to ensure the accuracy of site level liability data for the processes used to report environmental liabilities.
4th Qtr FY 2015	Implement HQAES, a system designed to support the Army's environmental program and capable of managing, tracking and reporting EL by project.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: HQDA to support the implementation and policy updates necessary for the use of the HQAES system.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

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

First Year Reported: FY 2008

Target Correction Date: 1st Qtr FY 2015

Corrective Action Summary: The Army has fully deployed the General Fund Enterprise Business System (GFEBS) and the Standard Financial Information Structure as a means to identify and reconcile intragovernmental trading partner transactions.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr FY 2015	Identify trading partner information at the transaction level.
	Implement Standard Financial Information Structure (SFIS) 10.0 and GTAS to LMP by November 2014 to fix the Fed/Non-Fed issues.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

Title and Description of Material of Weakness: Accounting Adjustments. Because of inadequate financial management systems and processes, journal voucher adjustments and data calls were used to prepare the Army General Fund financial statements. According to independent auditor's report dated 8 November 2009, DFAS Indianapolis did not adequately support \$258.2 billion in journal voucher adjustments used to prepare the Army General Fund financial statements. During FY 2012, the Defense Finance and Accounting Service (DFAS) processed \$110.9 billion in unsupported journal voucher adjustments to prepare the Army's General Fund financial statements.

First Year Reported: FY 2008

Target Correction Date: 2nd Qtr FY 2015

Corrective Action Summary: The Army fully deployed the General Fund Enterprise Business System (GFEBS) in FY 2012. Full deployment of GFEBS will enable the Army to submit a General Fund trial balance directly to DFAS using the Standard Financial Information Structure. This will reduce the need for DFAS to process unsupported accounting adjustments.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Complete	Fully deployment of the General Fund Enterprise Business System (GFEBS) in FY 2012. Full deployment of GFEBS enables the Army to submit a General Fund trial balance directly to DFAS using the Standard Financial Information Structure. This will reduce the need for DFAS to process unsupported accounting adjustments.
2nd Qtr FY 2015	Identify the root causes of unsupported adjustments. Develop corrective action plans to fix legacy system brought forward data, budgetary/proprietary adjustments and other related issues.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

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

First Year Reported: FY 2008

Target Correction Date: 1st Qtr FY 2015

Corrective Action Summary: The Army will report the Statement of Net Cost in accordance with programs described in the DoD strategic and performance plans. The Army has fully deployed the General Fund Enterprise Business System and will ensure that the system's capabilities are functioning properly.

Detailed Corrective Action Plan:

Date:

TBD

Milestone:

Note - This is a DoD-wide issue. DDRS-AFS does not present the financial statements at that level of detail. In order to make that happen, OSD needs to coordinate with other services and revise the DDRS.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: OSD to coordinate with other DoD services to revise DDRS.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

Title and Description of Material of Weakness: Abnormal Account Balances. According to independent auditor's report dated 8 November 2009, DFAS Indianapolis did not detect, report, or take action to eliminate abnormal balances included in the Army General Fund accounting records. DFAS Indianapolis considers this budgetary data so unreliable that the trial balance for budgetary accounts must be constructed from other budgetary reports. 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.

First Year Reported: FY 2008

Target Correction Date: 2nd Qtr FY 2015

Corrective Action Summary: Full deployment of the General Fund Enterprise Business System enables the Army to detect and correct abnormal balances through routine general ledger tie point reconciliations and other processes.

Detailed Corrective Action Plan:

Date:

2nd Qtr FY 2015

Milestone:

Working with Army Materiel Command and LMP – Program Manager (PM) to identify root causes including budgetary/proprietary adjustment, legacy system data.

Revised the LMP Chart of Accounts that is applicable to the AWCF business processes and transactions.

Working with DFAS and LMP-PM to address Contract Authority GL posting issues.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

Title and Description of Material of Weakness: Accounts Receivable. The Army has acknowledged weaknesses in its accounts receivable management. The weaknesses are considered to be DOD-wide and apply to both public and intragovernmental receivables at the Army General Fund level. According to independent auditor's report dated 8 November 2009, the Army's accounts receivable has weaknesses of noncompliance with policies and procedures regarding referrals to the Debt Management Office of the Department of Treasury and for write-offs of 2-year-old debt; a lack of controls to ensure all entitlement system receivables (vendor pay, civilian pay and interest) are recorded in the accounting systems; and a lack of controls to ensure that accounts receivable balances are supportable at the transaction level.

