



FY 2011
Statement of Assurance (SoA) /
Managers' Internal Control (MIC) Program
for
AT&L and Defense Agencies
Kick-off and Training Session

April 2011

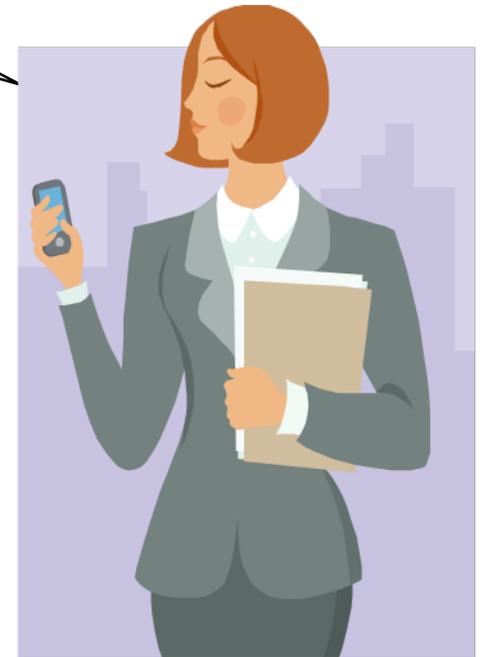
Bob Leach / Rosie Heraud
Office of the Under Secretary of Defense
Acquisition, Technology and Logistics (OUSD(AT&L))
Acquisition Resources and Analysis (ARA)
Property and Equipment Policy (P&EP)



FY 2011 SoA / MIC Program for AT&L and Defense Agencies

**Are you planning
to attend the
AT&L Statement
of Assurance /
Managers'
Internal Control
Program
training?**

**No, I do not
need to attend.
Our
organization
has no internal
controls.**





Agenda

- Objectives
- Management Internal Controls
 - Internal Controls and Statement of Assurance (SoA)
 - DoD Audit Readiness
- OUSD(Comptroller) Emphasis for FY 2011
 - FMFIA Internal Controls Over Financial System Process (ICOFS)
 - Changes to the Annual Internal Control Over Financial Reporting (ICOFR) SOA Reporting Requirements
- Statement of Assurance Package
- FY 2011 SoA / MIC Program for AT&L and Defense Agencies
 - Requirements and Timeline – AT&L Organizations
 - Coordination on Defense Agencies Statement of Assurances
 - Requirements and Timeline Summary



Objectives



Objectives

- Provide annual training session on managers' internal controls and Statement of Assurance for OUSD (AT&L) managers and staff, as well as to the DoD Agencies that report to USD (AT&L)
- Discuss changes for FY 2011
- Provide guidance for inputs needed to prepare the annual AT&L Statement of Assurance
- Provide guidance for the coordination process of the Defense Agencies that report to USD(AT&L)
- Provide forum for discussion and questions



Management Internal Controls



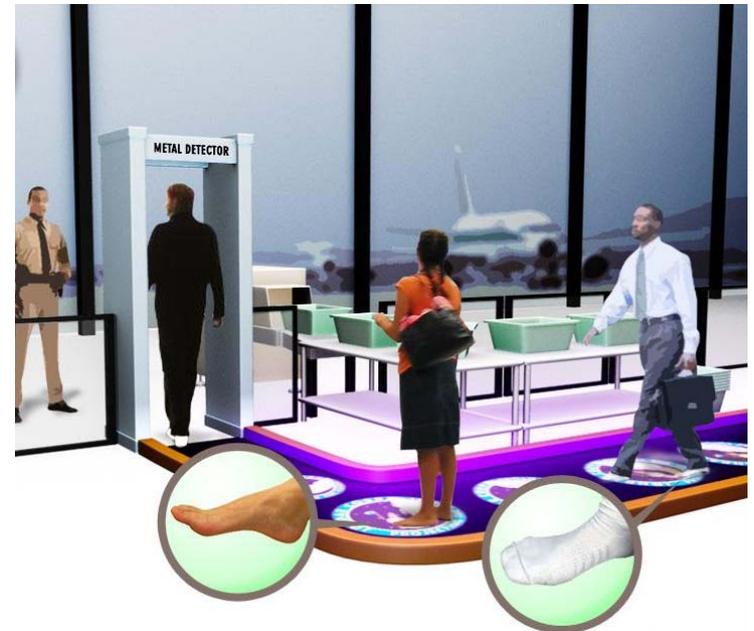
Management Internal Controls

Mechanisms, techniques, or processes that help:

- **Ensure mission objectives are met**
- **Mitigate the risk that a material adverse affect (e.g., fraud, waste, abuse and mismanagement) will occur.**



	To	Debit	Dr	Cr	Dr	Cr	Dr	Cr
Planning	10000							
Engrg	10000	10000						
Training	10000	10000						
Contract	10000	10000						
Traveling	10000	10000						
Infrastructure	10000	10000						
Program	10000	10000						



Do not *guarantee* success but help lessen RISK



Categories of Problems in Internal Controls

- **Deficiency:**
A problem or shortcoming in internal controls, whether in the design of the control or in its use (or lack of use).
- **Material Weakness:**
A deficiency in internal controls that is significant enough to report to the next higher level, i.e., outside of OUSD (AT&L). Whether a weakness is material is a management judgment.
- **Systemic Weakness:**
A weakness that materially affects controls across organizational and program lines and usually affects more than one DoD Component. A systemic weakness is determined by the Principal Staff Assistant (PSA) with functional responsibility for the area in question.



Management Internal Controls

Statutory and Regulatory Guidance:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982
- Comptroller General Internal Control Standards
- OMB Circular A-123, Management's Responsibility for Internal Control
 - Appendix A, Internal Control Over Financial Reporting
 - Assessment of Acquisition Functions
- DoD Instruction 5010.40, Managers' Internal Control (MIC) Program Procedures



Management Internal Controls

Federal Managers' Financial Integrity Act of 1982:

- Amended the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control.
- Requires that internal controls be established to provide **reasonable assurance** that:
 - Obligations and costs are in compliance with applicable law,
 - Funds, property and assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and
 - Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

P.L. 97-255 -- (H.R. 1526)

**Federal Managers Financial Integrity Act of
1982**

September 8, 1982

*An Act to amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.
Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.*

Sec. 1. This Act may be cited as the "Federal Managers' Financial Integrity Act of 1982".

Sec. 2. Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a) is amended by adding at the end thereof the following new subsection:

(d) --
(1) --

(A) To ensure compliance with the requirements of subsection (a)(3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that --

(i) obligations and costs are in compliance with applicable law

(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

(B) The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.

(2) By December 31, 1982 the Director of the Office of Management and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of paragraph (1) of this subsection. The Director,



Management Internal Controls

Federal Managers' Financial Integrity Act of 1982:

- Requires the Office of Management and Budget (OMB), in consultation with the Comptroller General, to establish guidelines for agency evaluation of internal controls.
- Requires executive agencies to:
 - Periodically evaluate internal accounting and administrative controls in accordance with OMB guidelines,
 - Prepare an annual statement to the President and the Congress as to whether the agency's system of **internal controls provides reasonable assurance**, and
 - Report any material weaknesses in the agency's system of internal controls, along with a plan and schedule for correcting them.



Management Internal Controls

Comptroller General Internal Control Standards *:

- **Control Environment**: Management should define:
 - The organizational structure: programs, operations and financial reporting
 - The organizational culture: commitment to establishing and maintaining effective internal controls.
- **Risk Assessment**: Management should perform risk assessments to identify those areas where internal and external risk may prevent the organization from meeting its objectives – those areas in which to place or enhance internal controls.
- **Control Activities**: Management should then implement control activities (the organization, policies, procedures and mechanisms) to help ensure that agency objectives are met. Examples include formal assignment of responsibility (accountability), segregation of duties, physical controls over assets, documentation, and controls for information systems.

* GAO/AIMD-00-21.3.1, Standards for Internal Control in the Federal Government, November 1999, (Green Book)

http://www.gao.gov/docsearch/locate?searched=1&o=0&order_by=rel&old_keyword=GAO%2FAIMD-0021.3&ft=&search_type=publications&add_topic=&remove_topic=&add_type=&remove_type=&add_fed_type=&remove_fed_type=&add_fed_desc=&remove_fed_desc=&add_year=&remove_type=&keyword=GAO%2FAIMD-00-21.3.1



Management Internal Controls

Comptroller General Internal Control Standards*:

- **Information and Communications**: Management is responsible for communicating the objectives of internal controls and ensuring the organization is committed to sustaining an effective internal control environment. Information that is relevant, reliable and timely must be communicated to the right people at all levels in the organization.
- **Monitoring**: Management must continuously monitor and test internal controls to identify poorly designed or ineffective controls, report on these deficiencies and then redesign or improve them.

* GAO/AIMD-00-21.3.1, Standards for Internal Control in the Federal Government, November 1999, (Green Book)

http://www.gao.gov/docsearch/locate?searched=1&o=0&order_by=rel&old_keyword=GAO%2FAIMD-00-21.3&ft=&search_type=publications&add_topic=&remove_topic=&add_type=&remove_type=&add_fed_type=&remove_fed_type=&add_fed_desc=&remove_fed_desc=&add_year=&remove_year=&keyword=GAO%2FAIMD-00-21.3.1



Management Internal Controls

OMB Circular A-123, Management's Responsibility for Internal Control:

Management has a fundamental responsibility to ensure that internal controls achieve the objectives of:

- Effective and efficient operations,
- Reliable financial reporting, and
- Compliance with applicable laws and regulations.



Department of Defense Agency Financial Report for FY 2010

Department of Defense Consolidated Statement of Changes in Net Position
Agency Wide

	2010		2010		Revised		Revised		2009		Revised	
	Estimated Funds	All Other Funds	Estimate	Consolidated	2009	All Other Funds	2009	Estimate	Estimate	Consolidated	2009	Consolidated
Cumulative Results of Operations												
Beginning Balance	\$ (1,261,256.9)	\$ 385,526.2	\$ 0.0	\$ (866,730.7)	\$ (1,269,693.0)	\$ 336,936.7	\$ 0.0	\$ (932,757.3)				
Prior Period Adjustments:												
Changes in accounting principles	0.0	0.0	0.0	0.0	0.0	1,686.6	0.0	1,686.6				
Corrections of error	(276.3)	(594.9)	0.0	(1,151.2)	0.0	(1,546.3)	0.0	(1,154.9)				
Ending Balance, as adjusted	\$ (1,262,043.9)	\$ 384,931.3	\$ 0.0	\$ (887,112.7)	\$ (1,269,693.0)	\$ 338,390.4	\$ 0.0	\$ (931,301.6)				
Regularly Financing Sources:												
Administrative cost	23.9	728,748.2	0.0	728,772.1	3.8	729,428.3	0.0	729,432.1				
Nonexchange revenue	2,862.9	(15.0)	0.0	2,847.9	2,767.7	(13.7)	0.0	2,754.2				
Conditions and forfeitures of cash and cash equivalents	46.3	0.0	0.0	46.3	39.2	0.2	0.0	39.2				
Transfers (without reimbursement)	(792.1)	693.2	0.0	201.1	(926.7)	502.9	0.0	502.9				
Other	1.4	(915.0)	0.0	(913.7)	0.0	44.20	0.0	44.20				
Other Financing Sources (With-Exchanges):												
Operations and Subsidies of assets	0.0	6.4	0.0	6.4	0.7	1.5	0.0	2.2				
Transfers (with or without reimbursement)	(244.3)	919.8	0.0	665.2	(86.2)	45.4	0.0	462.8				
Insured transfers	0.6	18,397.2	12,811.6	5,696.2	6.2	17,217.3	12,313.6	4,703.8				
Other	23.0	2,477.9	0.0	2,464.9	(13.2)	272.3	0.0	1,251.7				
Total Financing Sources	\$ 2,087.7	\$ 780,446.6	\$ 12,811.6	\$ 749,771.8	\$ 1,984.1	\$ 727,678.8	\$ 12,313.6	\$ 717,281.2				
Net Cost of Operations	6,227.1	727,489.9	12,103.9	822,611.1	1,264.6	669,267.1	12,313.6	681,481.6				
Net Change	\$ (4,139.4)	\$ (24,543.7)	\$ 1.5	\$ (80,839.3)	\$ (1,280.5)	\$ (330,876.7)	\$ 0.0	\$ (964,020.4)				
Cumulative Results of Operations												
Beginning Balance, as adjusted	\$ (1,262,043.9)	\$ 384,931.3	\$ 0.0	\$ (887,112.7)	\$ (1,269,693.0)	\$ 338,390.4	\$ 0.0	\$ (931,301.6)				
Net Change	\$ (4,139.4)	\$ (24,543.7)	\$ 1.5	\$ (80,839.3)	\$ (1,280.5)	\$ (330,876.7)	\$ 0.0	\$ (964,020.4)				
Ending Balance	\$ (1,266,183.3)	\$ 360,387.6	\$ 1.5	\$ (967,952.0)	\$ (1,271,473.5)	\$ 7,513.7	\$ 0.0	\$ (1,895,322.0)				
Unexpended Appropriations:												
Beginning Balance	6.6	504,339.3	0.0	504,345.9	4.9	446,864.3	0.0	446,869.2				
Prior Period Adjustments:												
Correction of error	0.0	(945.0)	0.0	(945.0)	0.0	24,949.3	0.0	24,949.3				
Ending Balance, as adjusted	\$ 6.6	\$ 503,394.3	\$ 0.0	\$ 503,400.9	\$ 4.9	\$ 471,813.6	\$ 0.0	\$ 471,813.6				
Regularly Financing Sources:												
Appropriations received	222.2	775,011.9	0.0	775,034.1	4.6	784,445.6	0.0	784,445.6				
Appropriations transferred (in/out)	20.2	429.8	0.0	429.8	0.0	(184.4)	0.0	(184.4)				
Other resources	0.1	(11,091.2)	0.0	(10,891.1)	0.0	(4,242.3)	0.0	(4,242.3)				
Appropriations used	(23.9)	(728,748.2)	0.0	(728,772.1)	(3.8)	(729,428.3)	0.0	(729,432.1)				
Total Regularly Financing Sources	\$ 218.6	\$ 26,086.1	\$ 0.0	\$ 26,404.7	\$ 0.7	\$ 24,889.9	\$ 0.0	\$ 24,581.6				
Unexpended Appropriations	\$ 202.5	\$ 624,474.4	\$ 0.0	\$ 623,894.8	\$ 0.9	\$ 620,564.3	\$ 0.0	\$ 620,564.3				
Net Position	\$ (1,266,183.3)	\$ 360,387.6	\$ 1.5	\$ (967,952.0)	\$ (1,271,473.5)	\$ 7,513.7	\$ 0.0	\$ (1,895,322.0)				

