



Office of the Under Secretary of Defense Acquisition, Technology and Logistics

Managers' Internal Control (MIC) Program Training Session

March 2009



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Introduction

- **Objective**
- **Outline**
- **Terminology**
- **What's new for FY 2009**
 - **Statement of Assurance (SOA)**
 - **Assessment of Acquisition Functions**
 - **Internal Controls Over Financial Reporting (ICOFR)**



Introduction

- **Objective:** Provide comprehensive MIC Program training for OUSD (AT&L) managers and staff.

- **Outline:**
 - Statutory and Regulatory Guidance
 - Roles and Responsibilities
 - Preparing the FY 2009 Statement of Assurance:
 - *Cover Memorandum*
 - **Tab A**, *How the Evaluation Was Conducted*
 - **Tab B**, *Material Weaknesses*
 - **Tab C**, *Systemic Weaknesses*
 - **Tab D**, *ICOFR Material Weaknesses –
Chemical & Biological Defense Program (CBDP)
General Fund (GF)*
 - Appendix



Introduction

- **Terminology:**
 - **Statement of Assurance** = the annual report
 - **statement of assurance** = the management statement of reasonable assurance on internal controls
- **Key Terms:**
 - Internal Controls
 - Assessable Unit
 - Risk
 - Internal Control Assessment
 - Control Deficiency
 - Reportable Condition
 - Material Weakness
 - Systemic Weakness
 - Reasonable Assurance
 - Financial Statement Reporting Entity (FSRE)



Introduction

- **What's new for FY 2009**

- SOA

- Assessment of Acquisition Functions under OMB Circular A-123

- ICOFR

- USD (AT&L) is not a Financial Statement Reporting Entity (FSRE)
- Chemical and Biological Defense Program, General Fund, is a FSRE
 - CBDP reports to USD (AT&L)
 - OUSD (AT&L) provides oversight
- OUSD (AT&L) ARA, I&E and L&MR coordinate on previously identified ICOFR weaknesses for DoD SOA



Statutory and Regulatory Guidance

- Federal Managers' Financial Integrity Act 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



Statutory and Regulatory Guidance

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.
- Requires the Office of Management and Budget, in consultation with the Comptroller General, to establish guidelines for agency evaluation of internal controls.



Statutory and Regulatory Guidance

Federal Managers' Financial Integrity Act of 1982:

- **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.



Statutory and Regulatory Guidance

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-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



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_type=&keyword=GAO%2FAIMD-00-21.3.1



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.
- **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.



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

- **Appendix A requires a management assurance statement that specifically addresses the effectiveness of Internal Controls over Financial Reporting (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 and*
 - *The process, transaction or application level.*
 - Recommends the establishment of a Senior Assessment Team (SAT).
 - Requires ICOFR assurance statements to be completed as of June 30 and reported in the Agency Financial Report (previously called the Performance and Accountability Report).

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:
 - *OUSD (AT&L) created a DoD template*
 - *DoD 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**



Statutory and Regulatory Guidance

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

- **It is DoD policy that a Managers' Internal Control (MIC) Program be 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.
- **The DoD MIC Program is segmented into two distinct processes:**
 - The FMFIA Overall Process
 - The FMFIA Internal Control Over Financial Reporting (ICOFR) Process



Statutory and Regulatory Guidance

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

- **Requires each DoD Component to:**
 - Develop a MIC Program that concludes with the Component Head or principal deputy annually reporting reasonable assurance to the Secretary of Defense about the effectiveness of internal controls.
 - Segment into organizational assessable units and maintain an inventory of these assessable units (updated annually).
 - Assign internal control responsibility to civilian and military leaders (i.e., managers) and provide trained personnel for planning, directing, and implementing the MIC Program. 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.*



Statutory and Regulatory Guidance

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

- **The Overall Process pertains to program, operational, and administrative controls in 16 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.



