



ADMINISTRATION AND  
MANAGEMENT

OFFICE OF THE SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1950

MAR 4 2009

MEMORANDUM FOR UNDER SECRETARIES OF DEFENSE  
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ASSISTANT SECRETARIES OF DEFENSE  
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE  
DIRECTOR, OPERATIONAL TEST AND EVALUATION  
ASSISTANT TO THE SECRETARY OF DEFENSE  
(INTELLIGENCE OVERSIGHT)  
DIRECTOR, PROGRAM ANALYSIS AND EVALUATION  
DIRECTOR, NET ASSESSMENT  
DIRECTOR, JOINT IMPROVISED EXPLOSIVE DEVICE  
DEFEAT ORGANIZATION

SUBJECT: Guidance for Preparation of the FY 2009 Statement of Assurance

This memorandum conveys the guidance for preparing the FY 2009 Statement of Assurance (SOA). Part I of the attached guidance provides information on how to prepare your FY 2009 SOA, and Part II provides scorecard information on how the Component SOAs will be graded this year. DoD Components are required to submit to the Secretary of Defense an annual SOA signed by the Component Head. This is a standing requirement of DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," dated January 4, 2006, which provides policy and procedures for the MIC Program to comply with the Federal Managers' Financial Integrity Act of 1982.

The Office of the Director, Administration and Management (ODA&M), compiles the annual SOA for the Office of the Secretary of Defense (OSD) Principal Staff Assistants (PSAs) and the DoD Field Activities. These organizations must provide a FY 2009 SOA signed by the OSD PSA or the Principal Deputy, with an assessment of the internal control systems in place for the OSD staff elements and DoD Field Activities under their cognizance. The OSD PSAs also must address the DoD systemic weaknesses falling within their areas of functional responsibility, as well as any new systemic weaknesses, in their FY 2009 Statements.

Statements from DoD Field Activities, signed by the Director or Deputy Director, shall be submitted through their respective OSD PSAs. Please note that OSD PSAs may set earlier internal due dates for their DoD Field Activities as they deem necessary to complete this requirement on time. Statements from the OSD PSAs are due to the ODA&M, Organizational and Management Planning Directorate, by Friday, July 10, 2009, in both paper copy and an electronic version (disk or e-mail). No extensions can be given to this suspense.

In prior years, Defense Agency SOAs were addressed to the Secretary of Defense and submitted directly to the DoD Program Manager, who assembles the overall DoD SOA for the Secretary of Defense. Beginning in FY 2008, Defense Agencies were directed by the DoD Program Manager to submit their SOAs through their respective OSD PSAs, prior to reporting



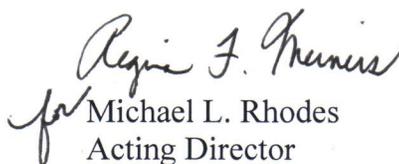
to the Secretary of Defense. To expedite this process, Defense Agencies were requested to provide their SOAs to the PSAs' MIC Program coordinators who would, in turn, assist them in getting the SOAs through the PSA or Principal Deputy. However, it remains the responsibility of the Defense Agencies to meet suspenses and track their SOAs through final submission. This requirement will continue for the FY 2009 reporting requirement.

All OSD PSAs and DoD Field Activities must comply with the attached guidance. In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO), the Under Secretary of Defense (Personnel and Readiness) (USD(P&R)), and the Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)) are required to submit a separate SOA for their Financial Statement Reporting Entities (FSREs) in accordance with separate guidance issued by the USD(C)/CFO. OSD has responsibility for six FSREs as follows: The USD(C)/CFO will include a SOA for the Agency-wide Financial Statement Compilation Process FSRE; the USD(P&R) will include SOAs for the Military Retirement Trust Fund General Fund, the Medicare Eligible Retirement Health Care General Fund, and the Defense Health Program General Fund FSREs; and the USD(AT&L) will include a SOA for the Chemical and Biological Defense Program General Fund FSRE.

You are reminded that prompt resolution of previously-reported material or systemic weaknesses is a hallmark of good stewardship. To focus on prompt resolution, the Department has instituted a quarterly update of previously-reported material or systemic weaknesses. OSD PSAs are encouraged to ensure that their staffs comply with this requirement.

If you have had a turnover in the MIC Program coordinators this past year, please provide the names and contact information to Ms. Paula Rebar at 703-614-4219, e-mail [Paula.Rebar@osd.mil](mailto:Paula.Rebar@osd.mil).

We appreciate your cooperation and attention to this year's SOA.

  
for Michael L. Rhodes  
Acting Director

Attachments:

As stated

cc:

Director, Defense Media Activity  
Director, Defense Prisoner of War/Missing Personnel Office  
Director, Defense Technical Information Center  
Director, Defense Technology Security Administration  
Director, Department of Defense Education Activity  
Director, Department of Defense Human Resources Activity  
Director, Test Resource Management Center  
Director, TRICARE Management Activity  
Director, Washington Headquarters Services

**PART I**

**GUIDANCE**

**FOR THE PREPARATION OF THE**

**FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)**

**ANNUAL STATEMENT OF ASSURANCE**

**FOR THE**

**OFFICE OF THE SECRETARY OF DEFENSE (OSD)**

**AND THE**

**DOD FIELD ACTIVITIES**

**FISCAL YEAR 2009**

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## REQUIREMENT

### ANNUAL STATEMENT OF ASSURANCE (SOA) FOR THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) FOR THE OFFICE OF THE SECRETARY OF DEFENSE (OSD) PRINCIPAL STAFF ASSISTANTS (PSAs) AND THEIR DoD FIELD ACTIVITIES

#### (ASSURANCE ON EFFECTIVENESS OF INTERNAL MANAGEMENT CONTROLS "OVER NON-FINANCIAL OPERATIONS" AND "OVER FINANCIAL REPORTING")

In accordance with Department of Defense (DoD) Instruction 5010.40, "Managers' Internal Control Program Procedures," the DoD Federal Managers' Financial Integrity Act (FMFIA) "Over Non-Financial Operations" Statement of Assurance (SOA) will disclose material weaknesses identified through an assessment that tests the effectiveness of the OSD Principal Staff Assistants' (PSAs)/DoD Field Activities' internal management controls for all mission essential programs, administrative, and operational activities, except financial reporting activities, and describe the plans and schedules to correct those weaknesses. See guidelines beginning on page 9 of this guidance.