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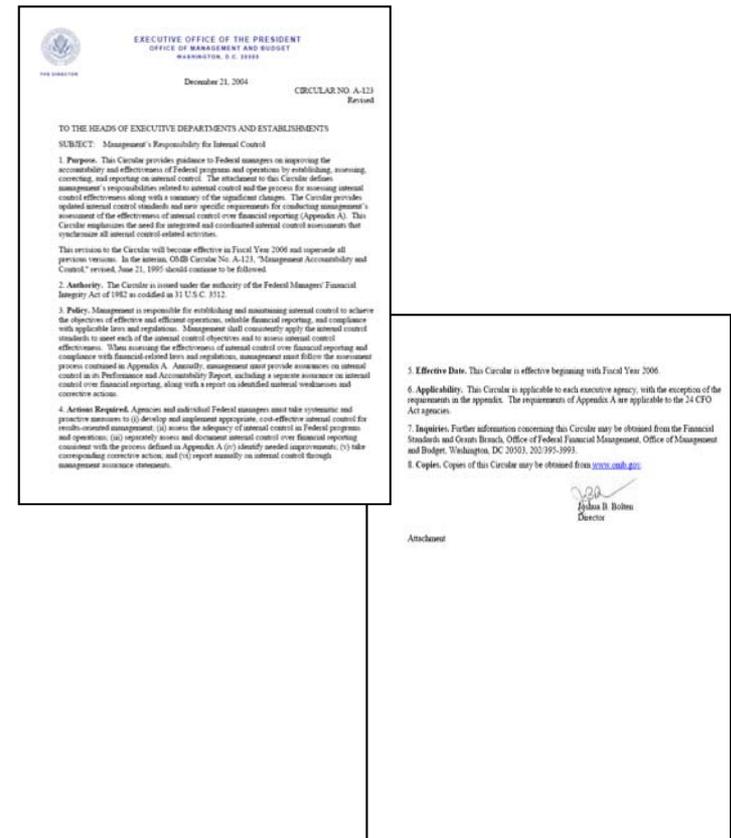


Management's Responsibility for Internal Controls

OMB Circular A-123, Management's Responsibility for Internal Control:

Federal managers must:

- Develop and maintain effective – and **cost-effective** – internal controls for results-oriented management,
- Continuously monitor and assess the effectiveness of internal control in their programs and operations,
- Take timely and effective action to correct any deficiencies, and
- Report annually on the effectiveness of internal controls, any material weaknesses and plans for their correction.



The costs of controls should be relative to the importance and risk associated with a given program!



Management Internal Controls

- **The Sarbanes-Oxley Act of 2002 applies to commercial organizations:**
 - Attempts to prevent the manipulation of financial statements and restore public trust in financial statements and stock markets.
 - Makes senior executives responsible for the accuracy and completeness of their firm's financial statements.
 - Requires auditor independence (limits auditor conflicts of interest).
- **OMB Circular A-123, Appendix A, Internal Control Over Financial Reporting (ICOFR), applies to Federal agencies:**
 - The concept of executive responsibility for financial reporting was extended to Federal agencies.
 - ICOFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting.



Management Internal Controls

OMB Circular A-123, Appendix A, Internal Control over Financial Reporting (ICOFR):

Key Elements for Assessing Controls over Financial Reporting:

- Establish a Senior Assessment Team (SAT)
- Evaluate Internal Control at the Entity Level
 - By understanding management’s attitude, awareness and actions of internal control by ensuring integrity and ethical standards, commitment to competence, management philosophy, organizational structure and assignment of authority and responsibility.
- Evaluate Internal Controls at the Process, Transaction, or Application Level - and obtain knowledge of the organization’s key processes by performing risk assessments with regard to financial assertions of:
 - Completeness
 - Rights and Obligations
 - Valuation
 - Existence and Occurrence
 - Presentation and Disclosure
 - Compliance with Laws and Regulations
 - Safeguarding of assets from fraud, waste and abuse
 - Identifying key controls intended to mitigate identified risk



OMB Circular A-123, Appendix A, Internal Control over Financial Reporting (ICOFR):

Key Elements for Assessing Controls over Financial Reporting (continued):

- Overall assessment [assessing and testing] of the design and operation of ICOFR.
- Reliance of other work [e.g., Inspector General] to accomplish assessment.

Documenting ICOFR:

- The SAT should document its understanding of the Agency's ICOFR
 - The entire assessment process from establishing of a SAT to the identification of deficiencies and development of corrective action plans.

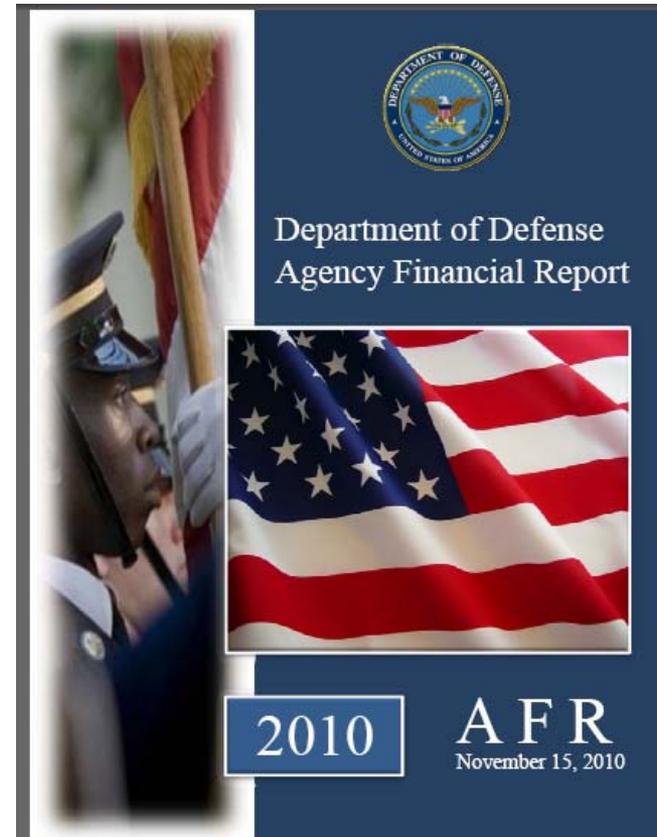


Management Internal Controls

OMB Circular A-123, Management's Responsibility for Internal Control:

Appendix A requires a management assurance statement that specifically addresses the effectiveness of ICOFR.

- This assurance statement must be based on the assessment process (defined in Appendix A) which evaluates internal controls at
 - *The financial statement entity level*
 - *The process, transaction or application level.*
- Requires ICOFR assurance statements to be completed and reported in the Agency Financial Report (AFR)

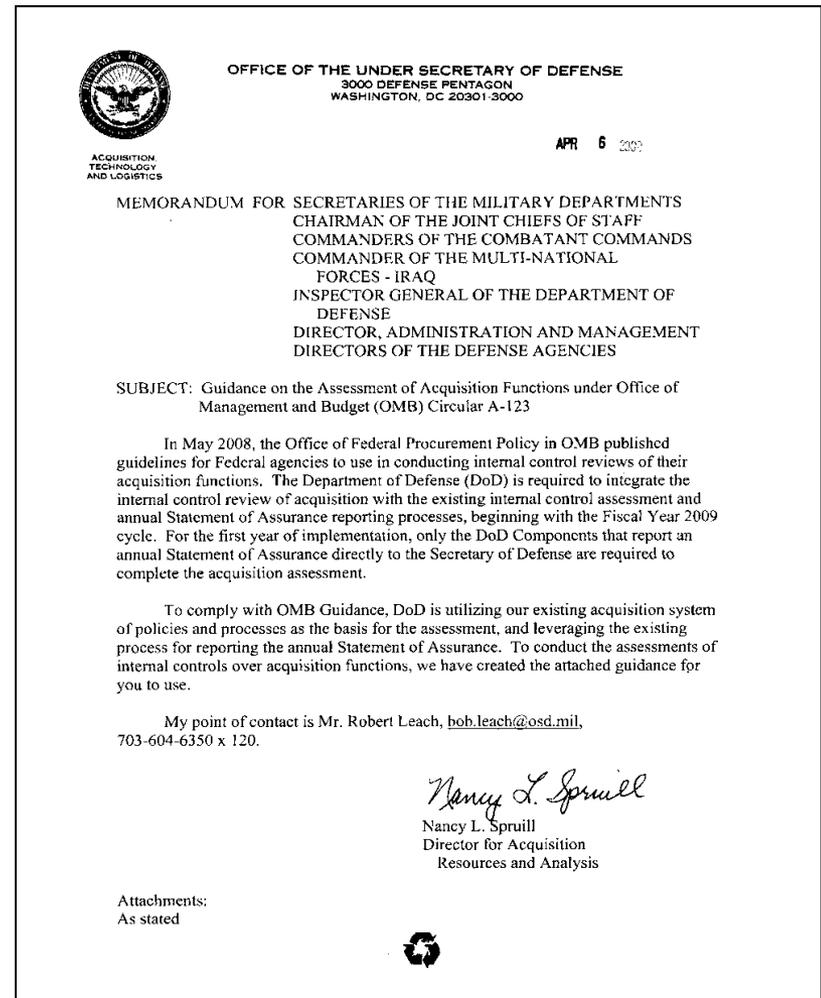


To view the DoD AFR, go to: <http://www.defenselink.mil/comptroller/afr/index.html>



OMB Circular A-123, Management's Responsibility for Internal Control:

- **OMB Guidelines for Assessing the Acquisition Function released May 2008 from OMB Office of Federal Procurement Policy.**
 - Requires use of Acquisition Assessment Template - must be incorporated into existing internal control review and reporting processes
 - OMB Template largely based on GAO's Framework for Assessing the Acquisition Function at Federal Agencies
 - DoD Approach:
 - On April 6, 2009 Director, Acquisition Resources and Analysis issued DoD Guidance on the Assessment of Acquisition Functions under OMB Circular A-123





Management Internal Controls

DoD Approach to Implementing the OMB Guidelines for Assessing the Acquisition Function

What

- Office of Federal Procurement Policy in OMB published guidelines for internal control reviews of acquisition functions
 - Requirement to integrate the internal control review of acquisition with the existing internal control assessment and annual SOA reporting process

How

- To conduct assessment of internal controls over acquisition functions, a “DoD Assessment of Internal Control over Acquisition Functions Template” has been created
 - For assessment of control environment, standards and objectives have been embedded into the template
 - The template includes a column to document the risk to properly implement the standard or objective and the identification of control activities to include policies and procedures that help ensure the necessary actions are taken to address the risk

DoD Assessment of Internal Control over Acquisition Functions Template¹

Cornerstones¹	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
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Assessment of Acquisition Functions

- The four interrelated cornerstones in the OMB and DoD templates are the foundation for evaluating the acquisition function:
 - Organizational Alignment and Leadership
 - Policies and Processes
 - Human Capital
 - Information Management and Stewardship.



Management Internal Controls

DoD Approach to Implementing the OMB Guidelines for Assessing the Acquisition Function

- OUSD (AT&L) created a DoD template. The template helps guide the assessment:
 - Based on the **control environment (policy goals identified by OSD)**, determine the **risks** to proper implementation
 - Evaluate **existing controls** and **monitoring activities**
 - Consider the corresponding “cornerstones” and success factors in the **OMB template**
 - Determine if any new **deficiencies or material weaknesses**
- Guidance on the Assessment of Acquisition Functions is also outlined in Draft guidance provided by OUSD(C)
 - DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures”
 - Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control (MIC) Program:

What

DoD Instruction 5010.40, Managers' Internal Control Program Procedures

- Established to:
 - Review, assess, and report on the effectiveness of internal controls
 - Identify and promptly correct ineffective internal controls, and
 - Establish internal controls when warranted

How

- Develop a Managers' Internal Control Program that concludes with the Component Head or Principal Deputy annually reporting reasonable assurance on effectiveness of internal controls
- Segment into organizational assessable units and maintain an inventory of these assessable units
- Assign internal control responsibility to leadership and provide adequate training
- Report on whether internal controls provide reasonable assurance
- Track corrective actions
- Fully disclose material weaknesses
- Generate and maintain thorough documentation of activities

Thorough Documentation of Internal Control Activities Validated By FIAR¹

¹DoD initiated the Financial Improvement and Readiness Directorate and Plan to set the course for improving financial information and achieving auditability

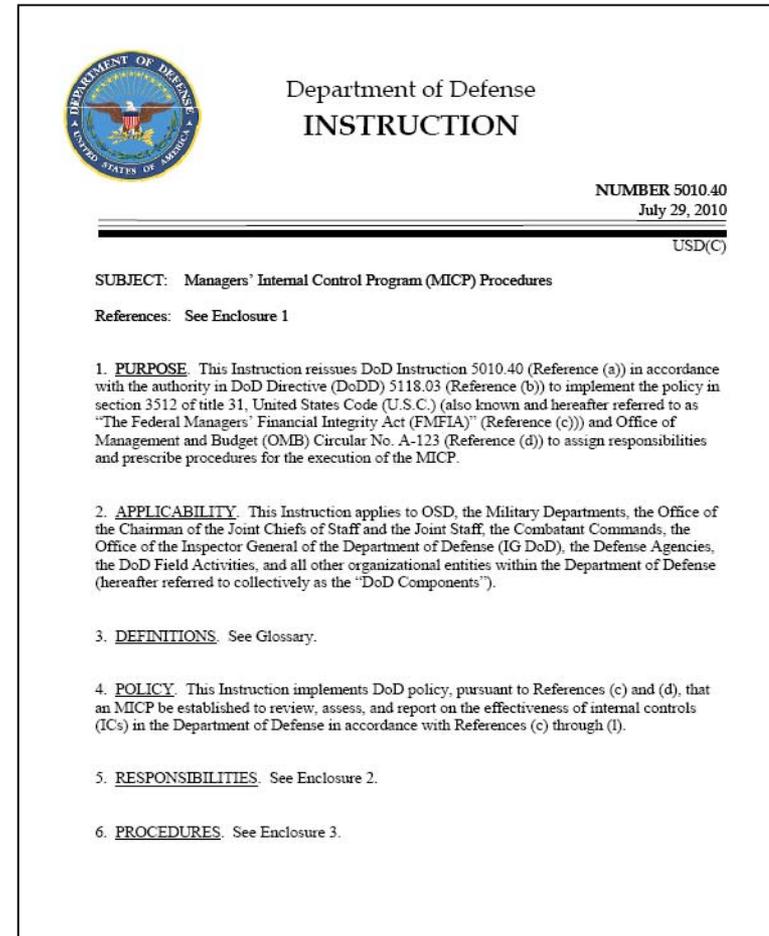
An “effective” Managers' Internal Control Program includes review of program, operational, and administrative controls in functional DoD reporting categories – not just those identified by the internal auditors and/ or the reporting of “low hanging fruit.”