Statutory and Regulatory Guidance

Annual OUSD (Comptroller) Guidance for Implementing OMB Circular A-123, Appendix A:

- **The ICOFR Process pertains to a 16th functional DoD Reporting Category: Financial Reporting (i.e., 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 (Comptroller).
 - For FY 2009, USD (AT&L) is not a FSRE.
- **The OUSD (Comptroller) FY 2009 Guidance for the Preparation of the SoA identified a 17th DoD Internal Control Reporting Functional Category: Financial Systems Conformance.**



Statutory and Regulatory Guidance

OUSD (Comptroller) FY 2009 Guidance for the Preparation of the SoA

When reporting a material weakness in internal controls, DoD Components must identify which of the following functional DoD 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 (ICOFr only)**
- **Financial System Conformance**



Guidance

- **The annual assessment of internal controls should not be isolated from daily operating and management activities. DoD Components should consider available sources of management evaluation activity, such as:**
 - Evaluations and reports required by the Federal Information Security Management Act and OMB Circular A-130, Management of Federal Information Resources,
 - Reviews and reports required by Government Performance and Results Act,
 - Audits of financial statements required by the Chief Financial Officers Act,
 - Audit, inspection and investigation reports and DoD Hotline complaints,
 - GAO Reports and GAO list of High Risk areas,
 - Management knowledge gained from daily operations,
 - Management reviews conducted to assess internal controls,
 - Other reviews or reports relating to agency operations,
 - Program evaluations,
 - Reports from Congressional committees, and
 - Single Audit reports for grant-making agencies.



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.

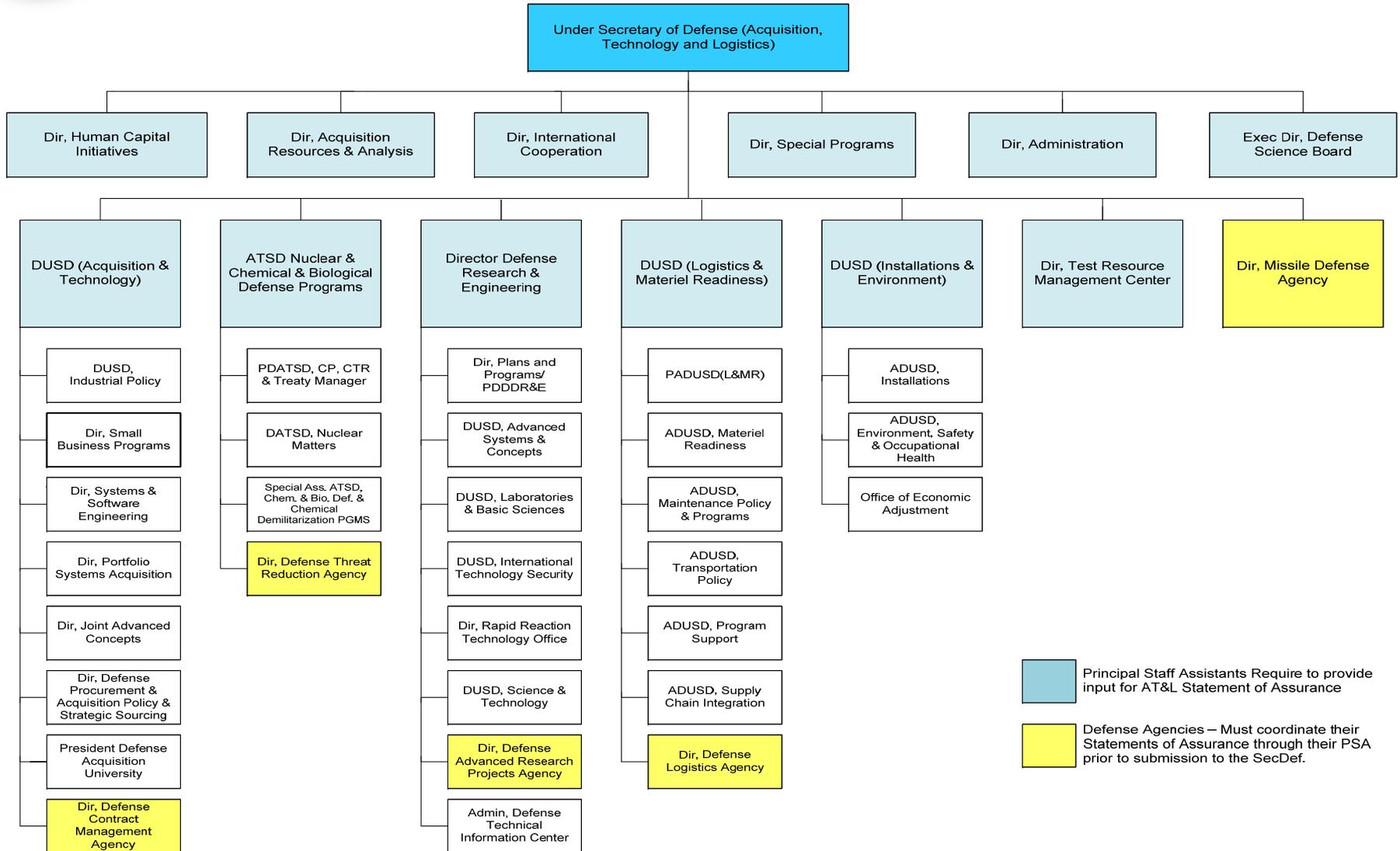
- **OSD Principal Staff Assistants (e.g., the USD (AT&L)):**