Only those OSD PSAs that have Financial Statement Reporting Entities (FSREs) that are listed on page 9 of this guidance will be required to provide the FMFIA "Over Financial Reporting" SOA on the effectiveness of internal management controls over financial reporting for each FSRE as well as the "Over Non-Financial Operations" SOA. **The OSD PSA or Principal Deputy must sign the SOA.** This signature authority may not be delegated below the Principal Deputy level. **For Field Activities, the Director or the Deputy Director must sign the statement. All submissions from the DoD Field Activities must be submitted through their respective OSD PSAs.** The FY 2009 Guidance for the Internal Controls Over Financial Reporting As Required by the Office of Management and Budget Circular No. A-123, Appendix A, explains how to conduct an assessment of internal management controls over financial reporting and is available at this website: [http://www.defenselink.mil/comptroller/micp\\_guidance.html](http://www.defenselink.mil/comptroller/micp_guidance.html).

Last year, all MIC Program coordinators were provided with an electronic copy of the FY 2008 OSD and DoD Field Activities SOA, as well as hard copies of the statement for those who requested it. Another reference is the FY 2008 DoD Statement of Assurance, which is available at the Defenselink at: <http://www.defenselink.mil/>. Special Reports are listed on the left; go to the "FY 2008 Agency Financial Report". The FY 2008 DoD SOA is in three sections of the FY 2008 Agency Financial Report. For the complete FY 2008 DoD SOA, see Section 1, Management's Discussion and Analysis, pages 16 and 17; Section 3, Other Accompanying Information, pages 128 through 131; and Detailed Federal Managers' Financial Integrity Act Information for Section 3, all pages.

**Submission Date: The suspense date is not later than Friday, July 10, 2009, with no extensions given. DoD Component Heads (of which OSD is one) must submit their SOAs to the DoD Program Coordinator not later than September 1, 2009. Therefore, the due date for OSD PSAs and their DoD Field Activities is set for July 10, 2009.** The

**DoD Field Activities must have their SOAs submitted to their respective PSAs in sufficient time to allow a PSA review, so due dates may be set earlier by the respective PSAs.**

All reporting entities must submit their SOAs following the format and content requirements of this guidance. Each reporting entity must provide both electronic and hard copies of its FFY 2009 SOA. The electronic version should be e-mailed to [Paula.Rebar@osd.mil](mailto:Paula.Rebar@osd.mil). For SOAs exceeding 100 pages in length, please submit them on disk rather than by electronic mail. **The hard and electronic versions of the SOAs must be submitted to the following address:**

Office of the Secretary of Defense  
Director, Administration and Management (DA&M)  
Room 3A866, The Pentagon  
Washington, DC 20301-1950  
Attention: Managers' Internal Control Program Coordinator

In prior years, Defense Agency SOAs were addressed to the Secretary of Defense and submitted directly to the DoD Program Manager, who assembles the overall DoD SOA for the Secretary of Defense. Beginning in FY 2008, Defense Agencies were directed to submit SOAs through their respective OSD PSAs. Defense Agency SOAs will be submitted through their respective PSA's MIC Program coordinators who will, in turn, assist the Defense Agencies in getting the SOAs through the PSA or the Principal Deputy. However, it remains the responsibility of the Defense Agencies to meet suspenses and track their SOAs through final submission. Please note that Defense Agency SOAs, once approved by their OSD PSAs, will be submitted directly to the DoD Program Coordinator.

Since FY 2003, the Department has used a scorecard to grade the performance of the DoD Components' SOAs. The scorecard grades five categories: 1) Timeliness; 2) Format, to include accuracy and completeness of the report; 3) Extent of organization-wide program execution; 4) Extent of organization-wide training conducted; and 5) Weakness reporting, which includes full disclosure and prompt resolution of previously-reported weaknesses. The scorecard criteria for FY 2009 are contained in Part II of this guidance.

Timely reporting is essential. Late statements jeopardize the entire Department's ability to meet the OMB deadlines. PSAs are encouraged to submit their SOAs on or in advance of the suspense date of July 10, 2009.

**TABLE 1**

**OSD PSAs/DoD FIELD ACTIVITIES REQUIRED TO SUBMIT FY 2009 FMFIA  
“OVER NON-FINANCIAL OPERATIONS” SOAs TO THE OSD DIRECTOR OF  
ADMINISTRATION AND MANAGEMENT (DA&M)**

<b>Reporting Entities Required to Submit FMFIA “Over Non-Financial Operations” SOAs</b>
Comptroller - USD(C)/CFO
Policy - USD(P) <ul style="list-style-type: none"><li>• Defense Technology Security Administration - DTSA</li><li>• Defense Prisoner of War/Missing Personnel Office - DPMO</li></ul>
Intelligence - USD(I)
Personnel & Readiness - USD(P&R) <ul style="list-style-type: none"><li>• DoD Education Activity - (DoDEA)</li><li>• Defense Human Resources Activity - (DHRA)</li><li>• Tricare Management Agency - (TMA)</li></ul>
Deputy Chief Management Officer - (DCMO)
Acquisition, Technology, and Logistics - USD(AT&L) (Includes Office of Economic Adjustment) <ul style="list-style-type: none"><li>• Defense Technical Information Center - (DTIC)</li><li>• Defense Test Resource Management Center - (TRMC)</li></ul>
Public Affairs - ASD(PA) <ul style="list-style-type: none"><li>• Defense Media Activity - (DMA)</li></ul>
Legislative Affairs - ASD(LA)
Networks and Information Integration - ASD(NII)
General Counsel of the Department of Defense - (GC DoD) <ul style="list-style-type: none"><li>• Defense Legal Services Agency - (DLSA)</li></ul>
Director, Program Analysis and Evaluation - (PA&E)
Director, Operational Test and Evaluation - (DOT&E)
Director, Net Assessment - (NA)
Director, Administration and Management - (DA&M) <ul style="list-style-type: none"><li>• Washington Headquarters Services - (WHS)</li></ul>
Assistant to the Secretary of Defense (Intelligence Oversight) - (ATSDIO)
Director, Joint Improvised Explosive Device Defeat Organization - (JIEDDO) * * new report for FY 2009