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

- DoD I 5010.40 implements the policy in the FMFIA and OMB Circular A-123 to assign responsibilities and prescribe procedures for the execution on the MICP
- Per the DoD I 5010.40, the Under Secretaries (e.g., USD(AT&L)) shall:
 - Approve the appropriate Defense Agencies' SoA prior to submission to the Secretary of Defense





Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

- **In addition, the Under Secretaries (e.g., USD(AT&L) shall:**
 - Maintain ownership of any DoD-wide material weakness(es), which are defined as systemic weaknesses that are pervasive across the Department and reported in the Department's SoA to the OMB, Congress and the President. This includes:
 - ❖ Identifying and reporting any new systemic or material weakness(es) and reporting the status, until resolved, of any existing ones
 - ❖ Reviewing the reported actions of the DoD Components that pertain to their area of functional responsibility and promptly assisting to resolve any weaknesses by taking the necessary actions required
 - ❖ Reporting and explaining the actions taken to resolve systemic or material weakness(es)



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

- **The Head of DoD Components shall:**
 - Establish a MICP to identify and promptly correct ineffective internal controls (ICs), and establish ICs, when warranted
 - Implement the requirements of the MICP for the Combatant Commands assessable units (AUs), or sub-functions
 - Designate the MICP administrator of the Component
 - Annually provide separate explicit levels of assurance in an SoA addressed to the Secretary of Defense for three distinct processes
[Discussed on next slide]
 - Submit annual SoAs to the Secretary of Defense with info copies to the Chairman of the Joint Chiefs of Staff and the USD(Comptroller)/Chief Financial Officer



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

- **The three separate explicit levels of assurance in an SoA are:**
 - **Internal Controls Over Nonfinancial Operations (ICONO)** – overall program, operational, and administrative controls relevant to all mission-essential functions, except financial reporting and financial systems
 - **IC Over Financial Reporting (ICOFR)** – financial reporting functions as defined under the oversight of the Senior Assessment Team (SAT) according to OMB Circular A-123, Appendix A
 - **IC Over Financial Systems (ICOFS)** – integrated financial management systems (IFMS) conformance with the Federal requirements (e.g., OMB Circular A-123, OMB Circular A-127 “Financial Management Systems,” and DoD 7000.14-R “DoD Financial Management Regulation”)



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

- **Requires each DoD Component to:**
 - Promote a MICP that concludes with the Component Head or Principal Deputy annually reporting a SoA about the effectiveness of internal controls.
 - Segment into organizational, functional, or other AUs and maintain an inventory of these assessable units (updated annually).
 - Assign internal control responsibility to the Component MICP Administrator (a civilian or military leader (i.e., manager)) and provide trained personnel for planning, directing, and implementing the MICP.



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

- **Managers shall:**

- Report [on whether internal controls provide reasonable] assurance.
- Track corrective actions taken to expedite prompt resolution of control deficiencies, reportable conditions, or material weaknesses.
- Fully disclose ... any material weaknesses identified.
- Maintain documentation.



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

- **The Overall Process pertains to programs, operational, and administrative controls in the functional DoD reporting categories.**
 - DoD Components must annually assess the effectiveness of internal controls using a process determined **by the Component.**
 - Should maximize the use of **existing management assessments** and minimize the creation of separate processes for the MIC Program.



Management Internal Controls

DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, dated July 29, 2010:

When reporting a material weakness in internal controls, DoD Components must identify which of the following functional DoD IC Reporting Categories the material weakness concerns:

- **Research, Development, Test and Evaluation**
- ~~Major Systems Acquisition~~
- **Procurement**
- **Contract Administration**
- **Force Readiness**
- **Manufacturing, Maintenance and Repair**
- **Supply Operations**
- **Property Management**
- **Communications / Intelligence / Security**
- **Information Technology**
- **Personnel / Organization Management**
- **Comptroller / Resource Management**
- **Support Services**
- **Security Assistance**
- **Other (primarily transportation)**
- **Financial Reporting (Pertaining to ICOFR)**
- **Financial System (Pertaining to ICOFS) Conformance with Federal Requirements**



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

- DoD MICP is important to achieve and maintain proper stewardship of Federal resources and to ensure the Department's programs operate efficiently and effectively to achieve desired objectives.
- The MICP comprises the plans, methods, and procedures used to support performance-based management.
- In addition to supporting the Department's mission and functions, the Department's MICP meets the requirements of the Federal Managers' Financial Integrity Act (FMFIA). FMFIA encompasses accounting and administrative controls to include program, operational, and administrative controls.



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

- The MICP also implements other legislative requirements such as the:
 - Government Performance Results Act (GPRA)
 - Chief Financial Officers Act of 1990 (CFO Act)
 - Inspector General Act of 1978, as amended (IG Act)
 - Federal Financial Management Improvement Act (FFMIA) of 1996
 - Federal Information Security Management Act of 2002 (FISMA)
 - Improper Payments Information Act of 2002 (IPIA)
 - Single Audit Act, as amended
 - Clinger-Cohen Act of 1996.



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

- Senior Management is responsible for the identification of Component mission requirement to ensure program objectives and associated risk are prioritized in the development and maintenance of an effective internal control environment.
- Management at all levels is responsible for reasonably assuring:
 - Programs achieve their intended results;
 - Risk of loss of life and/or public trust is mitigated;
 - The use of resources is consistent with agency mission;
 - Programs and resources are protected from waste, fraud and abuse;
 - Laws and regulations are followed; and,
 - Reliable and timely information is obtained, maintained, reported and used for decision making.



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

- DoD is one of the most complex organizations of the world.
The Department:
 - Includes 4 Military Services; 18 Defense Agencies, 10 Field Activities and Other Defense Organizations; and the Joint Chiefs of Staff that oversee 10 world-wide Combatant Commands
 - Receives about 50% of the U.S. Government's discretionary budget
 - Employs more than 3 million Military and Civilian Personnel
 - Occupies over 545,000 buildings, facilities and structures in the U.S., U.S. Territories, and 39 foreign countries



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

- With an organization as complex as DoD, there must be a **structured framework** in place to ensure that progress towards enhancement of the IC environment continues and **risk are effectively mitigated**
 - In 1992, the Committee of Sponsoring Organizations (COSO) of the Treadway Commission developed a model, *Internal Control – Internal Framework*, for evaluating internal controls
 - The COSO Model is widely recognized as the standard against which organizations measure the effectiveness of their internal controls
 - OUSD (Comptroller) notes that in 1994, COSO Addendum added – controls should be designed to provide reasonable assurance in the prevention or timely detection of unauthorized acquisition, use, or disposition of the entities assets that could have a material affect on the financial statement.

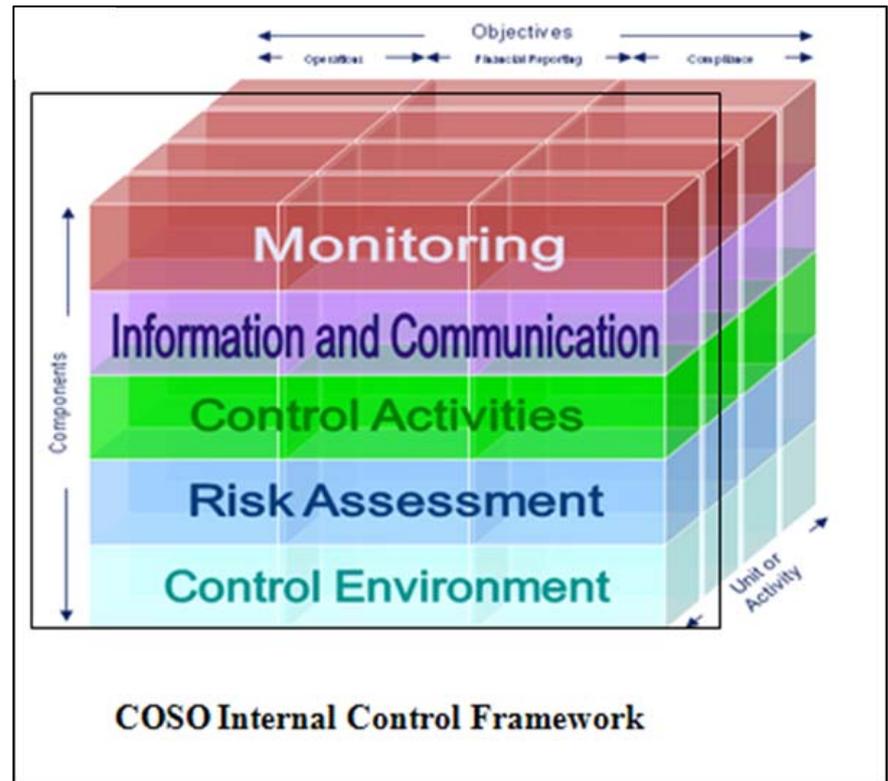


Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

In the COSO Internal Control Framework, internal control consists of five interrelated components – Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

These components work together to support efforts to achieve an organization's mission, strategies and related business objectives. Each component contributes to an effective internal control system.





Management Internal Controls

Internal Control Framework

Control Environment:

- Sets the tone of organization, influencing the control consciousness of its people.
- Is the foundation for all other components of IC, providing discipline and structure.
- Is the organizational structure and culture created, by management and employees, influencing the sustainability of an organizations effective IC.

Risk Assessment:

- Every entity faces a variety of risks from external and internal sources that must be assessed.
- A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent.
- Ss the identification and analysis of risks to the achievement of program objectives and is used to assist in the management of the risks.



Management Internal Controls

Integrated Control Framework

Control Activities:

- Are the policies and procedures that help ensure management directives are carried out, and help ensure that necessary actions are taken to address risks to achievement of the entity's objectives.
- Occur throughout the organization, at all levels and in all functions.
- They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

Information and Communication

- Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.
- Effective communication also must occur in a broader sense, flowing down, across and up the organization.
- All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream.



Internal Control Framework

Monitoring

- A process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two.
- Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties.
- The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.
- Internal control deficiencies should be reported upstream; serious matters should be reported to management.



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

- The DoD **Integrated Risk Management Framework** is based on the fundamentals of COSO and considers the Department wide objectives and relevant sources of risk, from internal management to external factors, and establishes a control structure to address those risk.
- The Integrated Risk Management Framework is modeled after the Government Accountability Office (GAO) Risk Management Framework Model.
- The framework integrates the Department's mission areas and goals, and the DoD Strategic Management Plan and business model.



Management Internal Controls

Integrated Risk Management Framework

- Is designed to improve consistency and comparability of each Component's risk assessments.
- Some of the benefits of the framework include:
 - Structured, disciplined approach for conducting risk assessments
 - Enhancement of potential risks that may not be otherwise formally reviewed for certain programs (i.e., human capital, budget, etc ...)
 - Leveraging internal expertise through reliance upon those individuals that interface with specific functional processes and procedures
 - Alignment of the Component's short and long-term mission requirements with identifying and ranking of risks
 - Inclusion of recent audit investigation or inspection findings for organizational efficiencies



Management Internal Controls

Integrated Risk Management Framework

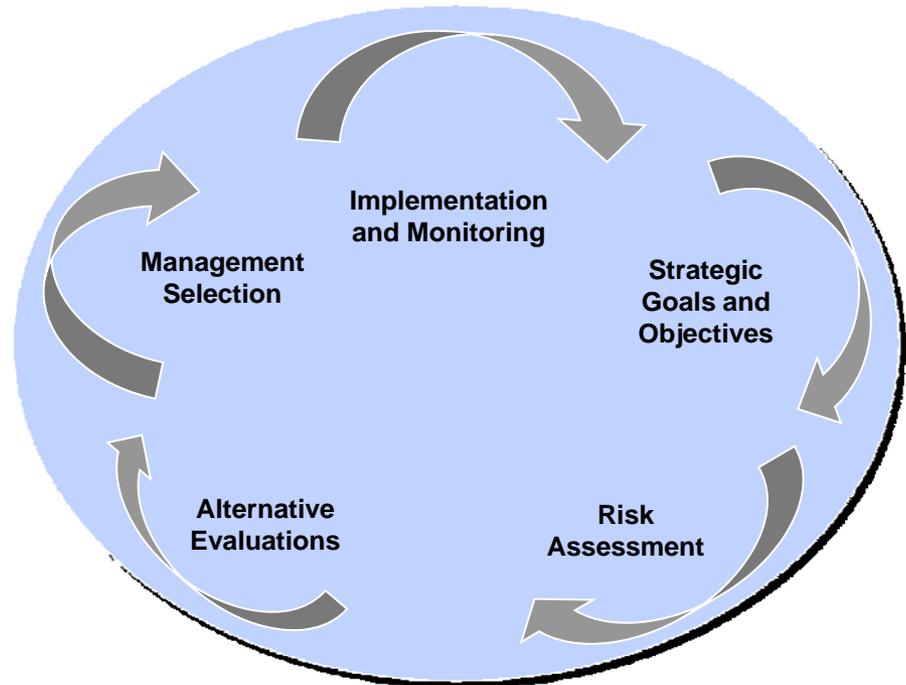
Reliance Upon Comprehensive Risk Management Framework