First Year Reported: FY 2008

Target Correction Date: 2nd Qtr, FY 2015

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

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
TBD	DoD Office of the Inspector General began audit of Accounts Receivable in February 2014.
TBD	Implement Department-wide debt management solution.
TBD	Validate that entitlement system receivables are recording properly.
TBD	Determine if all receivables are properly recorded at transaction level.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: Support implementation of a department wide debt management solution through policy development/updates and issuing department wide directives to accelerate action.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

Title and Description of Material of Weakness: Accounts Payable. According to independent auditor's report dated 8 November 2009 and 9 December 2013, the Army is unable to account for and report Accounts Payable properly. Due to noted material weakness in current accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable and accounts receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and accounts receivable accordingly. In addition, the Army accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations for intra-agency sales. Therefore, the Army has acknowledged that it was unable to reconcile Intragovernmental accounts payable to the related Intragovernmental accounts receivable that generated the payables.

First Year Reported: FY 2008

Target Correction Date: 1st Qtr FY 2015

Corrective Action Summary: 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. Validation of SFIS structure will ensure proper reporting of trading partners.

Detailed Corrective Action Plan:

Date:

1st Qtr FY 2015

Milestone:

Validate SFIS attributes related to Fed/Non-Fed issues to ensure proper reporting of trading partner transactions.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

Title and Description of Material of Weakness: Statement of Budgetary Resources. According to independent auditor's report dated 8 November 2009 and 9 December 2013, the Army accounting systems do not provide or capture data needed for obligations incurred or prior year obligations recovered in accordance with OMB Circular No. A-11, "Preparation, Submission and Execution of the Budget Requirements." Although the Army developed an alternative methodology to calculate these items, the amount of distortion cannot be reliably determined.

First Year Reported: FY 2008

Target Correction Date: 1st Qtr, FY 2015

Corrective Action Summary: The Army is conducting installation-level audit readiness work to implement effective internal controls over the budget distribution, execution, and reporting processes. The Army has fully deployed the General Fund Enterprise Business System and will ensure that the system's capabilities are functioning properly.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Complete	General Fund Enterprise Business System (GFEBS) Examination 1. Received a qualified opinion in late 2011 on the first audit examination ("mock audit") of financial activity conducted in GFEBS at Forts Jackson, Stewart and Benning. The independent public accounting firm found standardized business processes across the sites.
Complete	Execute valuation and discovery activities.
Complete	Full deployment of GFEBS.

<u>Date:</u>	<u>Milestone:</u>
Complete	Examination 2 of nine business processes at 10 installations where GFEBS has been deployed. The audit report confirmed internal findings and identified three significant areas for improvement.
Complete	Assert to the audit readiness of General Fund Enterprise Business System (GFEBS) Statement of Budgetary Resources (SBR) (30 June 2013). Included all current fiscal year, non-legacy GF activity from GFEBS, CEFMS, LMP, and relevant feeder systems; FISCAM compliance for GFEBS, GCSS-A and LMP (PADDS to LMP to GFEBS interface) systems; and DFAS processes and controls related to Army's business processes. Results validated by independent public accounting firm. Auditors issued a modified opinion (May 2014), confirming internal findings.
3rd Qtr FY 2014	<p>Assert audit readiness of the FY 2014 Schedule of Budgetary Activity (SBA).</p> <p>Complete and execute corrective action plans (CAPs) for known deficiencies and weaknesses.</p> <p>Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs (<i>except Funds Distribution</i>).</p> <p>Conduct monthly internal control retesting and provide commands with a report reflecting testing results, trends, and recommendations.</p> <p>Ensure legacy processes and systems are auditable to support the FY 2014 SBA.</p>
1st Qtr FY 2015	Support validation efforts of SBA.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: HQDA to support audit readiness efforts through enforcing updates in policy and issuing department wide directives, as needed, to accelerate action.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: Budget-to-Report

Title and Description of Material of Weakness: Reconciliation of Net Cost of Operations to Budget. The Statement of Federal Financial Accounting Standards No. 7 “requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship of the data.” During FY 2007, OMB rescinded the requirement to report this reconciliation as a Statement of Financing and now requires the disclosure of the information as a note to the financial statements. According to independent auditor’s report dated 9 November 2013, due to the limitations of the Army General Fund financial systems, budgetary data do not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency. The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost totaled \$79.2 billion in FY 2013 and was reported in the category of Other Components Not Requiring or Generating Resources.