**TABLE 1A**

**DoD COMPONENTS REQUIRED TO SUBMIT FY 2009 SOAs  
TO THE SECRETARY OF DEFENSE**

<b>SOAs “Over Financial Reporting” ONLY</b>
DoD Financial Reporting (under the DoD Senior Assessment Team)
<b>Statement of Assurance “Over Non-Financial Operations” ONLY</b>
Business Transformation Agency
Defense Contract Management Agency
Defense Security Cooperation Agency
Joint Staff
Multi-National Forces – Iraq
National Defense University
North American Aerospace Defense/United States Northern Command
Pentagon Force Protection Agency
United States Africa Command
United States European Command
United States Transportation Command
United States Pacific Command
United States Southern Command
United States Joint Forces Command
United States Central Command
United States Strategic Command
<b>SOAs “Over Non-Financial Operations” and “Over Financial Reporting”</b>
Office of the Secretary of Defense (Prepared by Director of Administration and Management)
Department of the Army
Department of the Navy (Includes Marine Corps)
Department of the Air Force
United States Special Operations Command
Defense Advanced Research Projects Agency
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Defense Information Systems Agency
Defense Intelligence Agency
Defense Logistics Agency
Defense Security Service
Defense Threat Reduction Agency
Office of the Inspector General, Department of Defense
Missile Defense Agency
National Geospatial - Intelligence Agency
National Security Agency/Central Security Service

## TABLE 2

### DEFENSE AGENCIES REQUIRED TO COORDINATE THROUGH OSD PSAs PRIOR TO REPORTING TO THE SECRETARY OF DEFENSE

Beginning in FY 2008, DoD Agencies were required to submit their SOAs through their respective OSD PSAs prior to reporting to the Secretary of Defense. To help complete the coordination process, the Defense Agency SOAs should be provided to the PSAs' MIC Program coordinators as stipulated by the respective PSAs. The Program coordinators will then assist in getting the SOAs through the PSA or Principal Deputy. However, it remains the responsibility of the Agencies to meet suspenses and track their SOAs through final submission.

<b>PSAs Aligned with Their Defense Agencies</b>
<b>Comptroller - USD(C)/CFO</b> <ul style="list-style-type: none"> <li>• Defense Contract Audit Agency</li> <li>• Defense Finance and Accounting Service</li> </ul>
<b>Policy - USD(P)</b> <ul style="list-style-type: none"> <li>• Defense Security Cooperation Agency</li> </ul>
<b>Intelligence - USD(I)</b> <ul style="list-style-type: none"> <li>• National Geo-Spatial Intelligence Agency</li> <li>• National Security Agency/Central Security Service</li> <li>• Defense Intelligence Agency</li> <li>• Defense Security Service</li> </ul>
<b>Personnel and Readiness - USD(P&amp;R)</b> <ul style="list-style-type: none"> <li>• Defense Commissary Agency</li> </ul>
<b>Deputy Chief Management Officer - (DCMO)</b> <ul style="list-style-type: none"> <li>• Business Transformation Agency</li> </ul>
<b>Acquisition, Technology, and Logistics - USD(AT&amp;L)</b> <ul style="list-style-type: none"> <li>• Defense Logistics Agency</li> <li>• Defense Threat Reduction Agency</li> <li>• Defense Advanced Research Projects Agency</li> <li>• Missile Defense Agency</li> <li>• Defense Contract Management Agency</li> </ul>
<b>Networks and Information Integration - ASD(NII)</b> <ul style="list-style-type: none"> <li>• Defense Information Systems Agency</li> </ul>
<b>Director of Administration and Management - (DA&amp;M)</b> <ul style="list-style-type: none"> <li>• Pentagon Force Protection Agency</li> </ul>

Note: The National Defense University will continue to report directly to the Secretary of Defense without prior coordination as specified by their higher headquarters at the Joint Staff.

**TABLE 3**

**OSD PSAs AND THEIR RESPECTIVE FINANCIAL STATEMENT REPORTING ENTITIES (FSREs) WITH REQUIREMENT TO SUBMIT FY 2009 FMFIA “OVER FINANCIAL REPORTING” SOAs**

Table 3 below lists the OSD PSAs and their respective FSREs. PSAs must submit the FMFIA “Over Financial Reporting” SOAs for each FSRE. The format for preparing the FMFIA “Over Financial Reporting” SOA is included in this guidance.

<b>OSD SOA</b>	<b>Financial Statement Reporting Entity (FSRE) and Its Responsible PSA</b>
Office of the Secretary of Defense (OSD) (Director of Administration and Management)	1. Agency-wide Financial Statement Compilation Process Under Secretary of Defense (Comptroller)
	2. Military Retirement Trust Fund (MRTF) General Fund (GF)/ Under Secretary of Defense (Personnel and Readiness)
	3. Medicare Eligible Retirement Health Care Fund (MERHCF) GF/Assistant Secretary of Defense (Health Affairs)/Under Secretary of Defense (Personnel and Readiness)
	4. Defense Health Program (DHP) GF/Assistant Secretary of Defense (Health Affairs)/Service Medical Activity Under Secretary of Defense (Personnel and Readiness)
	5. Defense Health Program (DHP) GF/ Assistant Secretary of Defense (Health Affairs)/Tricare Management Activity Under Secretary of Defense (Personnel and Readiness)
	6. Chemical Biological and Defense Program (CBDP) GF/ Under Secretary of Defense (Acquisition, Technology, and Logistics)

# GUIDELINES

## FMFIA “OVER NON-FINANCIAL OPERATIONS” SOA

The FMFIA “Over Non-Financial Operations” SOA will disclose material weaknesses identified through assessments of the effectiveness and efficiency of operations and compliance with applicable laws and regulations for all mission-essential programmatic, administrative, and operational activities, except financial reporting. This SOA will describe the plans and schedules to correct any material weaknesses reported.

The SOA is effective *as of the date the statement is signed*. If a material weakness is expected to be corrected within the 4<sup>th</sup> Quarter of FY 2009 but all actions are not completed as of the date the SOA is signed, the OSD PSA or Principal Deputy (Director or Deputy Director of DoD Field Activities) should report the material weakness as still ongoing and reschedule the completion in the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> or 4<sup>th</sup> Quarter, FY 2009. In order to meet projected milestones, reporting entities should use caution in projecting the 4<sup>th</sup> Quarter as the completion date if the entity routinely concludes the SOA process in the 3<sup>rd</sup> Quarter.