Risk Management Framework

- Introduced the risk management framework in 2001 QDR report
- Purpose is to transform military forces and Defense business practices to meet challenges
- Need output-based measures to reduce inefficiencies

Provides for a balanced perspective of Component's execution of strategy and ensures "top-down" approach

Risk Management Cycle





Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

Goals for FY 2011 Internal Control Program

- Develop and implement the Department's Integrated Risk Management Framework, reliant upon the concept of self-reporting and risk-based assessments
- Ensure senior management oversight and coordination at the Department/Component level
- Provide senior management with program effectiveness feedback for each Component and align the goals and overall mission requirements with ongoing internal control reviews
- Leverage expertise that resides in each functional area of the Component to document processes at the transaction level and identify applicable controls and risks



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

Goals for FY 2011 Internal Control Program (Continued)

- Recognize and leverage findings reported through audits and inspections when identifying internal control deficiencies and potential recommendations for remediation
- Implement a risk-based and cost-benefit based approach
- Improve consistency and comparability of the Components' Internal Control Programs by enhancing the internal control guidance, incentivizing activities to self-report material internal control weaknesses, and developing tools, templates and training to accelerate the review of program, operational, and administrative controls
- Institute a framework of analysis during the acquisition process
- Provide a level of assurance that data generated by financial information systems is accurate, timely, and reliable

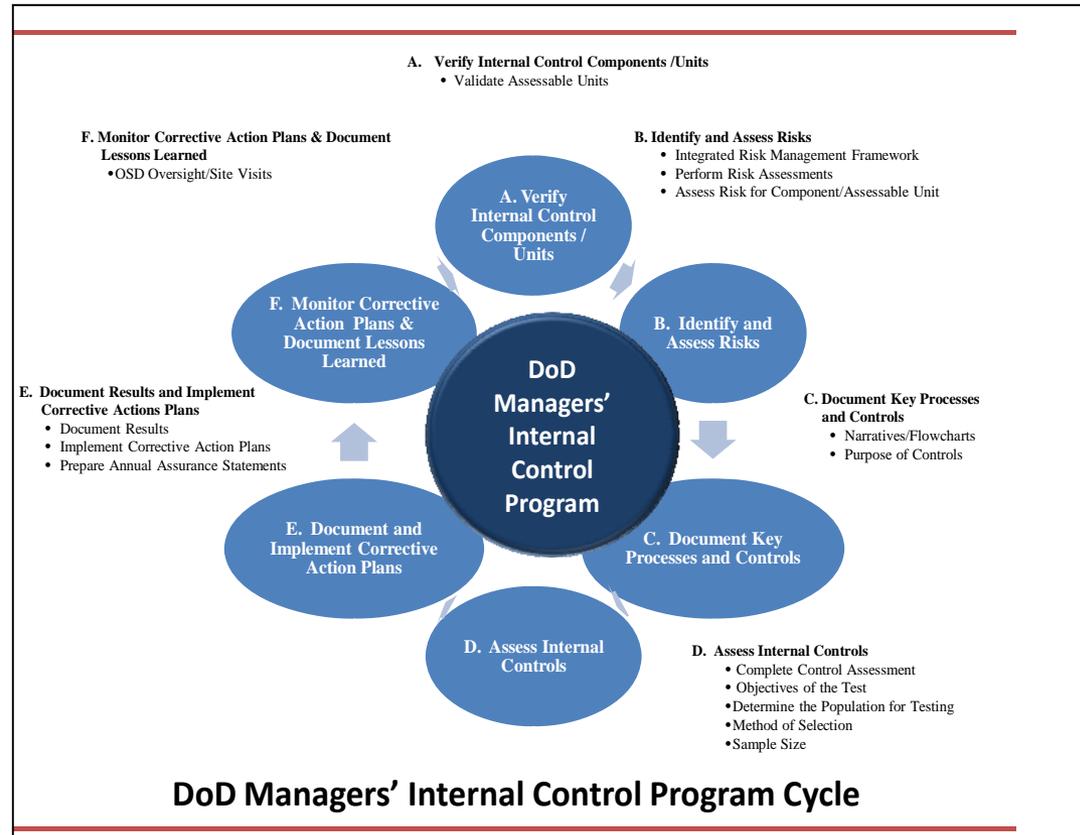


Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

Internal Control Cycle

- IC Activities should be considered part of a continuing cycle of:
 - Assessing the risk associated with each program
 - Identifying controls to mitigate the identified risk
 - Testing those controls to ensure they are operating effectively
- IC should be an integral part of the cycle that occurs each year for planning, budgeting and managing





Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

- The Internal Control Over Financial Management Systems (ICOFMS) process pertains to the assessment, evaluation, and reporting of achievement or material weaknesses of the integrated financial management system's conformance with Federal requirements for financial systems.
- As part of the SOA, DoD Reporting Entities must report whether their financial systems comply with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996.
- Integrated Financial Management System (IFMS) is a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public.



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

ICOFS

- Unified means that the systems are planned and managed together, operated in an integrated fashion, and linked together in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.
- Nonconformance with Federal requirements constitutes a material weakness, which will be reported in the SOA with a corrective action plan and schedule for resolution. DoD Components with material portions of their IFMS provided by service providers (e.g. DFAS) should require testing of material controls within the IFMS by the service provider auditor as part of the service provider agreement to enable the Component to assess the reliability of the overall IFMS.



Management Internal Controls

Draft FY 2011 DoD MIC Program Guidance on the Preparation of the Annual Statement of Assurance

ICOFs

- In October 2008, the DoD Financial Management Regulation (DoD FMR) was revised to provide specific requirements to the Military Departments and Components for compliance with the financial management requirements of the FFMIA.
- Each DoD Reporting Entity noted on the right must report the results of their evaluation of FFMIA compliance of their IFMS in the SOA.

Component	Reporting Entity
Office of the Secretary of Defense (OSD) (prepared by the DA&M)	Military Retirement Trust Fund (MRTF) General Fund (GF)
	Medicare Eligible Retirement Health Care Fund (MERHCF) GF
	Service Medical Activity (SMA)
	DoD Education Activity GF
	Defense Technical Information Center GF
	Washington Headquarters Services (WHS)
	Tricare Management Activity (TMA)
	Chemical Biological and Defense Program (CBDP) GF
Department (Dept.) of the Army	Army GF
	Army Working Capital Fund (WCF)
	United States Army Corps of Engineers (USACE)
Dept. of the Navy	Navy GF
	Navy WCF
	Marine Corps GF
	Marine Corps WCF
Dept. of the Air Force	GF
	WCF
USSOCOM	GF
USTRANSCOM	WCF
DARPA	GF
DeCA	GF
	WCF
DCAA	GF
DFAS	WCF



Management Internal Controls

OUSD(C) FY 2011 Guidance for Implementing OMB Circular A-123, Appendix A: Internal Control Over Financial Reporting (ICOFR), dated October 5, 2010

- The ICOFR Process pertains to the processes, procedures and systems used to prepare, compile and generate DoD financial statements.
 - Heads of DoD Components that prepare stand-alone financial statements are required to prepare a SoA on ICOFR.
 - The ICOFR SoA must be based on an assessment following the requirements of OMB Circular A-123, Appendix A, and annual guidance issued by OUSD (C).

Reporting Entities	Waves 1 & 2	Waves 3, 4 & 5				
	SBR	Military Equipment	Real Property	Inventory	Operating Materials & Supplies	General Equipment
Preparing for Audit						
Army, GF	√	√	√		√	√
Air Force, GF	√	√	√		√	√
Navy, GF	√	√	√		√	√
Military Retirement Fund Payment*	√				√	√
Defense Logistics Agency, WCF	√		√	√		√
Navy, WCF	√		√	√	√	√
DoD Component Level Accounts	√					√
Service Medical Activity	√		√			
Army, WCF	√		√	√		√
Office of the Secretary of Defense (WHS)	√		√			
Pentagon Reservation Maintenance Revolving Fund (WHS)			√			
Unallocated/Undistributed - DoD Component Level Accounts (USD(C))			√			√
Washington Headquarters Services			√			
Air Force, WCF	√		√	√	√	√
U.S. Special Operations Command	√		√			√
Missile Defense Agency	√		√			
Air Mobility Command	√					
Other 97 Funds Provided to the Army by OSD	√					
Defense Information Systems Agency, WCF	√					
Defense Advanced Research Projects Agency	√					
DoD Education Activity	√					
Tri-Care Management Agency - (FOD)	√					√
Defense Information Systems Agency, GF	√					√
Military Surface Deployment & Distribution	√					
Chemical Biological Defense Program	√					
Defense Security Cooperation Agency	√					
Defense Threat Reduction Agency	√					
Defense Contract Management Agency	√					
Defense Logistics Agency, GF	√		√			
Defense Technical Information Center	√					
United States Marine Corps, GF	√	√	√		√	√
United States Marine Corps, WCF	√		√	√	√	√

Reporting Entities	Waves 1 & 2	Waves 3, 4 & 5				
	SBR	Military Equipment	Real Property	Inventory	Operating Materials & Supplies	General Equipment
Under Audit						
Military Retirement Trust Fund	√					
U.S. Army Corps of Engineers - Civil Works	√		√	√	√	√
United States Marine Corps, GF	√		√		√	√
Tri-Care Management Activity - Contract Resource Management	√					
Medicare-Eligible Retiree Healthcare Fund	√					
Defense Commissary Agency	√		√	√		√
Defense Finance and Accounting Service	√					
Defense Contract Audit Agency	√					
Office of the Inspector General, DoD	√					



Management Internal Controls

- **DoD Components should consider available sources of management evaluation activity, such as:**
 - Audits of financial statements required by the Chief Financial Officers Act
 - Component Inspector General (IG) or Audit Service Findings
 - IG, DoD Reports and Reviews
 - Most significant MICP Accomplishments achieved during the current fiscal year
 - Lean Six Sigma and other management initiatives
 - GAO Reports and Reviews, and GAO list of High Risk areas
 - Review of OSD Functional Proponent Proposals (e.g., Systemic Weaknesses)
 - Management knowledge gained from daily operations
 - Management reviews conducted to assess internal controls
 - Information Technology Initiatives
 - Other reviews or reports relating to agency operations
 - Program evaluations
 - Productivity Statistics
 - DoD Hotline complaints
 - Quality Assurance Reviews
 - Congressional Reviews and Hearings
 - Reviews and reports required by Government Performance and Results Act
 - Evaluations and reports required by the Federal Information Security Management Act and OMB Circular A-130, Management of Federal Information Resources
 - Single Audit reports for grant-making agencies.

The annual assessment of internal controls should not be isolated from daily operating and management activities.



Management Internal Controls

Roles and Responsibilities

- **USD (Comptroller):**

- Establish and maintain an internal control program.
- Monitor compliance with DOD Instruction 5010.40.
- Designate a DoD Senior Assessment Team (SAT) to provide oversight and accountability on ICOFR.
 - *Director ARA, is the AT&L member of the DoD SAT.*

- **Director, Administration and Management:**

- Serve as senior management official for the OSD and DoD Field Activities.

- **OSD Principal Staff Assistants (e.g., the USD (AT&L)):**

As DoD functional proponents:

- Identify and report new systemic weaknesses,
- Report on the status of existing systemic weakness until resolved, and
- Review weaknesses reported by DoD Components and help resolve them.
- In addition, USD (AT&L) must assess internal controls over financial reporting in the Chemical and Biological Defense Program General Fund.



What Can Happen If Management Internal Controls Are Ineffective?



Pilots' checklists for takeoff, flight, before landing, and after landing became standard procedure after the 1935 crash of the Boeing Model 299 (predecessor to the famous Flying Fortress, B-17). Pilots got together after the accident and decided that the new aircraft Model 299 was not “too much airplane for one man to fly,” but more than one man could remember without help. Checklists help compensate for the weaknesses of human memory to help ensure consistency and completeness in accomplishing a mission.





Internal Controls – Were They In Place?

Management Internal Controls ensure that what *should* happen, *does* happen – every day ... but they must be in place, effective, and used.



San Diego Police and the California Highway Patrol chase a stolen military tank down Interstate 805. The tank was stolen from the National Guard Armory.



Internal Controls & Statement of Assurance (SoA)



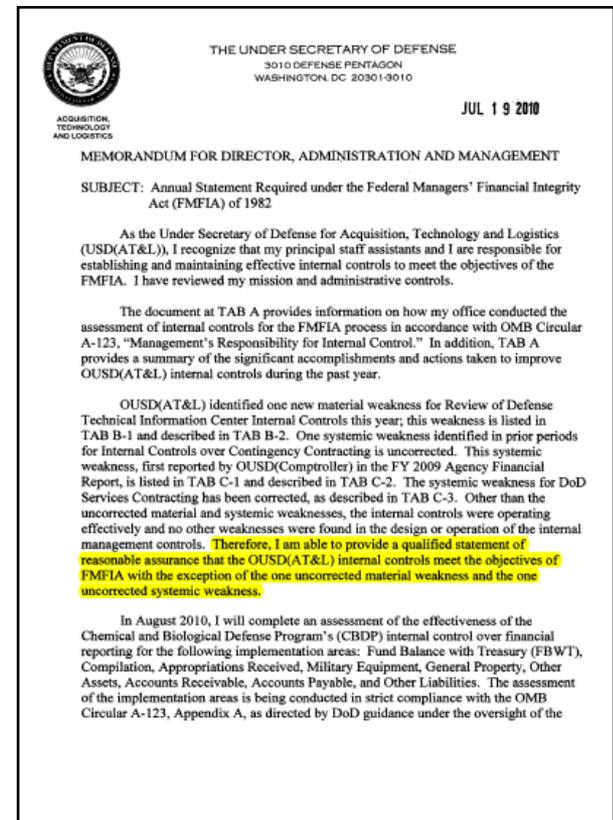
Internal Controls and the Statement of Assurance (SoA)

Reasonable Assurance:

An informed judgment by management as to the overall adequacy and effectiveness of **internal controls** based upon available information that the systems of internal controls are operating as intended.