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.



Roles and Responsibilities



Principal Staff Assistants Require to provide input for AT&L Statement of Assurance

Defense Agencies – Must coordinate their Statements of Assurance through their PSA prior to submission to the SecDef.



Preparing the FY 2009 Statement of Assurance

- **Annual Guidance**
- **OUSD (AT&L) Statement of Assurance**
- **Cover Memorandum**
- **Tab A, How the Evaluation was Conducted**
 - DoD Approach to Conducting Acquisition Assessments
 - Examples of Internal Control Accomplishments
- **Tab B, Material Weaknesses and Tab C, Systemic Weaknesses**
 - The Material Weakness Format
- **Tab D, ICOFR Material Weaknesses**
- **Material Weakness Tips**
 - Examples
- **The Importance of Your Role**



Preparing the FY 2009 Statement of Assurance

Annual Guidance:

OUSD (Comptroller) guidance *

- FMFIA Overall and Financial Reporting, issued November 13, 2008
- Internal Control Over Financial Reporting (OMB Circular A-123, Appendix A), issued August 22, 2008

Director, Administration & Management guidance, to be issued soon

**Annual OUSD (AT&L) Kick-Off Meeting and Training Session,
March 3, 2009**

* To view the OUSD (Comptroller) annual guidance and other MIC Program information, go to: http://www.defenselink.mil/comptroller/micp_guidance.html



Preparing the FY 2009 Statement of Assurance

OUSD (AT&L) Statement of Assurance:

- **Cover Memorandum**
- **Tab A**, How the Assessment Was Conducted
 - Internal Control Improvements / Accomplishments
- **Tab B**, Material Weaknesses
- **Tab C**, Systemic Weaknesses
- **Tab D**, ICOFR Material Weaknesses - Chemical & Biological Defense Program (CBDP) General Fund (GF)



Preparing the FY 2009 Statement of Assurance

Cover Memorandum:

- Addressed to the Director of Administration and Management.
- Signed by the USD (AT&L)
- Includes the Overall statement of assurance:
 - An **unqualified** statement (“I have reasonable assurance that ...”).
 - *Briefly address the basis for this and provide the details in Tab A.*
 - *There must not be any material weaknesses.*
 - A **qualified** statement (“I have reasonable assurance ...except for ”).
 - *Cite the material weaknesses that preclude an unqualified statement and report them in the appropriate Tab.*
 - A statement of **no assurance** (“I do not have reasonable assurance...”).
 - *Summarize the basis for this conclusion.*