The list of OSD PSAs (and their respective DoD Field Activities) required to submit FMFIA “Over Non-Financial Operations” SOAs is shown on Table 1 on page 6 of this guidance. Each FMFIA “Over Non-Financial Operations” SOA submission shall consist of the following:

1. A memorandum **addressed to the OSD Director of Administration and Management, and signed by the PSA or the Principal Deputy**, providing the assessment by the reporting entity’s senior leader on whether there is reasonable assurance that the reporting entity’s internal management controls are in place, operating effectively, and being used for all mission-essential programs, administrative, and operational activities, except financial reporting, which includes the effectiveness and efficiency of operations and compliance with applicable laws and regulations. DoD Field Activity SOAs must be signed by the Director or Deputy Director and submitted to their respective OSD PSAs. If the DoD reporting entity is identified as having a FSRE (See Table 3 on page 9), the DoD reporting entity must also follow the guidelines for the FMFIA “Over Financial Reporting” SOA beginning on page 34. The FMFIA “Over Non-Financial Operations” SOA must take one of the following three forms: (See Template 1 and Example 1 on pages 13 through 15 in Part 1 of this guidance.)

a. An unqualified SOA (reasonable assurance with no material weaknesses reported). Each unqualified SOA shall provide a firm basis for that position, which the PSA or Principal Deputy (the Director or Deputy Director for DoD Field Activities) will summarize in the cover memorandum. Tab A will contain a more extensive explanation of how the assessment helped justify the reporting entity’s assertion of an unqualified statement.

b. A qualified SOA (reasonable assurance with the exception of one or more material weakness(es) noted). The cover memorandum must cite the material weaknesses in internal management controls that preclude an unqualified statement. Tab B will fully

describe all weaknesses, the corrective actions being taken, and by whom, and the projected dates of correction for each action.

c. A statement of no assurance (no reasonable assurance because no assessments were conducted or the noted material weaknesses are pervasive). The reporting entity shall provide an extensive rationale for this position.

2. Tab A: A description of how the DoD reporting entity conducted its assurance evaluation only for the FMFIA “Over Non-Financial Operations” and, based on that evaluation, a statement describing how the reporting entity achieved this level of reasonable assurance. See Template 2 beginning on page 19 in Part I of this guidance. In addition Tab A should include a brief summary of the most significant actions taken by the DoD reporting entity during FY 2009 to strengthen specific internal management controls, the MIC Program execution, the internal management controls training, and other improvements. Examples of other improvements are the protection of government assets, efficiency of operations, conservation of resources, and improvements to customer needs.

3. Tab B-1: A list of the titles of all uncorrected and corrected material weaknesses. See Template 3 and Example 2 on pages 24 and 25 in Part I of this guidance.

4. Tab B-2: Detailed narrative descriptions of all uncorrected material weaknesses including the plans and schedules for the corrective action(s). Include those weaknesses identified during the current year and those disclosed in prior years with updated information. Narratives for updating material weaknesses identified in prior years will explain the rationale for any changes to previously-reported corrective milestone dates. See Template 4 and Example 3 on pages 26 through 30 of this guidance.

5. Tab B-3: A brief narrative describing the material weaknesses corrected in the current year, including the most significant actions taken to correct the weakness. This section will include all material weaknesses corrected in FY 2009 that were identified in either current or prior year(s). For each corrected material weakness, the last milestone will describe the method used to validate the corrective action to include a certification that the corrective action has effectively resolved the weakness. See Template 5 and Example 4 on pages 31 through 33 of this guidance.

6. Tab C: **Used only by the OSD PSAs/Director of Administration and Management in reporting “Non-Financial Reporting” Systemic Weaknesses for the OSD SOA.** “Non-Financial Reporting” systemic weaknesses are defined as those weaknesses that materially affect internal management controls, usually affecting multiple DoD Components and are reported by more than one DoD Component or by the OSD PSA as pervasive problems across the Department of Defense. “Non-Financial Reporting” systemic weaknesses, as the name implies, include all systemic weaknesses except those being assessed under the auspices of the Appendix A for financial reporting. As of FY 2009, there are five ongoing “Non-Financial Reporting” systemic weaknesses that were reported in the FY 2008 DoD SOA. The OSD PSAs must identify and/or report to the OSD DA&M the status for any systemic weakness that falls within their areas of functional responsibility. **In their FY 2009**

**SOAs, the OSD PSAs must use the identical title and description as listed below.** Failure to do so causes confusion in reporting and could reflect negatively on the OSD SOA scorecard in the category of format. The DA&M will then consolidate and report their status in the OSD SOA using the weakness status format as described in the Tab B format on pages 23 through 33 in Part I of this guidance.

The five ongoing “Non-Financial Reporting” systemic weaknesses reported in the FY 2008 SOA are:

1. **Management of Information Technology and Assurance** – The Department of Defense information systems are potentially vulnerable to an information warfare attack. In addition, the Department has reported this issue as a “significant deficiency” under the reporting requirements of the Federal Information Security Management Act. (Office of the Assistant Secretary of Defense (Networks and Information Integration))
2. **Personnel Security Investigations Program** – The Department of Defense hiring is adversely affected because personnel security investigations are backlogged. (Office of the Under Secretary of Defense (Intelligence))
3. **Department of Defense Contracting** – The Office of the Inspector General of the Department of Defense and the Government Accountability Office have identified deficiencies in the policy for, and the execution of, procurement for services. (Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics))
4. **Certain Audits Do Not Meet Professional Standards** – As a result of hotline complaints, Government Accountability Office Report 08-857 was issued on July 22, 2008, and concluded that certain Defense Contract Audit Agency audits at three locations did not meet professional audit standards of the Generally Accepted Government Auditing Standards. (Office of the Under Secretary of Defense (Comptroller))
5. **Department of Defense Financial Management Systems and Processes** – The Department of Defense financial and business management systems and processes are costly to maintain and operate, not fully integrated, and do not provide information that is reliable, timely, and accurate. In addition, the Department has reported this issue as noncompliance with the Federal Financial Management Improvement Act of 1996. (Office of the Under Secretary of Defense (Comptroller))