There are three possible assurance statements:

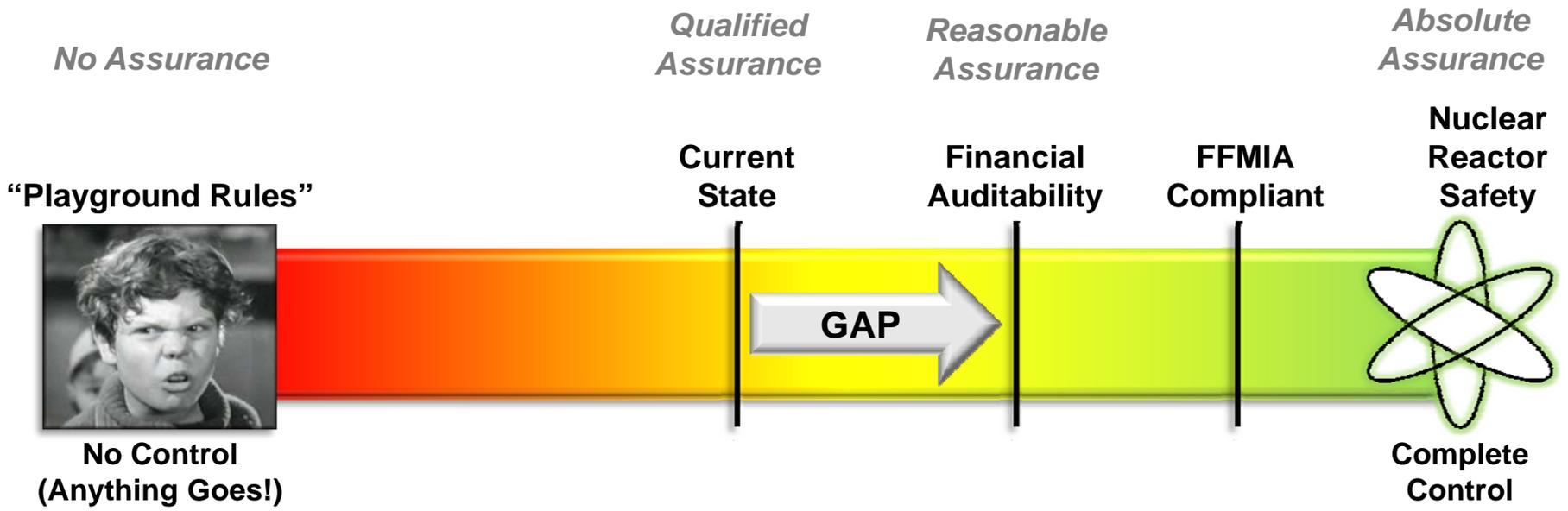
- An unqualified statement of assurance
 - “I have reasonable assurance that ...”
 - There must not be any material weaknesses.
- A qualified statement of assurance
 - “I have reasonable assurance ... with the exception of”
 - There are material weaknesses that preclude an unqualified statement.
- A statement of no assurance
 - “I do not have reasonable assurance...”



FY 2010 AT&L SoA



Control Continuum



“Closing the Gap” Will Mean:

- More standard processes
- Implementing more capable systems
- Controls that are in place and tested

“Closing the Gap” Represents Opportunities for:

- Improved operational efficiency
- Reduced vulnerability to fraud/waste
- Sustained public trust/confidence

Goal is to Improve the Quality of Information Used for Decision Making

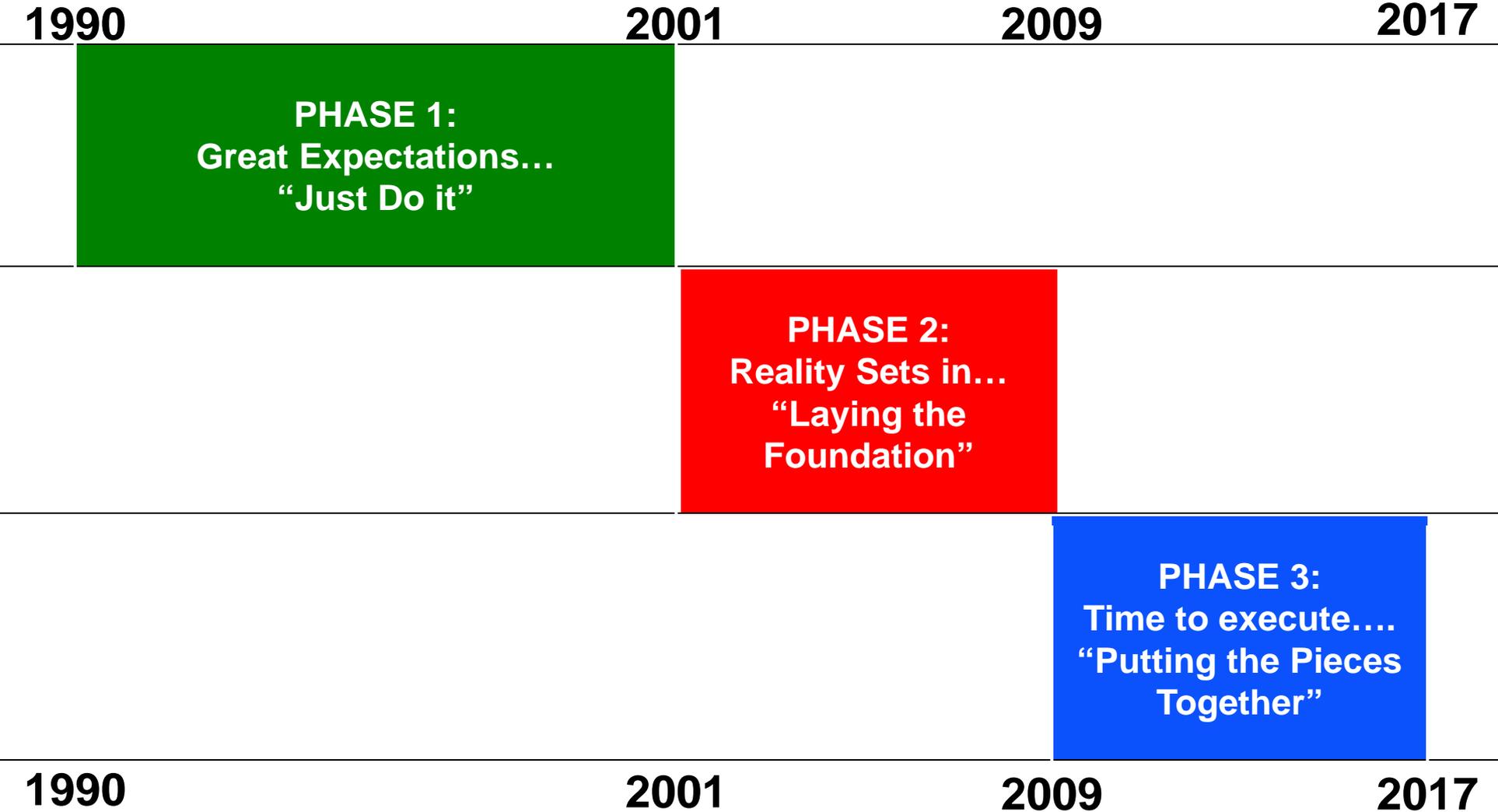


DoD Audit Readiness



DoD Audit Readiness

“The Journey”





“The Journey”

1990

2001

2009

2017

**PHASE 1:
Great Expectations...
“Just Do it”**

- **Chief Financial Officers (CFO) Act of 1990**
- **Government Management Reform Act (GMRA) of 1994**
- **Federal Financial Management Improvement Act (FFMIA) of 1996**
- **Rationalizing DoD Finance/Accounting (DFAS)**
- **Military Service Audit Pilots**



“The Journey”

1990

2001

2009

2017

**PHASE 2:
Reality Sets in...
“Laying the
Foundation”**

- **Business Enterprise Architecture (BEA)**
- **Enterprise Transition Plan (ETP)**
- **Financial Improvement and Audit Readiness (FIAR) / Component Financial Improvement Plans (FIPs)**
- **Setting... and re-setting target completion dates**



“The Journey”

1990

2001

2009

2017

**PHASE 3:
Time to execute....
“Putting the Pieces
Together”**

- **Streamlined Priorities – Budgetary Resources & Critical Asset Existence/Completeness**
- **Implementation of Major Systems Modernization Projects**
- **Developing a Cost-Effective End Game Strategy**



Business and Financial Improvement is a Change Management Effort

Success Requires Attention in Three Areas:

- **People**

- Focus on providing our people the tools to succeed
- Push ourselves and our peers to be better
- People are the solution not only technology
- Take ownership and responsibility

- **Process**

- Change the way we do business (BPR) to include controls needed for audit
- Work towards what is reasonable to achieve reporting goals not always current standards

- **Technology**

- Overcome technology impediments such as too many systems in end-to-end process



Citizens Demand and Deserve Sound Financial Reports and Internal Controls



OUSD(Comptroller)

Emphasis for FY 2011



Significant Comments

DoD

- Control continuum
- Execute on our plans
- Do business differently every day
- Build on our strong foundation
- Audit is essential to maintain public trust and confidence
- Streamlined approach focuses on information we use to manage

Congressional Staff

- Without an audit, all financial information is suspect and management decisions may not be sound
- Address underlying causes
- Accepting change is at the heart of the problem
- Rationalize systems



OUSD(Comptroller) Emphasis

- In FY 2010, OSD (Comptroller) conducted training and site visits with DoD Components to:
 - Review progress in implementing the IC program
 - Provide oversight and coordination in the assessment of IC
 - Review the adequacy and validity of assessable unit identification and risk assessments
 - Assess the documentation and testing of key controls, and implementation of corrective actions to close out open material weaknesses
- In FY 2011, OSD (Comptroller) will validate implementation of DoD Instruction 5010.40



“Paradigm Shift” – Reliance Upon Expertise Internal to the Component

Historically

Reliance Upon Outside Audit Agencies

- Reliance upon GAO, DoDIG Military Audit Services to identify material internal control weaknesses

Self-Reporting – Punitive Versus Incentivized

- Candor not part of culture – i.e., “group-think.” Threat of retribution for self-reporting.

Focus on Timelines and Format

- Score received by Component based upon timeliness of SOA submission and adherence to format.

“Paper-Drill Exercise”

- Ramp-up of SOA related activities several weeks prior to submission deadline versus an ongoing activity year-round.

Renewed Emphasis

Reliance Upon Resources in Component

- Reliance upon analysis of the Component’s assessable units to identify material internal control weaknesses.

Self-Reporting – Incentivize Versus Punish

- Culture of organization whereby reward self-reporting by all levels of organization regarding potential risks to the mission and recommendations for mitigation.

Focus on Risk

- Based upon documentation of segment of business processes and procedures, identify risk, rank risk and focus upon greatest risks that may impact organization (e.g., materiality) and communicate risk and remediation recommendation through the “chain of command.”

Report Supported by Documentation of MICP Process

- Develop SOA content throughout the year based upon documentation internally generated, analyzed and agreed upon



Benefits of a Risk-Based/Self Reporting DoD Managers' Internal Control Program

Importance of "Candor" in communications with superiors and subordinates

Ongoing communications between MICP Coordinator and leadership (alignment of mission goals with identified risk).

Alignment of Component's short and long term mission requirements with associated ranking of risk.

Identification of potential risk to Component prior to impact versus reported by external audit agency after impact.

Mitigation of risk typically prior to negative impact upon Component.

Identification and reporting of risk irrespective of rank or GS level.

Empowerment of personnel regardless of rank or GS level.

Ongoing evaluation by functional "experts."

Reliance upon those responsible for the operational, administrative or program control (leveraging expertise internal to an organization).

Incentivize (not penalize) self-reporting of deficiencies through the "chain of command"



The Secretary Stresses Importance of “Candor” – Qualities Necessary to be a Successful Leader

“Challenge conventional wisdom and call things as you see them to subordinates and superiors alike.”

Remarks delivered by Secretary Robert M. Gates to the U.S. Air Force on April 2, 2010.



The Secretary Stresses Importance of “Candor” – Qualities Necessary to be a Successful Leader

*“As an officer, if you blunt truths or create an environment **where candor is not encouraged, then you’ve done yourself and the institution a disservice**”*

Remarks delivered by Secretary Robert M. Gates to the U.S. Air Force on April 2, 2010.



The Secretary Stresses Importance of “Candor” – Qualities Necessary to be a Successful Leader

*“Hurdles faced by the officer known as the father of the ICBM - As a new brigadier general in the 1950s, Bernard Schriever overcame numerous technology failures, massive Pentagon red-tape, and most daunting of all, the Service’s Bomber Barons, led by Curtis LeMay himself, who believed **that nuclear weapons had no business being carried by anything without a pilot.**”*

The ICBM force would become the backbone of America’s strategic deterrent for more than a generation, and was critical to holding the Soviets long enough for their empire to collapse.”

Remarks delivered by Secretary Robert M. Gates to the U.S. Air Force on April 2, 2010.



The Secretary Stresses Importance of “Candor” – Qualities Necessary to be a Successful Leader

“The need for candor is not just an abstract notion --- It has very real effects on the perception of the military and the wars themselves.

The military campaigns from Korea to Vietnam, Somalia, the Balkans, Iraq and Afghanistan have been frustrating, controversial efforts for the American public and our American armed forces –

each conflict has prompted debates over whether senior military officers were being too deferential or not deferential enough to civilians, and whether civilians, in turn, were too receptive or not receptive enough to military advice.”

Remarks delivered by Secretary Robert M. Gates to the U.S. Air Force on April 2, 2010.



The Secretary Stresses Importance of “Candor” – Qualities Necessary to be a Successful Leader

“What strikes me about figures like Krulak and Nimitz, Rickover and Boehm, is not that they were always right, nor that they should be emulated in every way, to put it mildly.