First Year Reported: FY 2008

Target Correction Date: 1st Qtr FY 2015

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

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
1st Qtr FY 2015	Complete tie point analysis.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: None at this time.

Point of Contact: Mr. William Roberts, Director, General Fund Audit Readiness, OASA(FM&C)

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

General Fund Uncorrected Weakness(es) Identified During Prior Periods

IC Reporting Category: N/A

Title and Description of Material of Weakness: Contingency Payment Audit Trails. The Army identified contingency audit trails as a material weakness in the FY 2013 Army Statement of Assurance Over Internal Controls, acknowledging that the maintenance of substantiating documents by certifying and entitlement activities creates significant challenges in tracing audit trails for support of financial statements. Payments that are not properly supported do not provide the necessary assurance that funds were used as intended.

First Year Reported: FY 2009

Target Correction Date: 4th Qtr FY 2014

Corrective Action Summary: The Army implemented recommendations from audit reports (A-2009-0173-ALL, A-2010-0062-ALL, A-2011-0067-ALL, and A-2012-0049-MTE) to close this material weakness. The Army will follow up with the U.S. Army Audit Agency to validate that the recommendations have been implemented.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
Complete	Correct identified deficiencies in Contingency Payment Audit Trails.
Complete	Implemented recommendations from audit reports (A-2009-0173-ALL, A-2010-0062-ALL, A-2011-0067-ALL, and A-2012-0049-MTE) to close this material weakness.
4th Qtr FY 2014	Validate that actions in operational audit reports are corrected and closed. Request AAA attestation.

Validation Process: Internal and external validations will be conducted by USAAA and the DoD Office of the Inspector General, respectively.

OSD or HQDA Action Required: HQDA to support audit readiness efforts through updates in policy and issuing department wide directives, as needed, to accelerate action.

Point of Contact: Mr. Gabriel Camarillo, Office, Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA(ALT))

TAB D-3

Army General Fund Material Weaknesses Corrected During The Period

None.

TAB D-3

Army General Fund Material Weaknesses Corrected During The Period

None.

List of TABs

- TAB E-1 List of Uncorrected and Corrected Internal Controls over Financial Reporting (ICOFR) Army Working Capital Fund Material Weaknesses
- TAB E-2 ICOFR Army Working Capital Fund Material Weakness(es) Corrective Action Plans and Milestones
- TAB E-3 ICOFR Army Working Capital Fund Material Weakness(es) Corrected During All Periods

TAB E-1

WORKING CAPITAL FUND MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

Working Capital Fund Uncorrected Weaknesses Identified During this Period:

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

None.

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Correction QTR and FY Date Per Last Annual Statement	Per This Annual Statement	Page #
Fund Balance with Treasury	FY 2013	1st Qtr, FY 2015	4th Qtr, FY 2015	E-2-1
Financial Reporting – Statement of Budgetary Resources	FY 2009	2nd Qtr, FY 2015	3rd Qtr, FY 2015	E-2-2
Inventory	FY 2008	3rd Qtr, FY 2015	3rd Qtr, FY 2015	E-2-4
General Property, Plant, and Equipment	FY 2008	2nd Qtr, FY 2015	3rd Qtr, FY 2015	E-2-6
Financial Reporting - Intragovernmental Eliminations	FY 2008	1st Qtr, FY 2015	1st Qtr, FY 2015	E-2-8

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Correction QTR and FY Date		Page #
		Per Last Annual Statement	Per This Annual Statement	
Financial Reporting/ Accounting Adjustments – Other Accounting Entries	FY 2008	2nd Qtr, FY 2015	2nd Qtr, Y 2015	E-2-9
Financial Reporting – Statement of Net Cost	FY 2008	1st Qtr, FY 2015	2nd Qtr, FY 2015	E-2-10
Financial Reporting – Accounts Payable	FY 2008	1st Qtr, FY 2015	1st Qtr, FY 2015	E-2-11
Financial Reporting – Reconciliation of Net Cost of Operations to Budget	FY 2008	1st Qtr, FY 2015	1st Qtr, FY 2015	E-2-12
Financial Reporting – Abnormal Balances	FY 2009	2nd Qtr, FY 2015	2nd Qtr, FY 2015	E-2-13

Working Capital Fund Material Weaknesses Corrected During all Periods:

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

None.