Preparing the FY 2009 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).**
- **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 2009 Statement of Assurance

Tab A, How the Evaluation was Conducted: OMB's New Guidelines

- *“OMB Guidelines for Assessing the Acquisition Function”* - released May 2008 from OMB Office of Federal Procurement Policy (OFPP)
- Purpose is to standardize entity level internal control reviews of acquisition functions under OMB Circular A-123
- Requires use of *Acquisition Assessment Template* - must be incorporated into existing internal control review and reporting processes used to support annual Statement of Assurance

DoD Approach to Conducting Acquisition Assessments

- OUSD (AT&L) created a **DoD template**
- DoD 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**



Preparing the FY 2009 Statement of Assurance

DoD Approach to Conducting Acquisition Assessments (cont.)

- Does not require Components to submit their completed template assessments or require any new reporting ... but, you may be asked to provide your completed templates if there are questions or concerns
- Does require Components to briefly explain how they used the DoD and OMB templates to determine deficiencies and weaknesses, in Tab A of the annual Statement of Assurance
- Components need to develop corrective action plans and report these in your 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
- Components must implement Acquisition Assessments beginning with the FY 2009 cycle

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



Preparing the FY 2009 Statement of Assurance

Tab A, Examples of Internal Control Accomplishments:

- **Description of Issue:**

Accreditation of Defense Acquisition University (DAU) by Council on Occupational Education (COE)

- **Accomplishment:**

- The process of accreditation ensures the quality of DAU's workforce education and development programs. DoD schools are required to be accredited from a body approved by the U.S. Department of Education. DAU completed its second accreditation review in March 2008 and expects reaffirmation by the COE after its Council convenes later this year. DAU received its initial accreditation in 2003.
- The COE evaluation process required DAU to meet eleven categories of standards including: institutional mission and objectives; educational programs; institutional outcomes; strategic planning; learning resources; physical resources; financial resources; human resources; organizational structure; student services and activities; and distance education. COE accreditation indicates DAU meets all elements in eleven categories of requirements (involving over 200+ standards) covering all facets of operations from mission to continuous improvement. COE accreditation is comparable to that of an academic college or university.
- The award of accreditation status is based on an evaluation to demonstrate that the institution meets not only the standards of quality of the Commission, but also the needs of students, the community and employers.



Preparing the FY 2009 Statement of Assurance

Tab A, Examples of Internal Control Accomplishments:

- **Description of Issue:**

Congressional Hearing Information (CHI) Tool

- **Accomplishment:**

- In March 2008, the Director, Acquisition Resources and Analysis' Office of External Customer Support deployed the CHI tool. This tool facilitates OUSD (AT&L)'s hearing Question for the Record/Insert for the Record (QFR/IFR) and transcript review process.
- The CHI tool moves OUSD (AT&L) away from an e-mail assignment process to an automated process which provides an overarching view of QFRs / IFRs in one database accessible to the entire workforce.
- The CHI tool enables the electronic assignment, acceptance or rejection, tracking, posting of response, and recording of coordinations and approvals of each QFR/IFR. The tool also includes key capabilities such as a search feature which enables individuals to search for similar hearing questions and a reporting feature that enables users to pull reports or perform queries on their QFRs. Additionally, the CHI tool will serve as a historical repository for OUSD (AT&L)'s QFR / IFRs.



Preparing the FY 2009 Statement of Assurance

Tab A, Examples of Internal Control Accomplishments:

- **Description of Issue:**
Ensuring Financial Integrity
- **Accomplishment:**
 - Developed a financial SOP for State Support (National Committee for Employer Support for the Guard and Reserve (NCESGR) Instruction, Number 7000.1) which provides guidance to both NCESGR Committee members and headquarters staff and serves as a reference document for the entire NCESGR organization. This document dramatically reduced confusion over what is authorized or not authorized for reimbursement. This saves valuable review time by processing only claims which have identified authorized expenditures. The SOP has also aided in reducing costs by decreasing the number of supplemental claims processed for reimbursement (the same rate is charged to process a transaction whether it is an original submission or a supplemental submission).