*What is compelling about these leaders is that **they had the vision and insight to see that the world and technology was changing**, they understood the implications of those shifts, and they then pressed ahead in the face of often fierce institutional resistance.*

*Indeed, one of the key reasons they **were successful was because they were willing to speak truth to power -- willing to tell superiors what they needed to hear, not what they wanted to hear.**”*

Remarks delivered by Secretary Robert M. Gates to the U.S. Naval Academy on April 12, 2010.



FMFIA Internal Controls Over Financial System Process (ICOFS)



FMFIA Internal Controls Over Financial System Process (ICOFS)

- Applies to financial management systems of all agencies
- Conduct an ICOFS assessment and report results annually in the SOA
- FMFIA requires that the Component's Integrated Financial Management System be compliant with (substantial compliance requirements):
 - Federal system requirements;
 - Federal accounting standards; and
 - U.S. Standard General Ledger at the transaction level
- *Office of Management and Budget (OMB) Circular No. A-127* – Prescribes Policies and Standards for Executive Departments and Agencies to Follow Concerning Their Financial Systems
http://www.whitehouse.gov/omb/circulars_a127/



FMFIA Internal Controls Over Financial System Process (ICOFs)

Compliance with Federal Financial Management Improvement Act

Substantial Compliance Requirements	Reporting Entity	Auditor	Reason for Non-Compliance
1. System Requirements			
2. Accounting Standards			
3. USSGL at Transaction Level			

Head of Reporting entity is Responsible for:

- Completing table and reporting TAB A in Annual Statement of Assurance.
- Preparing, maintaining, and executing an Integrated Financial Management System (IFMS) improvement plan.
- Providing assurance in the Statement of Assurance.



Changes to the Annual Internal Control Over Financial Reporting (ICOFR) SOA Reporting Requirements



Changes to the Annual Internal Control Over Financial Reporting (ICOFR) SOA Reporting Requirements

New Requirement for Entities that Participate in the ICOFR Program

The following changes to the FY 2011 ICOFR SOA reporting requirements:

- Components are no longer required to:
 - Submit a Corrective Action Plan (CAP) with their ICOFR SOA memorandum.
 - ❖ All CAPs should be included in the Component Financial Improvement Plans (FIPs) contained in the Financial Improvement and Audit Readiness (FIAR) Planning Tool.
- By **July 11, 2011**, Components are required to submit:
 - A summary of the material weakness CAP to the OSD Senior Accountable Official.
 - Their ICOFR SOA memorandum signed by the Component Senior Assessment Team (SAT) Chair, along with the CAP summaries to the OSD FIAR office.
- Component SAT Chair should brief the Component Head (or Principal Deputy) on the content and level of assurance contained within the ICOFR SOA memorandum prior to the July 11, 2011 submission.



Changes to the Annual Internal Control Over Financial Reporting (ICOFR) SOA Reporting Requirements

New Requirement for Entities that Participate in the ICOFR Program

The following changes to the FY 2011 ICOFR SOA reporting requirements (continued):

- The OSD Senior Accountable Official will brief the Department's summary CAP to the FIAR Governance Board on **July 20, 2011**.
- The ICOFR SOA memorandum signed by the Component SAT Chair should be included as part of the Component's overall SOA submission to the Deputy Secretary of Defense on **September 1, 2011**.



Summary of "Budget to Report" Corrective Action Plan

FIP Related Assessable Unit:

First Year Reported:

Original Target Date:

Target Date on Prior Year SOA:

Status:

Current Target Date:

Description :

Corrective Action:

Impediments:

Next Steps for 2012:

2013-2014:



Statement of Assurance Package



Statement of Assurance Package

- **Cover Memo**

- Statement of reasonable assurance on internal controls
 - Unqualified statement of reasonable assurance (no material weaknesses)
 - Qualified statement of reasonable assurance (with material weaknesses)
 - No assurance (pervasive weaknesses)
- Signed by USD(AT&L)

- **Tab A**

- Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted
 - Assessment of Acquisition Functions
 - Reporting on Internal Controls Over Financial System Process (ICOFS)
 - Internal Controls Accomplishments

- **Tab B**

- Descriptions of material weaknesses

- **Tab C**

- Descriptions of systemic weaknesses

- **Tab D**

- Description of Internal Controls Over Financial Reporting (ICOFR) material weaknesses



Preparing the FY 2011 Statement of Assurance

Tab A, How the Evaluation was Conducted:

- Describe how the organization conducted its annual assessment of internal controls and arrived at its conclusion on reasonable assurance.
 - **Assessment of Acquisition Functions**
- Summarize actions to strengthen internal controls, improve execution of the MIC Program and related improvements (the OUSD (Comptroller) guidance provides a template for this).
- The Reporting Entity should provide an overall introductory summary statement to accompany and explain the [associated] table regarding its compliance with FMFIA.
- Cite any Internal Control Improvements / Accomplishments, such as correcting a control deficiency or improving a control situation. The format is simple:
 - Description of Issue (a brief title)
 - Improvements / Accomplishments (describe in bullet form)



Preparing the FY 2011 Statement of Assurance

TAB A, Assessment of Acquisition Functions

- Complete the DoD Assessment of Internal Control over Acquisition Functions Template
 - DoD Components are not required to submit the completed DoD template. However, the completed template must be made available, if requested by OUSD (AT&L) for review.
- Determine if there are new deficiencies or weaknesses and develop a corrective action plan (CAP)
 - Report the CAP in the annual Statement of Assurance in accordance with FMFIA and annual OUSD (Comptroller) guidance ... just as it's done for all other (non-financial reporting) weaknesses.
- Summarize the results of the completed assessment and briefly explain how the DoD and OMB templates were used to determine deficiencies and weaknesses in TAB A of the SOA.

Components will use the *DoD Template* and the *OMB Template* to evaluate acquisition functions



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by ARA:

- **Description of Issue:** Led the Department to an Agreed-Upon Solution for the Commission on the National Guard and Reserve (CNGR) Recommendations #42 and #43
- **Accomplishment:**
 - In FY 2010, ARA/P&EP collected data quarterly from the Services for input to the Equipment Delivery Report (EDR).
 - Delivered first iteration of the EDR to Congress on April 30, 2010.
 - Provided input to improve usability of the EDR through working group meetings, held monthly.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by CPO:

- **Description of Issue:** Congress, concerned that corrosion-related lessons learned on the F-22 aircraft have not been fully applied to the F-35, directed the Director, Corrosion Policy and Oversight (D,CPO) to conduct a corrosion evaluation of the F-35 and F-22 to include (but not limited to) program documentation, manufacturing and engineering processes, and production floor inspections.
- **Accomplishment:**
 - D, CPO developed a plan, assembled a team (with expertise in program management, structures, manufacturing processes, materials and processes, subsystems and components, and corrosion management/compliance) and led the evaluation. The evaluation report includes recommendations to enhance acquisition policy, contractual flow-down requirements, personnel expertise; product qualifications; and design trade-offs. The report, submitted to Congress and assessed by the GAO, may form the basis for material improvement on corrosion prevention/mitigation of the Department's weapon systems—currently estimated at \$23 billion annually.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by DAU:

- **Description of Issue: Personnel Activation System (PAS)**
- **Accomplishment:**
 - In October 2009, as part of the DAU Business Center, the Director, Performance and Resource Management, deployed the PAS. The PAS automates the on-boarding process of newly hired civilian employees and provides the organization with the ability to ensure that needs of the new employees are taken care of, and that these new employees are fully indoctrinated into the University. The system provides for the automatic flow from the Human Resources Hiring System, enables the University to track all required pre-entry on duty (EOD) and post-entry on duty actions as well as standardize the business rules and workflows.
 - The PAS is a non-sequential action driven process; it has minimal dependencies between actions; and multiple users can work on one action at a time. The system focuses on all aspects of getting the employee on-board – both pre- and post- EOD, which includes, but is not limited to security checks, setting up the work space such as desk, chair, computer, and telephone, ensuring individual will have access to the systems the employee will need to perform their job, badge requests, personnel actions, setting up a time and attendance (electronic Management Tracking System) account, registering individual into the Defense Travel System (DTS).
 - The PAS was expanded to include the on-boarding of both contractor and military personnel, which is Phase II. Phase II went live on March 12, 2010.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by DPAP:

- **Description of Issue:** Oversight and Management of Services Acquisitions
- **Accomplishment:**
 - DPAP has refined the oversight and management process for services acquisitions. Key changes include:
 - The USD (AT&L) issued policy on February 18, 2009, regarding the approval and oversight of the acquisition of major service requirements over \$1 billion. During this period, DPAP issued internal procedures and during August 2009, revised the review process to ensure appropriate, but timely, oversight and approval of large dollar services acquisitions, as required by acquisition policy and DoDI 5000.02.
 - DPAP delivers an annual DoD-wide spend analysis for services to the Senior Procurement Executives (SPEs). This spend analysis established a portfolio management structure for services. It also provides key spend data and trends to assist senior leaders in making strategic decisions when acquiring services to meet DoD mission needs.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by I&E:

- **Description of Issue:** DoD Real Property Valuation Material Weakness
- **Accomplishment:**
 - The Office of the Deputy Under Secretary of Defense (ODUSD) I&E established a working group composed of Military Departments, Defense Agencies and Field Operating Activities to develop an implementation strategy to report imputed costs associated with the use and operation of real property assets. The working group identified the reconciliation of real property records among the Military Departments, the Defense Agencies, and the Field Operating Activities as a key opportunity to facilitate successful implementation of the imputed cost reporting policy and accurate reporting of Department's real property inventory. The working group developed a standard strategy and process requirements for achieving reconciliation of real property information. The DoD's first annual reconciliation for ten Defense Agencies is scheduled for completion by the end of FY 2010.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by IC:

- **Description of Issue:** USD(AT&L) and PDUSD(P) recognized a disproportionate number of problems were associated with Military Department (MilDep) management of international cooperative acquisition programs - need for better training and certification of MilDep International Acquisition workforce.
- **Accomplishment:**
 - USD(AT&L) formally established International Acquisition Career Path (IACP) in June 2007.
 - IACP fully implemented in October 2009 with DoD-wide coding of over 400 International Program Management Level III positions.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by IP:

- **Description of Issue:** Improve DoD communication with industry.
- **Accomplishment:**
 - IP prepared a revision for the new administration of the Deputy Secretary's "Policy for Communication with Industry." The new policy substantially retains the key elements of previous policy to encourage open communication with industry up to the statutory limits. It goes on to target the policy to representatives of end-users and requirements generators, as well as to the acquisition community. Also, it identifies a role for Offices of General Counsel to assist their supported commands' planning for industry outreach, as well as providing guidance on statutory limitations. The policy is currently in final review with the Deputy Secretary.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by L&MR:

- **Description of Issue:** Establishment of Department of Defense policy regarding Private Security Contractors operating in contingency operations.
- **Accomplishment:**
 - Established a DoD Instruction (DoDI) and federal rule which prescribes the selection, accountability, training, equipping, and conduct of personnel performing private security functions under a covered contract. It also prescribes incident reporting, use of and accountability for equipment, rules for the use of force, and a process for the discipline or removal, as appropriate, of U.S. Government Private Security Contractor (USG PSC) personnel.
 - Published as an interim final rule in the Federal Register applying similar standards to all U.S. Government PSCs operating in an area of combat operations.
 - The DoDI and the interim final rule respond to requirements of section 862 of the FY 2008 National Defense Authorization Act (NDAA).



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by NCB:

- **Description of Issue:** A comprehensive review and testing of key controls for OMB A-123 by the components has been implemented incorporating all assessable units of Chemical and Biological Defense Program (CBDP).
- **Accomplishment:**
 - The participation of these components has resulted in an improved understanding of internal controls, including the importance of process monitoring and retention of evidential matter. Additionally, the system controls are being identified and incorporated in CBDP's end-to-end processes documented for OMB A-123, Appendix A reporting as required under the March 31, 2010 Financial Improvement and Audit Readiness (FIAR) guidance.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by PSA:

- **Description of Issue:** Ballistic Missile Defense Review (BMDR)
- **Accomplishment:**
 - In February 2010, the Department released the first ever Ballistic Missile Defense Review (BMDR). The BMDR was mandated by Congress and guided by Presidential directive. The BMDR was a comprehensive review of U.S. Ballistic Missile Defense (BMD) policies, strategies, plans, and programs. Significant results of the review include recommendations for a Phased Adaptive Approach to European Missile Defense, strengthening international cooperation, and improving the management, oversight, and testing of Missile Defense programs. The BMDR was co-led by the USD(AT&L), USD(Policy), and Vice Chairman of the Joint Chiefs of Staff.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by SBP:

- **Description of Issue:** Indian Incentive Program
- **Accomplishment:**
 - This year the Office of SBP (OSBP) has found new ways to provide more information about the Indian Incentive Program (IIP) for contracting officers, contracting specialists, prime contractors and subcontractors. These measures were set in order to achieve and maintain a program that was within the intent of the Indian Incentive Act. Each decision incorporated lessons learned, best practices and further overall policy guidance for contracting officers, contracting specialists, prime contractors and subcontractors. By the end of FY 2010, OSBP will have provided enough guidance for all external shareholders to submit timely rebate requests and accurate paperwork. The process is becoming more efficient and more transparent.
 - To become more efficient, OSBP has produced the following documents: A factsheet detailing the process for the program, including key information related to the laws and regulations. A PowerPoint briefing presenting all the steps involved in the program, as well as a detailed description of the documents required by OSBP. Template letters were also created for the prime contractors and subcontractors. The required letter from contracting officers to OSBP was modified to capture more data about the types of organizations that participate in the program. By gathering this data, reports can be produced in the future for the informative needs of the program.
 - To create more transparency, the IIP website has been updated; the yearly DoD appropriations bill has a dedicated link that will be updated each fiscal year showing annually appropriated funds. The website has a new section containing the template letters that can be used by contracting officers, contracting specialists, prime contractors and subcontractors. The factsheet and PowerPoint are also available for all participants to download and view. The website has a new graphic that shows the amount of appropriated funds received by the program in previous years. Further policy guidance was created to include checklists for the contracting officers and direction to further scrutinize rebate request prior to submission to OSBP. As part of the overall open government initiative from the president, participants have more information available to them through the IIP website and are encouraged to call the office for further guidance and status updates.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by SP:

- **Description of Issue:** Requirement for a Protection Level 3 (PL3) information technology system to support the Director, Special Programs and the Special Access Program (SAP) community.
- **Accomplishment:**
 - The Director of SP developed Chinstrap, a distributed secure information sharing capability consisting of compartmented file sharing; email; secure video, audio, and data service; and browser-based access to SAP specific databases. Chinstrap replaced an antiquated SAP network.
 - Chinstrap was accredited and operational on July 1, 2009. It is currently deployed to 43 sites with over 140 active users, providing consolidated personnel security databases, facility databases and communication between key SAP personnel.