## TEMPLATE 1

### FMFIA SOA WHEN NO SOA “OVER FINANCIAL REPORTING” IS REQUIRED

#### SAMPLE MEMORANDUM

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT  
**(PSAs and DoD Field Activities must address the cover memorandum to the OSD DA&M and follow the format for the memorandum as prescribed. The memorandum may be returned for revision if addressed to other than the OSD DA&M, which could adversely affect the accuracy and timeliness of the SOA.)**

SUBJECT: Annual Statement Required under the Federal Managers’ Financial Integrity Act (FMFIA)

As **(title of PSA/Principal Deputy or Director/Deputy Director of DoD Field Activity)** of **(name of reporting entity)**, I recognize that the **(name of reporting entity’s)** management is responsible for establishing and maintaining effective internal management controls to meet the objectives of the Federal Managers’ Financial Integrity Act (FMFIA). I am able to provide **[the statement must take one of three forms: an unqualified statement of reasonable assurance (no material weaknesses being reported); a qualified statement of reasonable assurance (one or more material weaknesses being reported); or no assurance (no processes in place to assess the internal management controls or pervasive material weaknesses that cannot be assessed)]** that the **(name of reporting entity)** internal management controls meet the objectives of FMFIA overall programs, administrative, and operations **(if qualified)** with the exception of **(number)** material weakness(es) described in Tab B. These material weaknesses were found in the internal management controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in Tab B, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal management controls.

**The PSA’s/DoD Field Activity’s statement will include the following paragraph only if the reporting entity identified material weaknesses, either in the current fiscal year or past fiscal years:**

The **(name of reporting entity’s)** FMFIA evaluation did identify material weaknesses. Tab B-1 is a list of material weaknesses that still require corrective action and those corrected during the period. Tab B-2 is an individual narrative for each uncorrected material weakness listed in Tab B-1. **(Include the previous two sentences if your reporting entity has any uncorrected material weaknesses.)** Tab B-3 is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your reporting entity corrected any material weaknesses during the past fiscal year.)**

**(The statement must include the following:)** Tab A provides additional information on how the **(name of reporting entity)** conducted the assessment of internal management controls for the FMFIA overall non-financial operations, which was conducted according to

OMB Circular A-123, “Management’s Responsibility for Internal Control.” In addition, Tab A provides a summary of the significant accomplishments and actions taken to improve **(name of reporting entity’s)** internal management controls during the past year.

**(Signature of OSD PSA or Principal Deputy)**  
**(Signature of Director or Deputy Director for DoD Field Activities)**

## EXAMPLE 1

### FMFIA SOA WHEN NO SOA “OVER FINANCIAL REPORTING” IS REQUIRED

#### MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT

SUBJECT: Annual Statement Required under the Federal Managers’ Financial Integrity Act (FMFIA)

As Director of the Defense Aircraft Agency, I recognize that the Defense Aircraft Agency’s management is responsible for establishing and maintaining effective internal management controls to meet the objectives of the Federal Managers’ Financial Integrity Act (FMFIA). I am able to provide a qualified statement of reasonable assurance that the Defense Aircraft Agency internal management controls meet the objectives of FMFIA overall programs, administrative, and operations with the exception of three unresolved material weaknesses described in Tab B. These material weaknesses were found in the internal management controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in Tab B, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal management controls.

The Defense Aircraft Agency’s FMFIA evaluation did identify material weaknesses. Tab B-1 is a list of material weaknesses that still require corrective action and those corrected during the period. Tab B-2 is an individual narrative for each uncorrected material weakness listed in Tab B-1. Tab B-3 is an individual narrative for each material weakness corrected during the period.

Tab A provides information on how the Defense Aircraft Agency conducted the assessment of internal management controls for the FMFIA over non-financial operations, which was conducted according to OMB Circular No. A-123, “Management’s Responsibility for Internal Control”. In addition, Tab A provides a summary of the significant accomplishments taken to improve the Defense Aircraft Agency’s internal management controls during the past year.

Jane Deer  
Director, Defense Aircraft Agency

## GUIDELINES

### MANAGING AN EFFECTIVE MANAGERS' INTERNAL CONTROL PROGRAM

The Managers' Internal Control (MIC) Program is mandatory for all sub-organizations within the reporting entity's chain of command, which are known as "assessable units." Failure of any assessable unit manager, which is the head of the assessable unit, to comply with the requirements of the DoD Instruction (DODI) 5010.40, "Managers' Internal Control Program Procedures," dated January 4, 2006, and this annual guidance is the responsibility of the OSD PSA or the Director of the DoD Field Activity.

Assessable unit managers must assign an adequately trained coordinator to help effectively run their MIC Program, respond to higher headquarter requirements, and communicate and help educate the members of the assessable unit using various techniques. The assessable unit managers should ensure that the coordinators receive adequate training on their responsibilities.

The Department's Check It Campaign, which began in July 2006, has helped heighten the awareness of the importance of internal management controls. The slogan of the Check It Campaign is: *Check It. What gets checked, gets done.* More information is available on the website: [http://www.defenselink.mil/comptroller/micp\\_checkItCampaign.html](http://www.defenselink.mil/comptroller/micp_checkItCampaign.html).

### CONCEPTUALIZING A MATERIAL WEAKNESS FOR FMFIA "OVER NON-FINANCIAL REPORTING" ONLY

#### For FMFIA "Over Non-Financial Operations" only:

Each manager is responsible for establishing internal management controls in his or her area of responsibility and continuously assessing the effectiveness of the internal controls to meet intended mission objectives. Reporting entities are expected to conduct, as a minimum, annual independent assessments that may identify internal management controls weaknesses; however, management should avoid duplication of ongoing reviews or inspections of internal management controls. **Continuous monitoring, supplemented by periodic assessments, must be documented and maintained in enough detail to support management's assertion as to the effectiveness of internal management controls.** In addition, management is required to keep, and be able to provide, a documented audit trail of assessments.

Managers will identify, track, and resolve deficiencies and reportable conditions, which are also known as significant deficiencies. Managers will only report material weaknesses deemed serious enough in nature to warrant reporting to the next higher level. When determining a material, weakness, leadership should consider the following as indicators that can be used in deciding whether a weakness is considered material.

- 1) Actual or potential loss of resources.
- 2) Sensitivity of the resources involved.
- 3) Magnitude of funds, property, or other resources involved.
- 4) Current or probable media interest or adverse publicity.