TAB E-2

STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Budget to Report

Title and Description of Material Weakness: Fund Balance with Treasury. The Army Working Capital Fund is currently unable to reconcile its detailed transaction-level disbursements and collections with the Department of the Treasury records.

First Year Reported: FY 2013

Target Correction Date: 4th Quarter, FY 2015

Original Target Date: 1st Quarter, FY 2015

Corrective Action Summary: The Defense Finance and Accounting Service (DFAS) will develop and implement a Fund Balance with Treasury reconciliation tool that will enable them to perform this transaction-level reconciliation and ensure that any reconciling differences are appropriately resolved. DFAS delayed the scheduled implementation date for the Army Working Capital Fund FBWT Reconciliation tool.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
October 2014	Begin development of Reconciliation tool
March 2015	Implement Reconciliation tool

Validation Process: Once implemented and in place for one quarter, the AWCF Audit Readiness Team will perform testing to validate that the reconciliation process is operating effectively.

OSD or HQDA Action Required: None

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Budget to Report

Title and Description of Material Weakness: **Financial Reporting – Statement of Budgetary Resources.** The Defense Finance and Accounting Service (DFAS) personnel made \$289.7 million in adjustments to the budgetary accounts because the accounting systems did not correctly record budgetary transactions.

First Year Reported: FY 2009

Target Correction Date: 3rd Quarter, FY 2015

Original Target Date: 2nd Quarter, FY 2015

Corrective Action Summary: Full implementation of the Standard Financial Information Structure (SFIS) in the Logistics Modernization Program (LMP) was complete in fiscal year 2013; however additional corrective actions are needed to identify and resolve the root cause of the unsupported adjustments to the accounts impacting the Statement of Budgetary Resources.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
September 2014	Complete JV reversals for legacy data migration
June 2014	Re-evaluate all Statement of Budgetary Resources related system change requests for LMP
December 2014	Validate and document posting logic for Statement of Budgetary Resources (Phase I)
March 2015	Validate and document posting logic for Statement of Budgetary Resources (Phase II)
March 2015	Abnormal balance and tie point work
June 2015	Budgetary data clean-up efforts with DFAS-CO

Validation Process: Once implemented, the AWCF Audit Readiness Team will perform testing to validate that the corrective actions were effective.

OSD or HQDA Action Required: None

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Plan to Stock

Title and Description of Material Weakness: **Inventory.** Current inventory balances reported are unreliable as not all inventory is maintained within LMP at moving average cost (MAC); MAC for inventory reported in LMP does not accurately reflect the historical cost of inventory; and control procedures do not effectively provide assurance that inventory recorded in the financial statements exists and is complete.

First Year Reported: FY 2008

Target Correction Date: 3rd Quarter, FY 2015

Original Target Date: 2nd Quarter, FY 2015

Corrective Action Summary: Analysis of root causes for MAC fluctuations must be performed. Once root causes have been identified, control procedures must be developed and implemented around transactions or processes identified as root causes. Additional corrective actions are needed to ensure required physical inventories are conducted and properly documented. Analysis of NOVAL inventory necessary to determine completeness of inventory recorded on balance sheet.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
May 2014	Develop solution for performing physical inventories at the depots
December 2014	Implement policies for excess and obsolete inventory
December 2014	Develop and implement policy for NOVAL inventory and perform data clean up
March 2015	Stabilize other gains and losses
June 2015	Valuation for financial reporting

Validation Process: Once corrective actions have been completed, the AWCF Audit Readiness Team will perform testing to validate that the material weakness has been remediated.

OSD or HQDA Action Required: None.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Acquire to Retire

Title and Description of Material Weakness: **General Property, Plant, and Equipment.** 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. The real property balance in GFEBS does not reconcile to the LMP balance; recorded assets in GFEBS do not accurately reflect ownership based on SFFAS 6; and supporting documentation is not available to validate the current recorded costs.