Preparing the FY 2011 Statement of Assurance

Tab A, Example of FY 2010 Internal Control Accomplishment provided by TRMC:

- **Description of Issue:** Defining the Composition of the Major Range and Test Facility Base (MRTFB)
- **Accomplishment:**
 - TRMC established policy and procedures for defining the composition of the MRTFB at the range and facility level. The identification of the MRTFB composition at this level of specificity, rather than at the activity level as was previously done, is essential to ensuring that the MRTFB is properly sized and maintained. It will also provide the Department with better visibility of its broad base of T&E capabilities. This first version of the MRTFB composition is scheduled to be published by August 2010.



Preparing the FY 2011 Statement of Assurance

Tab B, Material Weaknesses and Tab C, Systemic Weaknesses:

- **Managers are encouraged to report material weaknesses.**
 - Reporting material weaknesses reflects positively on the organization's commitment to address management problems.
 - Reporting material weaknesses could help others avoid problems.
- **Some considerations:**
 - Whether a weakness is material is a management judgment.
 - *Exception: "significant deficiencies" identified under the Federal Information Security Management Act.*
 - Designating an internal control deficiency as a weakness in an audit report does not necessarily mean it must be reported as a material weakness in the Statement of Assurance.
 - *However, OMB Circular A-123 indicates management should give serious consideration to the views of the Inspector General.*



Preparing the FY 2011 Statement of Assurance

Tab B, Material Weaknesses and Tab C, Systemic Weaknesses:

- **Once corrected and closed, a material or systemic weakness that is subsequently re-opened and reported again should not be re-titled.**
 - It should retain the same title as the original weakness but indicate a new year Identified.
- **Organizations should resolve material weaknesses as quickly as possible and ensure the targeted correction dates are met.**



Preparing the FY 2011 Statement of Assurance

Tab B, Material Weaknesses and Tab C, Systemic Weaknesses:

- **Be careful in describing the scope of a material weakness.**
 - The scope of the weakness description and the scope of the corrective actions must be in sync.
 - Example: Defining the weakness in broad terms, but providing corrective actions that focus only on one particular aspect is inappropriate and can lead to questions about whether the weakness has really been resolved.
- **It may be preferable to address several related problems in one material weakness, but don't overstate the dimensions of the weakness.**
 - Weaknesses defined too broadly are very difficult to resolve and usually result in missing the target correction date.
 - Do not bundle related material weaknesses solely to reduce the number of material weaknesses reported.



Preparing the FY 2011 Statement of Assurance

The Material Weakness Format:

Title and Description of Issue	
Functional Category	
Organization	
Senior Official In Charge	
Pace of Corrective Actions	Year Identified: Original Targeted Correction Date: Targeted Correction Date in Last Year's Report Current Target Date:
Reason for change in date	
Validation Indicator	
Results Indicator (Impact)	
Source(s) Identifying Weakness	
Major Milestones to Include Progress to Date	A. <u>Completed Milestones</u> Date: <u>Milestone:</u> B. <u>Planned Milestones for Fiscal Year 2012</u> Date: <u>Milestone:</u> C. <u>Planned Milestones Beyond Fiscal Year 2012</u> Date: <u>Milestone:</u>



**Key Item:
Title and Description of Weakness**



**Key Item:
Pace of Corrective Actions**



**Key Item:
Major Milestones to include
Progress to Date**



Preparing the FY 2011 Statement of Assurance

The Material Weakness Format:

Title and Description of Issue	Provide the title of the weakness and a concise description in terms the general public can understand. OUSD(C) guidance: limit to three sentences, if possible.
Functional Category	Indicate one of the functional DoD Reporting Categories. For ICOFR weaknesses, identify the Financial Implementation Area (e.g., Financial Reporting, Fund Balance with Treasury).
Organization	Indicate OSD(AT&L) and the AT&L PSA or subordinate element (e.g., OSD(AT&L) ARA)
Senior Official In Charge	Identify the name and title of the senior official responsible for ensuring the weakness is resolved by the targeted correction date. This is your Principal Staff Assistant (PSA).
Pace of Corrective Actions	<p><u>Year Identified</u>: The Fiscal Year in which the weakness was first reported.</p> <p><u>Original Targeted Correction Date</u>: The Quarter and Fiscal Year of the targeted correction date as first reported</p> <p><u>Targeted Correction Date in Last Year's Report</u>: The Quarter and Fiscal Year of the targeted correction date as reported in last year's Statement of Assurance.</p> <p><u>Current Target Date</u>: The Quarter and Fiscal Year of the targeted correction date in this year's Statement of Assurance.</p>
Reason for change in date	Explain the reason for the change in the targeted correction date from last year's Statement of Assurance. Include a brief description of the cost or operational impact of any delay in correcting the weakness, if applicable.



Preparing the FY 2011 Statement of Assurance

The Material Weakness Format:

Validation Indicator	<p>Indicate the approach to be used in validating the effectiveness of corrective actions and (if applicable) the role the IG, DoD or other audit service. If the weakness has been <u>corrected</u>, indicate the date (Quarter & FY) validation occurred.</p>
Results Indicator (Impact)	<p>Describe the key results that have been / will be achieved in terms of performance measures (e.g., quantitative or qualitative measures to determine the benefits derived). Indicate monetary benefits, if they can be determined.</p> <p>Specifically, identify one or two defined performance measures or defined results that will be used to determine successful correction of the weakness.</p>
Source(s) Identifying Weakness	<p>Cite one or more of the following sources: GAO; IG, DoD; MIC Program Evaluation; organization (IG / Audit Service / Internal Review); or Other. If more than one source is cited, list them in order of significance. If audit findings are cited as the source, identify the title, number and date of the report or document.</p>
Major Milestones to Include Progress To Date	<p>Indicate the milestones for corrective action, either taken or planned.</p> <p>Separate these milestones into three categories:</p> <ul style="list-style-type: none"> A. Completed Milestones B. Planned Milestones for Fiscal Year 2012 C. Planned Milestones Beyond Fiscal Year 2012. <p>List only <u>major</u> milestones in <u>chronological</u> order (by completion date), with the final milestone listed last.</p> <p>For completed milestones, indicate "Completed." For planned milestones, indicate the date (Quarter and FY) it is projected to be completed.</p>



Preparing the FY 2011 Statement of Assurance

Tab D, ICOFR Material Weaknesses:

- The ICOFR statement of assurance is based on a year-long process of actions prescribed by OMB and OUSD (Comptroller).
- OUSD (Comptroller) guidance directs:
 - The FSREs that must provide an ICOFR statement of assurance,
 - The financial implementation areas each FSRE must assess,
 - The process to be used for this assessment, and
 - A schedule of specific deliverables.
- The ICOFR statement of assurance:
 - Is included in the Overall Statement of Assurance.
 - Covers a one year period from July 1 through June 30.
 - Can be unqualified, qualified or a statement of no assurance.
 - For OUSD (AT&L), the above guidance applies only to the Chemical and Biological Defense Program, General Fund.



Preparing the FY 2011 Statement of Assurance

Material Weakness Tips:

- Provide a concise description of the material weakness.
- Be sure it describes a problem with internal controls.
- Don't report an unfunded requirement as a material weakness.
- Limit a material weakness to three pages or less.
- Use the active voice – avoid use of the passive voice.
- Minimize use of technical jargon – write for the general public.
- Minimize the use of acronyms and spell out when first used.
- If corrective action is not complete when the Statement of Assurance is signed, report the material weakness as uncorrected – even if you expect to correct it in the 4th quarter.



Preparing the FY 2011 Statement of Assurance

Material Weakness Examples – Descriptions:

- Security clearances and personnel security investigations are key elements in protecting national security by determining whether an individual should be granted access to classified information, accessed / retained in the military, or employed in a sensitive position. In January 2005, the GAO indicated that problems such as timeliness and quality in the personnel security clearance process directly affect DoD's operations and are a matter of national security.
- The Office of the DoD CIO determined that the Department's information systems are potentially vulnerable to an information warfare attack. DoD has uncovered numerous attempts to breach "sensitive, but unclassified" systems and networks supporting finance, logistics, medical, procurement, personnel and R&D activities. A successful attack on DoD systems would have a serious and immediate impact on the ability of DoD to carry out its mission.



Preparing the FY 2011 Statement of Assurance

Material Weakness Example – Pace of Corrective Action:

Pace of Corrective Action:

- Year Identified: FY 2001
- Original Targeted Correction Date: 1st QTR, FY 2006
- Target Correction Date in Last Year's Report: 1st QTR, FY 2012
- Current Target Date: 2nd Quarter, FY 2013

Reason for Change in Date:

“Test and validate internal controls for Active Air Force EL financial statement disclosures” milestone date slipped three years due to reprioritization and additional correction actions from an AF Audit Agency report. Specifically, USD(C) reprioritization of financial improvement efforts to focus on property existence and completeness has reduced resources for EL initiatives. In addition, recent AF audit findings created the following corrective actions that are being pursued: EL training, AF EL guidance update, and migration of all cleanup sites to a new information system.”



Preparing the FY 2011 Statement of Assurance

Examples – Validation Indicators:

- **DoD Services Contracting (DPAP)** - All Military Departments and Defense Agencies must ensure that they comply with all required pre-award and post-award requirements and that all required documentation is completed in a timely manner. DoD will verify that this has occurred through the use of appropriate management controls.
- **Financial Reporting of Valuation of Military Equipment (ARA)** - All corrective actions are found to be effective as a result of management internal control reviews, to be completed by the Components and confirmed through an independent, external review process.



Preparing the FY 2011 Statement of Assurance

Material Weakness Examples – Results Indicators:

- All major business processes are fully documented, to include performance metrics, to ensure accuracy, adequacy and timeliness of reporting and transaction recording.
- The capability of facilities will begin to improve and the average age of facilities will stabilize, and ultimately, begin to decrease.



Preparing the FY 2011 Statement of Assurance

Material Weakness Example – Major Milestones:

A. Completed Milestones:

<u>Date</u>	<u>Milestone</u>
Completed	Policy directive revised and staffed
Completed	Training program developed

B. Planned Milestones for Fiscal Year 2012:

<u>Date</u>	<u>Milestone</u>
1 st Qtr, FY 2012	Staff training completed
2 nd Qtr, FY 2012	Policy directive published
3 rd Qtr, FY 2012	Validation of Corrective Action Plan

C. Planned Milestones Beyond Fiscal Year 2012: N/A



Preparing the FY 2011 Statement of Assurance

FY 2009 AT&L SoA Example of Systemic Weakness – DoD Service Contracting:

- **Description**: The DoD Inspector General (IG) and the GAO issued numerous reports which identify various deficiencies in DoD's acquisition of services. Subsequently, in response to the OMB's June 17, 2005 memorandum regarding GAO's High-Risk List, OUSD(AT&L) staff developed, in collaboration with applicable OMB and GAO staff, the DoD "Plan for Improvement in the GAO High Risk Area of DoD Contract Management," dated August 12, 2005, and updated in February 2006. The DoD Plan for Improvement provides a DoD-wide approach, coordinated with GAO and OMB, to resolving the issues and concerns relating to the acquisition of services.
- **Validation Indicator**: All Military Departments and Defense Agencies must ensure that they comply with all required pre-award and post-award requirements and that all required documentation is completed in a timely manner. DoD will verify that this has occurred through the use of appropriate management controls.
- **Results Indicator**: OSD determines that all required actions set forth in the milestones for each Military Department and Defense Agency, as well as the actions in the DoD Improvement Plan for GAO High Risk Area of Contract Management dated August 12, 2005, and updated in February 2006; May 2007; and March 2008, are achieved.



Preparing the FY 2011 Statement of Assurance

FY 2010 AT&L SoA Example of Systemic Weakness – Internal Controls over Contingency Contracting :

- **Description:** The acquisition workforce is not adequately staffed, trained, structured, or empowered to meet the needs of the 21st Century deployed Warfighters. Audit reports conclude that internal controls to mitigate risks in the contracting process were ineffective or non-existent. Additionally inadequate surveillance of service contracts due to a significant shortfall of Contracting Officer's Representatives (CORs) affected DoD's oversight capability and left the Department vulnerable.
- **Validation Indicator:** Fulfillment of manpower requirements; for DCMA obtaining 75% fill rate of JMD requirements for Subject Matter Experts and CORs and for Army obtaining 256 additional CAS soldiers for their Expeditionary Contracting Command with an additional 158 soldiers to perform contract management and close-out requirements, and 518 civilian CAS authorizations for the Army Contracting Command. The Army will use its Procurement Management Teams and Internal Review personnel from respective Army contracting organizations impacted by this material weakness (primarily the Expeditionary Contracting Command and the U.S. Army Corps of Engineers) to validate the completion.
- **Results Indicator:**
 - 1) Achievement of DCMA staffing level by Third Quarter FY 2010
 - 2) Achievement of Army Expeditionary Contracting staffing level, training, and certification requirements metrics by the Third Quarter FY 2014.