Preparing the FY 2009 Statement of Assurance

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

- **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 PSA with functional responsibility for the area in question.



Preparing the FY 2009 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 2009 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 2009 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 2009 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. Completed Milestones Date: Milestone: B. Planned Milestones for Fiscal Year 2010 Date: Milestone: C. Planned Milestones Beyond Fiscal Year 2010 Date: Milestone:



**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 2009 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 2009 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 2010 C. Planned Milestones Beyond Fiscal Year 2010. <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 2009 Statement of Assurance

Tab D, ICOFR Material Weaknesses:

- **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 applies to Federal agencies:**
 - This concept of executive responsibility for financial reporting was extended to Federal agencies.
 - Federal agencies now provide two assurance statements.



Preparing the FY 2008 Statement of Assurance

Tab D, ICOFR Material Weaknesses:

- **OUSD (AT&L) is no longer a Financial Statement Reporting Entity (FSRE)**
- **Chemical and Biological Defense Program, General Fund is a FSRE reportable by OUSD (AT&L)**



Preparing the FY 2009 Statement of Assurance

Tab D, ICOFR Material Weaknesses:

- **Appendix A, Internal Control over Financial Reporting:**
 - Purpose: Provide methodology for agency management to assess, document and report on the internal controls over financial reporting
 - Objectives: Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means management can reasonably assert:
 - *Existence and occurrence*
 - *Completeness*
 - *Rights and obligations*
 - *Validation*
 - *Presentation and Disclosure*
 - *Compliance*
 - *Safeguarding*
 - *Documenting*



Preparing the FY 2009 Statement of Assurance

Tab D, ICOFR Material Weaknesses:

- **Appendix A, Internal Control over Financial Reporting:**
 - Key Elements for Assessing Controls over Financial Reporting:
 - **Establish Senior Assessment Team (SAT)**
 - **Evaluate Internal Controls at the Entity Level** – Assess five components of internal control (*GAO Standards for Internal Controls, GAO/AIMD-00-21.3.1, Standards for Internal Control in the Federal Government, November 1999, Green Book)
 - **Evaluate Internal Controls at the Process, Transaction or Application Level**
 - Determine significant accounts or groups of accounts
 - Identify and evaluate major classes of transactions
 - Understand the financial report process and workflow
 - Understand control design to achieve management's assertions
 - Test effective or moderately effective controls and assess compliance with management's assertions

*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_type=&keyword=GAO%2FAIMD-00-21.3.1



Preparing the FY 2009 Statement of Assurance

Tab D, ICOFR Material Weaknesses:

- **Appendix A, Internal Control over Financial Reporting:**
 - Key Elements for Assessing Controls over Financial Reporting:
 - ***Provide Overall Assessment of the Design and Operation of Internal Control over Financial Reporting*** – *At the entity and process, transaction or application level – are controls operating effectively or do material weaknesses exist in design or operations*
 - ***Reliance on Other Work*** – *Coordinate assessment efforts*
 - ***Documentation*** – *SAT documents its understanding of agency's internal control over financial reporting, process followed to access those controls, and the results of the assessment*
 - ***Management's Assurance Statement***
 - ***Correcting Material Weaknesses***



Preparing the FY 2009 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) annual ICOFR guidance for FY 2009 at: http://www.defenselink.mil/comptroller/micp_guidance.html**
- **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 2009 Statement of Assurance

Tab D, ICOFR Material Weaknesses:

ICOFR PROCESS -- FY 2009 SCHEDULE OF DELIVERABLES	
DUE DATE	DELIVERABLE
<i>Assessing and Documenting</i>	
December 19, 2008	Process Narratives, Flow Charts and Organizational Charts for Assigned Areas; Component-level Control Environment Document; SAT Membership and Charter
March 2, 2009	Risk Analysis Form; FISMA Report (if applicable); List of Auditor-identified Material Weaknesses Related to Financial Reporting
March 2, 2009	Weakness Dependencies Reported in the FIAR Tool Collaboration Site
May 1, 2009	Detailed Test Plans (without results)
June 2, 2009	Corrective Action Plans in the FIAR Tool for Weaknesses Reported in the Collaboration Site
June 29, 2009	Control Assessment Forms (with test results) and ICOFR Tabs of Annual FMFIA SOA
<i>Reporting</i>	
September 1, 2009	ICOFR SOA, as required by FY 2009 Guidance for the Preparation of the SoA.