- 5) Current or probable Congressional interest.
- 6) Unreliable information causing unsound management decisions.
- 7) Diminished credibility or reputation of management.
- 8) Impaired fulfillment of essential mission or operations.
- 9) Violation of statutory or regulatory requirements.
- 10) Impacts on information security.
- 11) Instances where the public is deprived of needed Government services.

The designation of a material weakness is a management judgment that should be based on relative risk. Although the appearance of a weakness in an audit report does not necessarily warrant reporting it as a material weakness, **OMB Circular No. A-123 states that serious consideration should be given to the views of the Inspector General.**

Only documented material weaknesses that follow the Tab B format prescribed on pages 23 through 33, will be recognized by the Department as reported material weaknesses. Any issues classified otherwise; e.g., “areas of concern,” will not be deemed as material weaknesses, but rather for managerial information purposes only.

Once a material weakness is reported by a reporting entity, there must be status reports provided annually. The final status report must indicate that the material weakness was corrected and include a description of the validation technique. The validation may either be a documented independent audit review or the accomplishment of a pre-established, reported metric. When a function has been officially transferred to another reporting entity, the losing organization can report the material weakness as “closed,” provided that the reporting entity has no remaining actions to fulfill in resolving the material weakness. The gaining organization should seriously consider reporting any material weakness that existed prior to the transfer of the function.

Once reported, material weaknesses should never reappear as a new, re-titled weakness even when a subsequent audit report has revealed new instances of the same problem. Instead, the original weakness should reflect that it was completed. The new instance should retain the same name as the original weakness but show a new date identified. For example, consider a material or systemic weakness that a reporting entity originally identified in FY 2000 and corrected in FY 2003. Then in FY 2009, audit reports identify related problems, and the reporting entity wants to report it as a new material weakness in FY 2009. The material weakness should retain the same title as the original, but the “Year Identified” date would now appear as FY 2009, not FY 2000.

Reporting entities should be careful in defining and setting the scope of the material weakness problem. For example, if the deficiency is due to inadequate controls for effectively implementing the equal employment opportunity (EEO) requirements, the reported weakness and milestones should address that problem. It is incorrect to define the problem in a broad category such as the civilian hiring practices, and then include corrective actions that narrowly address the deficiency in the EEO requirements. In this case, the definition and specification of the weakness scope is too broad.

Sometimes it is preferable to address several related problems in one weakness statement. However, reporting entities should be cautious when defining a weakness. For example, in addition to the hypothetical weakness stated above, a reporting entity might have concluded that there are other control problems related to civilian hiring practices. Combining several problems and reporting one weakness under a broad statement that the reporting entity will correct deficiencies in civilian hiring practices may overstate the dimensions of the weakness. Confine the weakness statement to the scope of the specific problem(s) originally addressed. Consolidation of like weaknesses into a single comprehensive weakness is encouraged only when appropriate conditions apply. Avoid bundling a number of related weaknesses or newly-identified problems for the principal purpose of reducing the number of material weaknesses reported. Weaknesses defined too broadly are very difficult to resolve and usually result in repeatedly missed targeted correction dates.

Reporting the same material weakness, i.e., same title, same description, as “corrected” and “ongoing” or “new” in the same year is not acceptable. Doing so gives the appearance of resolving more material weaknesses than is accurate.

**For FMFIA “Over Financial Reporting” only:**

For determining material weaknesses for the FMFIA “Over Financial Reporting” SOA, managers must strictly adhere to the guidelines of the *FY 2009 Guidance for the Internal Controls Over Financial Reporting As Required by OMB Circular No. A-123, Appendix A*, available on: [http://www.defenselink.mil/comptroller/micp\\_guidance.html](http://www.defenselink.mil/comptroller/micp_guidance.html).

## TEMPLATE 2

### TAB A

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

**This section describes the concept of reasonable assurance and the evaluation process used. In Tab A, use the following template to help describe the concept of reasonable assurance:**

The **(name of reporting entity)** senior management evaluated the system of internal accounting and administrative controls, in effect during the fiscal year as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982." Included is an evaluation of whether the system of internal accounting and administrative controls for the **(name of reporting entity)** is in compliance with standards prescribed by the Comptroller General. **NOTE: If a self-evaluation of the system of internal accounting and administrative controls was not conducted, or the evaluation was insufficient when compared to the guidelines, indicate that fact and provide an explanation.**

The objectives of the system of internal accounting and administrative controls of the **(name of reporting entity)** are to provide reasonable assurance that:

The obligations and costs are in compliance with applicable law;

Funds, property, and other 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 reliable accounting, financial, and statistical reports and to maintain accountability over the assets.

The evaluation of internal management controls extends to every responsibility and activity undertaken by **(name of reporting entity)** and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal management controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

The **(name of reporting entity)** evaluated the system of internal management controls in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative controls of the **(name of reporting entity)** in effect during Fiscal Year **(year, i.e., 2009)** as of the date of this memorandum, taken as a whole, **(complies/does not comply)** with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Using the following process for conducting the evaluation, the **(name of reporting entity)** evaluated its system of internal accounting and administrative controls and maintains sufficient documentation to support its evaluation and level of assurance. Additionally, the **(name of reporting entity)** maintains an audit trail of the evaluation process. **(Below is a list of items that the OSD PSA or DoD Field Activity should consider for explaining how the organization conducted the evaluation.)**

1. The progress achieved in institutionalizing internal management controls (i.e., a brief description of how the MIC Program is applied or reviewed for compliance also could be used here if it has already been fully implemented);
2. Any improvements to MIC Program coverage (address the expected benefits and related costs of control procedures using estimates and managerial judgment);
3. A description of the problems encountered in implementing the MIC Program;
4. Other considerations (e.g., resource constraints, technological bottlenecks, and operational or mission considerations) affecting the MIC Program;
5. Any deviations from the process as outlined in the OMB Circular No. A-123;
6. Any special concerns addressed in reports by the Inspector General of the Department of Defense (IG DoD) or Component audit, investigation, inspection and/or internal review organizations regarding MIC Program progress, needs, and/or problems;
7. Methods, mechanisms, or techniques employed in the discovery or execution phases of the program. The following are examples of methods, mechanisms, or techniques:
  - a. MIC Program weakness tracking system (number of weaknesses and milestones);
  - b. Component Inspector General or Audit Service findings;
  - c. Reports of reporting entity's internal reviews and inspections;
  - d. IG DoD reports and reviews;
  - e. Most significant MIC Program accomplishments achieved during FY 2009;