Preparing the FY 2011 Statement of Assurance

The Importance of Your Role:

- **Your input will support the USD (AT&L)'s Statement of Assurance to the Director, Administration and Management.**
- **Your systemic weaknesses – and many of your material weaknesses – will be included in:**
 - The OSD Statement of Assurance to the SECDEF.
 - The DoD Agency Financial Report to the OMB and the Congress.
- **Your systemic weaknesses address the most complex internal control problems in DoD. Their resolution represents a major improvement in controls.**



FY 2011 SoA / MIC Program for AT&L and Defense Agencies



Requirements and Timeline – AT&L Organizations

Tab A

- ARA / P&EP will draft narrative “Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted.”
- In support of the narrative, the OUSD (AT&L) staff must submit Internal Controls Improvements / Accomplishments

Helpful Hints

- Ensure accomplishments are noted and fully described.
- Note both material weaknesses and reportable conditions.
- Use of Lean Six Sigma and other initiatives.
- Provide detailed discussion based upon foundation of documentation of how material weaknesses were identified and resolved (internal versus external).

Tabs B – D (Material and Systemic Weaknesses)

- OUSD (AT&L) staff must submit material and systemic weaknesses (updated weaknesses and new weaknesses)

Inputs Due May 4, 2011



Requirements and Timeline – AT&L Organizations

Draft AT&L Statement of Assurance Package

- ARA/P&EP will consolidate inputs and prepare SoA document, including Cover Memo.
 - If clarifications or edits are needed, we will contact you.
- Final Package will be entered into SACCP for Formal Coordination with Principal Staff Assistants (PSAs).
 - PSAs will be asked to sign Coordination Sheet containing a statement appropriate to the PSA.
 - Coordination to begin about **May 18, 2011**.

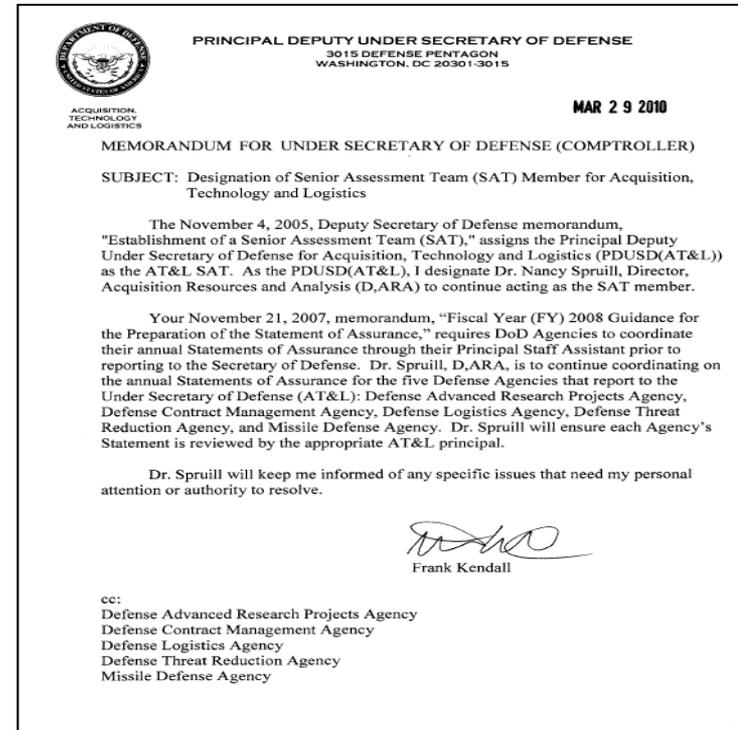


Coordination on Defense Agencies Statement of Assurances (SoAs)



Coordination on Defense Agency Statements of Assurance

- D, ARA coordinates on Defense Agency Statements of Assurance
 - Per PDUSD (AT&L) Memo, *Designation of Senior Assessment Team (SAT) Member for AT&L*, dated March 29, 2010.



- Defense Agency Point of Contact (POC) is to send **signed** SoA in both hard copy and via e-mail to the corresponding AT&L Principal Coordination (POC) by **July 25, 2011**.



Coordination on Defense Agency Statements of Assurance

- AT&L Principal Coordination POC is to obtain their AT&L Principal's concurrence on the Agency's SoA.
 - Use Coordination Sheet (to be provided by ARA / P&EP).
 - After obtaining AT&L Principal's coordination, contact Agency POC for pickup.
- Agency POC is to pick up SoA package from AT&L Principal Office and hand-carry it to Pentagon, Room 3C949A and place it in the ARA / P&EP Mailbox.
 - Package must be submitted to ARA by **August 8, 2011**.
- D,ARA will provide coordination by August 25, 2011.



Coordination on Defense Agency Statements of Assurance

- The Agency POC is responsible for:
 - Submitting the original (paper) copy of the Statement of Assurance document to the Secretary of Defense no later than **September 1, 2011**
 - Submitting a copy of the Statement of Assurance document to OUSD (Comptroller) front office no later than **September 1, 2011**
 - Providing an electronic version of the document via e-mail to: Steve.Silverstein@osd.mil

OUSD (Comptroller) will log the date of the SoA submittal for scorecard purposes.



Coordination on Defense Agency Statements of Assurance

- ARA / P&EP will:
 - Obtain Director, ARA coordination, and
 - Then notify the Agency POC that the coordinated Statement of Assurance is ready for pickup.
- ARA / P&EP will send via e-mail a scanned version of each Cover Memo showing the Coordination to:
 - Appropriate Agency and AT&L Principal Coordination POCs, and
 - The DoD Managers' Internal Control Program Manager in OUSD (Comptroller).



Requirements and Timeline Summary



AT&L SoA Summary

- Due Dates:
 - Internal Control Accomplishments and
 - All weaknesses, existing and new – **May 4, 2011**
- Final Statement entered into SACCP for Formal Coordination with Principal Staff Assistants (PSA).
 - PSAs will be asked to sign Coordination Sheet containing statement appropriate to them.
 - Coordination to begin about **May 18, 2011**



Defense Agencies SoA Summary

- Defense Agency POC is to send **signed** SoA in both hard copy and via e-mail to the corresponding AT&L Principal Coordination POC by **July 25, 2011**.
- AT&L Principal Coordination POC is to obtain their AT&L Principal's concurrence on the Agency's SoA.
- Package must be submitted to P&EP by **August 8, 2011**.
- D, ARA will provide coordination by **August 25, 2011**.



Appendix



Acronyms

- Agency Financial Report AFR
- Assessable Unit AU
- Chemical & Biological Defense Program CBDP
- Federal Managers' Financial Integrity Act FMFIA
- Financial Statement Reporting Entity FSRE
- Government Accountability Office GAO
- Internal Controls over Financial Reporting ICOFR
- Internal Controls over Financial Systems ICOFS
- Managers Internal Control MIC
- Office of Management and Budget OMB
- Senior Assessment Team SAT
- Statement of Assurance SoA



Key Terms per DoD Instruction (DoDI) 5010.40, Managers' Internal Control (MIC) Program Procedures:

- **Internal Controls:**

The organization, policies and procedures that help program and financial managers achieve results and safeguard the integrity of their programs by reducing the risk of adverse activities.

- **Assessable Unit (AU):**

An organizational subdivision of each DoD Component's total MICP. An AU is any organizational, functional, programmatic or other applicable subdivision of an organization that allows for adequate internal control analysis. The AU is required to have an appointed and adequately trained MICP Administrator, who manages the MICP for the AU Manager.

- **Risk:**

The possibility an event will adversely effect the achievement of internal control objectives and result in the loss of Government resources or cause an agency to fail to accomplish significant mission objectives through fraud, error or mismanagement.



Key Terms per DoDI 5010.40, Managers' Internal Control (MIC) Program Procedures:

- **Internal Control Assessment:**

A documented evaluation on the effectiveness and adequacy of the system [of internal controls] to meet the mission objectives, implemented in a cost effective way.

- **Internal Control Assessment (Overall):**

An assessment of the effectiveness of internal controls for the functions under the FMFIA. Overall process, which includes all program, activities, and operational areas [i.e., the Internal Control Reporting Categories defined in DoDI 5010.40]

- **Internal Control Assessment (ICOFR):**

An assessment of the effectiveness of internal controls over financial reporting which closely follows the guidance in Appendix A of OMB Circular A-123 and MIC Program Annual Guidance provided by OUSD (Comptroller).



Appendix

Key Terms per DoDI 5010.40, Managers' Internal Control (MIC) Program Procedures:

- **Control Deficiency:**

The design or operation of a control that does not allow the organization to prevent error or detect misstatements on a timely basis or to accomplish the mission objectives.

- **Reportable Condition (Overall):**

A control deficiency (or combination of deficiencies) that in management's judgment, should be communicated because they represent significant weaknesses in the design or operation of internal controls that could adversely affect the organization's ability to meet its internal control objectives.

- **Reportable Condition (ICOFR and ICOFS):** A control deficiency (or combination of deficiencies) that adversely affects the entity's ability to initiate, authorize, record, process or report external financial data reliably according to generally accepted principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, or other significant financial reports, is more than inconsequential will not be prevented or detected.



Key Terms per DoDI 5010.40, Managers' Internal Control (MIC) Program Procedures:

- **Material Weakness (Overall):**
A reportable condition that is significant enough to report to the next higher level. It is management's judgment as to whether or not a weakness is deemed material.
- **Material Weakness (ICOFR):**
A reportable condition (or combination of reportable conditions) that results in more than a remote likelihood that a material misstatement of the financial statements, or the other significant financial reports, will not be prevented or detected. The determination is a management judgment as to whether a weakness is material.
- **Material Weakness (ICOFS):**
The Integrated Financial Management Systems is not substantially in conformance with the Federal requirements for DoD Component's.
- **Systemic Weakness:**
A weakness that materially affects internal controls across organizational and program lines and usually affects more than one DoD Component. Note: A systemic weakness is determined by the PSA with functional responsibility for the area in question.



Key Terms per DoDI 5010.40, Managers' Internal Control (MIC) Program Procedures:

- **Reasonable Assurance:**

An informed judgment by management as to the overall adequacy and effectiveness of internal controls based upon available information that the systems of internal controls are operating as intended.

There are three possible assurance statements:

- An unqualified statement of assurance
- A qualified statement of assurance
- A statement of no assurance

- **Financial Statement Reporting Entity (FSRE):**

An entity assigned by either the OMB or the DoD to produce and provide to OUSD (Comptroller) stand alone, financial statements, both quarterly and annual.



FY 2011 SoA / MIC Program for AT&L and Defense Agencies

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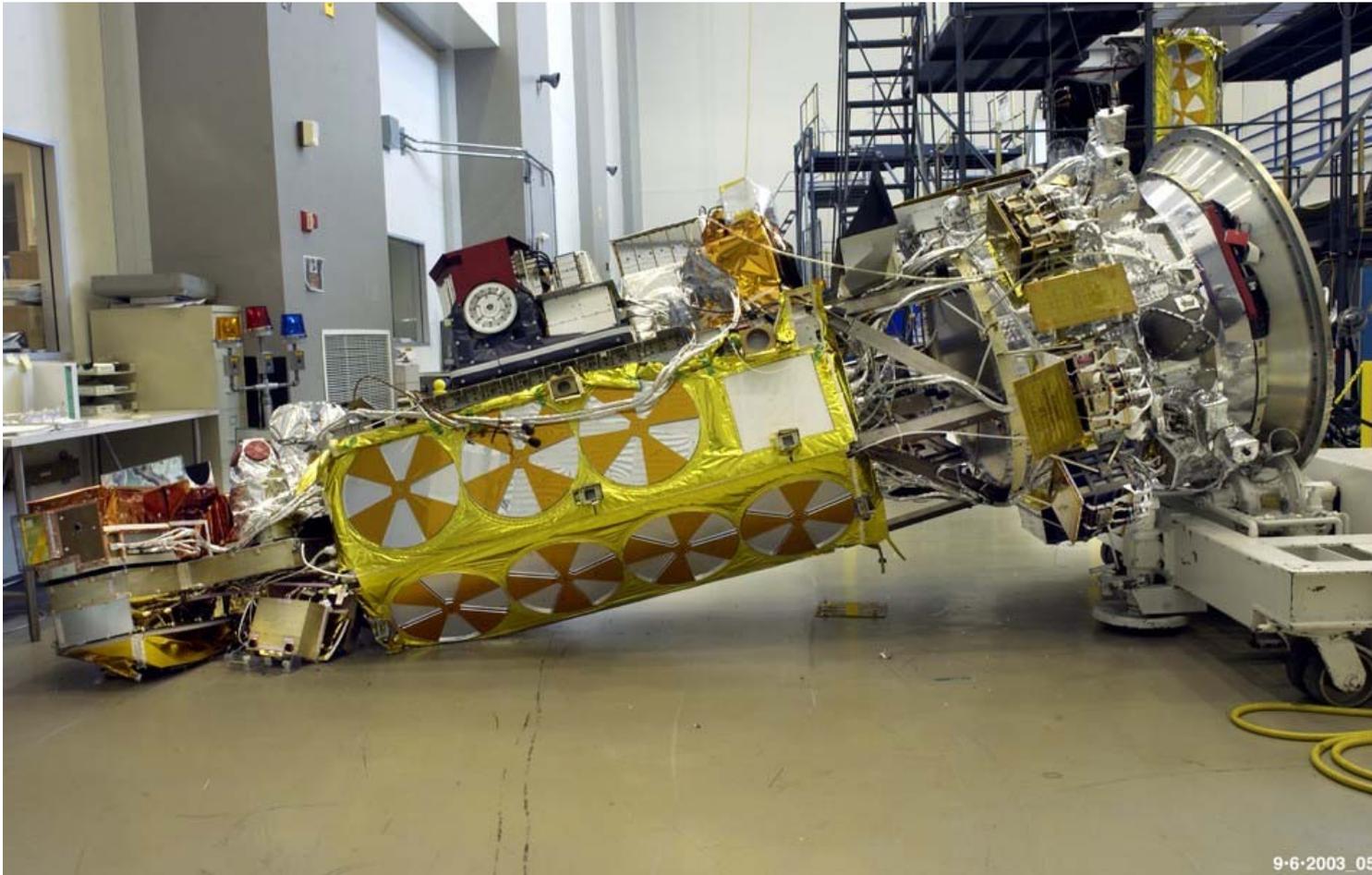
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Management Internal Controls

Internal Controls are Important ...



but people need to use common sense.



Thank You

Slides will be available at

<http://www.acq.osd.mil/pepolicy/>