First Year Reported: FY 2008

Target Correction Date: 3rd Quarter, FY 2015

Original Target Date: 1st Quarter, FY 2011

Corrective Action Summary: The Army is working 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. Analysis of ownership of assets must be performed according to relevant accounting principles. Controls over GPP&E must be implemented to ensure retention of key supporting documentation and accurate recording of assets. The Army is currently working to reconcile the real property balance in GFEBS with the balance in LMP. Lack of available documentation will require implementation of SFFAS 35 after a determination of ownership has been made.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
September 2014	Ensure Industrial Operations activities understand the rights criteria that should be used to determine who should report real property in its financial statements.
December 2014	Test controls over real property additions and disposals and develop corrective actions based upon internal control test results.

Date:

March 2015

Milestone:

Implement SFFAS 35 for real property assets that do not have sufficient documentation supporting the value.

Validation Process: Once corrective actions have been implemented, the AWCF Audit Readiness Team will perform testing to validate the corrective actions.

OSD or HQDA Action Required: None.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Budget to Report

Title and Description of Material Weakness: **Financial Reporting – Intragovernmental Eliminations.** DOD and Army were unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that were not verifiable.

First Year Reported: FY 2008

Target Correction Date: 1st Quarter, FY 2015

Original Target Date: 4th Quarter, FY 2011

Corrective Action Summary: The Army Working Capital Fund needs to identify trading partner information at the transaction level to facilitate the intragovernmental eliminations. Many DOD and Army systems do not capture trading partner data at the transactional level, which impacts AWCF ability to reconcile intragovernmental transactions.

Detailed Corrective Action Plan:

Date:

November 2014

Milestone:

Implement SFIS 10.0 and Governmentwide Treasury Account Symbol (GTAS) to LMP

Validation Process: Once corrective actions have been implemented, the AWCF Audit Readiness Team will perform testing to validate the corrective actions.

OSD or HQDA Action Required: None.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Budget to Report

Title and Description of Material Weakness: **Financial Reporting/Accounting Adjustments—Other Accounting Entries.** During fiscal year 2013 DFAS processed unsupported journal voucher adjustments, valued at \$3.3 billion, to reclassify expenses based on issues identified with posting logic. The unsupported accounting adjustments represent a material uncertainty regarding the line item balances on the FY 2013 Army Working Capital Fund Basic Financial Statements.

First Year Reported: FY 2008

Target Correction Date: 2nd Quarter, FY 2015

Original Target Date: 4th Quarter, FY 2011

Corrective Action Summary: Additional corrective actions are needed to determine the root cause of the unsupported journal vouchers prepared by DFAS. Working with DFAS to clean up legacy data, migration errors, and posting errors related to open disbursements, progress payments, and invoices.

Detailed Corrective Action Plan:

Date:

March 2015

Milestone:

Work with DFAS to clean up legacy data, migration errors, and posting errors related to open disbursements, progress payments and invoices.

Validation Process: Once corrective actions have been implemented, the AWCF Audit Readiness Team will perform testing to validate the corrective actions.

OSD or HODA Action Required: None.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Budget to Report

Title and Description of Material Weakness: **Financial Reporting – Statement of Net Cost.** The financial information contained in the Statement of Net Cost is not presented by programs that align with major goals and outputs described in the DOD strategic and performance plans required by the Government Performance and Results Act.

First Year Reported: FY 2008

Target Correction Date: 1st Quarter, FY 2015

Original Target Date: 4th Quarter, FY 2011

Corrective Action Summary: DOD strategic and performance goals should be aligned to AWCF's mission. A methodology for allocation of net costs and revenue must be determined to align those costs and revenue to the mission.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
March 2015	Develop a methodology for allocation of net cost and revenue to the DOD strategic and performance goals.

Validation Process: Once corrective actions have been implemented, the AWCF Audit Readiness Team will perform testing to validate the corrective actions.

OSD or HODA Action Required: This is a DoD-wide issue. DDRS-AFS does not present the financial statements at that level of detail. In order to make that happen, OSD needs to coordinate with other services and revise the DDRS. OSD needs to provide guidance; otherwise, an Army-only approach may affect the ability to consolidate at the DoD-level.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Procure to Pay

Title and Description of Material Weakness: **Financial Reporting – Accounts Payable.** The Army Working Capital Fund's systems do not track intragovernmental transaction by customer at the transaction level. As a result, the Army Working Capital Fund relies on unsupported adjustments processed by DFAS personnel to report account payable balances. Additionally, LMP cannot generate an accounts payable upon acceptance of goods until they actually arrived at their final destination.