Preparing the FY 2009 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 2009 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 2009 Statement of Assurance

Material Weakness Example – Pace of Corrective Action:

Pace of Corrective Action:

- Year Identified: FY 2007
- Original Targeted Correction Date: 4th Quarter, FY 2008
- Target Correction Date in Last Year's Report: 4th Quarter, FY 2009
- Current Target Date: 2nd Quarter, FY 2010

Reason for Change in Date:

The target date slipped two quarters because the corrective action plan was revised to include an additional corrective action.



Preparing the FY 2009 Statement of Assurance

Material Weakness Examples – Validation Indicators:

- Internal review by senior leadership in WHS/FMD, in coordination with our financial management partners: DFAS, OUSD (C) / CFO, and the Business Transformation Agency.
- The OSD Chief Information Officer Information Assurance's Independent Verification and Validation Team will conduct readiness reviews of systems for Certification and Accreditation.



Preparing the FY 2009 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 2009 Statement of Assurance

Material Weakness Example – Major Milestones:

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 2010:

<u>Date</u>	<u>Milestone</u>
1 st Qtr, FY 2010	Staff training completed
2 nd Qtr, FY 2010	Policy directive published
4 th Qtr, FY 2010	Validation of Corrective Action Plan

C. Planned Milestones Beyond Fiscal Year 2010: N/A



Preparing the FY 2000 Statement of Assurance

Example of Material Weakness – Eliminations:

- **Description**: The Office of the DCFO is unable to collect, exchange and reconcile buyer and seller intra-governmental transactions, resulting in financial statement adjustments that cannot be verified. This is primarily due to system limitations. The majority of systems currently used within DoD do not allow for capture of buyer-seller information for use in reconciliation and elimination.
- **Validation Indicator**: Extensive testing of intra-governmental transaction reconciliation will be conducted to ensure that accuracy of the elimination process. In addition, DFAS Internal Review will be requested to perform periodic reviews and the IG, DoD will be encouraged to conduct a final audit prior to the interim solution being transferred to the FM enterprise solution.
- **Results Indicator**: DoD will be able to provide detailed support down to the document level for eliminations processed for intra-governmental transactions.



Preparing the FY 2009 Statement of Assurance

Example of Material Weakness – Improper Use of Non-DoD Contracts:

- **Description**: DoD depends on non-DoD agencies for the award of billions of dollars in contracting actions. To mitigate fiscal and contracting irregularities in non-DoD contracting processes, DoD has mandated internal review and approval procedures for all non-DoD contracting actions. Washington Headquarters Services (WHS) is not conducting the required reviews prior to initiating actions with non-DoD contracting organizations.
- **Validation Indicator**: A comparison of non-DoD actions from WHS Financial Management Division databases against the non-DoD actions reviewed by the WHS Acquisition and Procurement Office.
- **Results Indicator**: WHS complies with the review requirements defined in OI 50-2, “Proper Use of Non-DoD Vehicles and Other Interagency Contracts.”



Preparing the FY 2009 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.**



Thank You

**Managers' Internal Control Program
Training Session**



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.
- **Assessable Unit:**
An organizational subdivision of a DoD Component that must comply with the MIC Program. Note that Components:
 - Must segment into organizational assessable units
 - All parts of the DoD Component must be covered
 - Must maintain a current inventory of its assessable units
- **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).



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 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):** 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.



Appendix

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's judgment as to whether a weakness is material.

- **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.



Appendix

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.