- f. MIC Program training;
- g. MIC Program performance standards (e.g., such as those found in the GAO Internal Control Management and Evaluation Tool, available at website address: [www.gao.gov/govaud/ybk01.htm](http://www.gao.gov/govaud/ybk01.htm));
- h. GAO reports and reviews;
- i. Review of OSD Functional Proponent Proposals (e.g., systemic weaknesses);
- j. Information Technology initiatives;
- k. MIC Program references in directives, regulations, and other guidance;
- l. Congressional reviews and hearings;
- m. Command or other subordinate organization “Certification Statements;”
- n. Productivity statistics;
- o. Defense Regional Interservice Support studies;
- p. Management reviews in other functional areas (e.g., procurement, communications, intelligence, financial, or environmental);
- q. Quality Assurance reviews;
- r. “Hot Line” reports;
- s. Evidence that assessments have been conducted by including examples of deficiencies found that do not warrant reporting as material weaknesses and the actions taken or planned to resolve these deficiencies. Whenever possible, provide quantitative accomplishments, e.g., “reduced from 12 days to 4 days.” Use the following format:

**Description of Issue:** Reconciliation of Government Purchase Card Accounts.

**Accomplishments:**

- By standardizing processes, limiting the number of purchase cardholders, and using automated tools, the elapsed time from billing period closing to forwarding the account reconciliation to the Defense Finance and Accounting Service (DFAS) has been reduced from 12 days to 4 days.
- FY 2009 1<sup>st</sup> Qtr rebates totaled \$124,000 compared to FY 2008 1<sup>st</sup> Quarter of \$65,000.

## **INSTRUCTIONS FOR TAB B FORMAT**

### **MATERIAL WEAKNESS/ORRECTIVE ACTIONS**

#### **ALSO FOR TABS C, D, E, F, ETC., FOR SYSTEMIC WEAKNESS(ES) FORMAT AS WELL AS FOR FMFIA “OVER FINANCIAL REPORTING” MATERIAL WEAKNESS(ES)**

This section presents internal management controls weakness information in three subset tabs:

1. A listing of the titles of all uncorrected and corrected material weaknesses as of the conclusion of the current period along with actual and projected correction dates. (Tab B-1)
2. Narratives for the uncorrected material weaknesses identified in the summary listing. (Tab B-2)
3. Narratives for all material weaknesses corrected during the current period. (Tab B-3)

The three subset tabs are illustrated on the following pages.

# TEMPLATE 3

## TAB B-1 FORMAT

### LIST OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESS(ES)

#### ALSO FOR TABS C-1, D-1, E-1, F-1, ETC., FOR SYSTEMIC WEAKNESS(ES) FORMAT AS WELL AS FOR FMFIA “OVER FINANCIAL REPORTING” MATERIAL WEAKNESS(ES))

Reporting entities should prepare this section after completing both Tabs B-2 and B-3 since Tab B-1 is a summary listing of Tabs B-2 and B-3 weakness titles and correction dates. Divide the material weakness titles into three groupings: Uncorrected Weaknesses Identified During the Period (the current fiscal year of FY 2009); Uncorrected Weaknesses Identified During Prior Periods; and Corrected Weaknesses Identified During All Periods.

#### Uncorrected Weaknesses Identified During the Period:

<u>Title</u>	<u>Quarter (QTR) and Fiscal Year (FY)</u> <u>Targeted Correction Date</u>	<u>Page #</u>
(1)	(4)	(5)

#### Uncorrected Weaknesses Identified During Prior Periods:

<u>Title</u>	<u>Year</u> <u>First</u> <u>Reported</u>	<u>Correction QTR &amp; FY Date</u>		<u>Page #</u>
		<u>Per Last</u> <u>Annual</u> <u>Statement</u>	<u>Per This</u> <u>Annual</u> <u>Statement</u>	
(1)	(2)	(3)	(4)	(5)

#### Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year</u> <u>First</u> <u>Reported</u>	<u>Page #</u>
(1)	(2)	(5)

**NOTES:**

- (1) Titles should be identical to those found on the material weakness narratives provided in Tabs B-2 or B-3.
- (2) Use the fiscal year in which this weakness was first reported.
- (3) This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the reporting entity’s FY 2008 SOA.
- (4) This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the reporting entity’s FY 2009 SOA.
- (5) The page number is that of the first page of the material weakness narrative as found in Tabs B-2 or B-3.

## EXAMPLE 2

### TAB B-1

#### LIST OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

##### Uncorrected Weaknesses Identified During the Period:

<u>Title</u>	<u>Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date</u>	<u>Page #</u>
<u>Category: Communications and/or Intelligence and/or Security</u>		
Lack of Security Policy	2 <sup>nd</sup> Qtr, FY 2010	Tab B-2-1

##### Uncorrected Weaknesses Identified During Prior Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Correction Qtr &amp; FY Date</u>		<u>Page #</u>
		<u>Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	
<u>Category: Contract Administration</u>				
Contract Administration of Service Contracts	FY 2006	2 <sup>nd</sup> Qtr, FY 2010	2 <sup>nd</sup> Qtr, FY 2010	Tab B-2-6
<u>Category: Information Technology</u>				
Combating Computer Software Piracy	FY 2005	1 <sup>st</sup> Qtr, FY 2010	1 <sup>st</sup> Qtr, FY 2011	Tab B-2-8

##### Corrected Weaknesses Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
<u>Category: Supply Operations</u>		
Independent Logistics Assessment (ILA) Process	FY 2005	Tab B-3-1
<u>Category: Force Readiness</u>		
Inadequate Procedures for Projecting Training Requirements	FY 2006	Tab B-3-5

## TEMPLATE 4

### UNCORRECTED MATERIAL WEAKNESS(ES) STATUS OF CORRECTIVE ACTIONS

#### TAB B-2 FORMAT

#### ALSO FOR TABS C-2, D-2, E-2, F-2, ETC., FOR SYSTEMIC WEAKNESS(ES) FORMAT AS WELL AS FOR FMFIA “OVER FINANCIAL REPORTING” MATERIAL WEAKNESS(ES)

This attachment should provide a narrative for each uncorrected material weakness identified by the reporting entity for which corrective actions have NOT been completed, regardless of the year of first reporting. Begin each weakness at the top of a new page. Group the narratives contained in Tab B-2 into two subsections: “Uncorrected Weaknesses Identified During the Period” and “Uncorrected Weaknesses Identified During Prior Periods.”