First Year Reported: FY 2008

Target Correction Date: 1st Quarter, FY 2015

Original Target Date: 2nd Quarter, FY 2012

Corrective Action Summary: The Army Working Capital Fund is implementing an upgrade for constructive receipts in the Logistics Modernization Program (LMP) that targets correction of the Accounts Payable accounting and reporting issues. The Army Working Capital Fund also needs to identify trading partner information at the transaction level to facilitate the intragovernmental eliminations and proper reporting of accounts payable.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
May 2014	Implement CR to fix the MIPR constructive receipts and unit of measure
December 2014	Implement SFIS attributes to fix the Fed/Non-Fed issues.
December 2014	Work with AMC, LMP-PM and DFAS to address entitlement interfaces and MOCAS accruals

Validation Process: Once corrective actions have been implemented, the AWCF Audit Readiness Team will perform testing to validate the corrective actions.

OSD or HQDA Action Required: None.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Budget to Report

Title and Description of Material Weakness: **Financial Reporting – Reconciliation of Net Cost of Operations to Budget.** In FY 2013, the Army Working Capital Fund could not reconcile information reported in Note 21 with the Statement of Net Cost without preparing \$324.6 million in unsupported adjustments to the general ledger accounts to force costs to match obligation information.

First Year Reported: FY 2008

Target Correction Date: 1st Quarter, FY 2015

Original Target Date: 4th Quarter, FY 2011

Corrective Action Summary: 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.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
October 2014	Assess viability of using an offline tool
December 2014	Complete workshops to cover high priority areas identified in the tie point analysis
May 2015	Implement system change request for tie point analysis in LMP

Validation Process: Once corrective actions have been implemented, the AWCF Audit Readiness Team will perform testing to validate the corrective actions.

OSD or HQDA Action Required: None.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-2
STATUS OF UNCORRECTED WORKING CAPITAL FUND MATERIAL WEAKNESSES

Working Capital Fund Uncorrected Weaknesses Identified During Prior Periods

IC Reporting Category: Budget to Report

Title and Description of Material Weakness: **Financial Reporting – Abnormal Balances.** In FY 2013, the Army Working Capital Fund activities (limit-level) reported 18 abnormal account balances, valued at \$158.1 million. Army Working Capital Fund and Defense Finance and Accounting Service personnel used the 18 abnormal balances to compute the amounts reported on the Balance Sheet for such items as General Property, Plant, and Equipment; Inventory; Intragovernmental Accounts Payable; and Intragovernmental Other Assets. In addition, the posting accounts used to develop the proprietary trial balances in the Logistics Modernization Program system contained at least 905 abnormal account balances valued at \$73.8 billion. The roll-up of limit-level account balances to produce amounts on the financial statements hid abnormal account balances in posting accounts.

First Year Reported: FY 2009

Target Correction Date: 2nd Quarter, FY 2015

Original Target Date: 1st Quarter, FY 2012

Corrective Action Summary: An Abnormal Trial Balance workshop was held and a plan of action and milestones (POAM) is being developed to identify the tasks, resources, and timeframe required to address the abnormal balances in LMP. Abnormal balances that were brought over from the prior system of record which have not been fully researched to determine what caused these abnormal balances. LMP posting logic has been customized/tailored to account for unique business transactions creating abnormal balances in certain point accounts.

Detailed Corrective Action Plan:

<u>Date:</u>	<u>Milestone:</u>
March 2015	Work with AMC and LMP-PM to identify root causes including budgetary/proprietary adjustment, legacy system data, and internal work performed.
March 2015	Complete work with DFAS and LMP-PM resolving Contract Authority GL posting issue.

Validation Process: Once corrective actions have been implemented, the AWCF Audit Readiness Team will perform testing to validate the corrective actions.

OSD or HQDA Action Required: None.

Point of Contact: OASA(FM&C), SAFM-FO, 109 Army Pentagon, Washington, DC 20310-0109

TAB E-3

**WORKING CAPITAL FUND MATERIAL WEAKNESSES
CORRECTED DURING THE PERIOD**

None.