The numbers and letters used below are provided only to assist in your comprehension of this annual guidance and should not appear in your SOA for either the FMFIA Overall Operations or the FMFIA Over Financial Reporting. Only the headings should appear.

**Spell out acronyms the first time they are used in each individual material weakness narrative.** Deviation from this guidance may result in your reporting entity having to revise and resubmit the SOA. A delay due to a required revision has the potential to adversely affect the timeliness and accuracy of the DoD SOA.

Simplify your material weakness status reports to the greatest extent possible. **Avoid use of the passive voice, minimize the use of acronyms, and use “bullets” to describe both the actions taken and planned. Narratives should be succinct, void of technical jargon, and easy for the general public to interpret.**

The narratives shall follow the format below. **USE THE HEADINGS AS INDICATED BELOW IN BOLD TYPE IN THE EXACT SEQUENCE.** Do not exclude sections; if they are not applicable, simply note “N/A” following the heading. Do not include the numbers that appear before the headings below; they are included only to assist in your comprehension of this annual guidance. An example of Tab B-2 is shown on pages 29 and 30 of this guidance.

1. **Title and Description of Issue:** Provide title and confine the weakness description to three sentences, if possible.
2. **Functional Category:** Indicate one of the 17 functional categories provided on pages 44-46 in Part I of this guidance; e.g., “Force Readiness,” “Financial Reporting,” or “Financial System Conformance.”
3. **Component:** Indicate which OSD PSA or DoD Field Activity is reporting the weakness for the FMFIA Over Non-Financial Operations. For a FMFIA Over Financial Reporting weakness, indicate the organizational entity/Component and the name of the Financial

Statement Reporting Entity; e.g., Army Working Capital Fund; Component name is “Army;” Financial Statement Reporting Entity is “Working Capital Fund.”

4. **Senior Official In Charge:** Identify the name and title of the senior official in charge of ensuring this weakness is resolved according to targeted milestone projections. Per the DoDI 5010.40, Managers’ Internal Control Program Procedures, dated January 4, 2006, page 15, paragraph E2.21, a senior official is a member of the highest level of management or leadership of the agency/PSA/DoD Field Activity who has ultimate responsibility for the resolution of the weakness. The OSD PSAs or Directors of the DoD Field Activities will require the addition of a critical element to the performance appraisal plan of the senior official that indicates that he/she is responsible for the effective and timely resolution of the material or systemic weakness.

5. **Pace of Corrective Action:** (For all targeted correction dates, the reporting entity must show both the Quarter and Fiscal Year, e.g., 1<sup>st</sup> Qtr, FY 2009, 2<sup>nd</sup> Qtr, FY 2009, etc.)

Year Identified: Fiscal year of the annual SOA in which the weakness was first reported.

Original Targeted Correction Date: Quarter and fiscal year of the targeted correction date when reporting entity first reported it.

Targeted Correction Date in Last Year’s Report: Quarter and fiscal year of the targeted correction date as it was reported in the reporting entity’s FY 2008 annual FMFIA SOA.

Current Target Date: Quarter and fiscal year of targeted correction date per this SOA. This date must agree with the final date listed in the milestones.

6. **Reason For Change in Date:** Reason for change in quarter and fiscal year of **Current Target Date** from the **Target Correction Date in Last Year’s Report** as indicated in item No. 5 above. If applicable, the reason for change should include a brief description of the impact; e.g., cost of delaying weakness.

7. **Validation Indicator:** Briefly indicate the methodology that the reporting entity will use to certify the effectiveness of the corrective action(s) and the projected date that the certification will take place. In addition, indicate the role that the IG DoD or the Component Audit Service will play in verification of the corrective action. Note: All weaknesses must list, as the last projected milestone, the validation technique to be used.

8. **Results Indicator:** Describe key results that have been or will be achieved in terms of performance measures. Performance measures are quantitative and/or qualitative measures that determine the benefits derived or that will be derived from the corrective action and the overall impact of the correction on operations. If monetary benefits are determinable, state that information here. NOTE: Specifically identify one or two defined performance measures or defined results that will be used to determine successful completion of the proposed remedial effort.

9. **Source(s) Identifying Weakness:** Use the following other applicable sources: (a) MIC Program evaluation; (b) IG DoD; (c) Component Audit Service; (d) GAO; (e) Component internal review organization; (f) Component IG; or (g) Integrated Financial System Assessment; or (h) Other. When audit findings are the source of weakness identification, identify the title, number, and date of the document in which the weakness was identified. If the weakness was identified by more than one source, list all identifying sources in order of significance.

10. **Major Milestone to Include Progress to Date:** Use a milestone chart indicating actions taken and actions planned for the future. Separate milestones into three categories: (a) Completed Milestones; (b) Planned Milestones for Fiscal Year 2010; and (c) Planned Milestones Beyond Fiscal Year 2010. List only major milestones in chronological order by milestone completion date with the terminal milestone listed last. Begin each milestone action with an action verb. Provide the quarter and fiscal year that each major milestone is projected to be accomplished. **The terminal milestone is the final corrective action, and should either be, or include, the validation used to correct the weakness.**

## EXAMPLE 3

### TAB B-2

#### UNCORRECTED MATERIAL WEAKNESS(ES) IDENTIFIED DURING PRIOR PERIODS

**Title and Description of Issue:** Contract Administration of Service Contracts. There is a significant weakness in administering service contracts which includes ineffective planning for quality assurance requirements and inadequate training. A lack of surveillance plans has resulted in no systematic inspection system or effective documentation of contract performance. Procedures for validating and approving contractor invoices sometimes were inadequate and responsibilities and processes for approving invoices were not properly defined.

**Functional Category:** Contract Administration

**Component:** Army

**Senior Official In Charge:** Mr. Robert Taylor, Principal Deputy, Assistant Secretary of the Army (Acquisition, Logistics, and Technology)

**Pace of Corrective Action:**

Year Identified: FY 2006

Original Targeted Correction Date: 2<sup>nd</sup> Qtr, FY 2008

Target Correction Date in Last Year's Report: 2<sup>nd</sup> Qtr, FY 2010

Current Target Date: 2<sup>nd</sup> Qtr, FY 2010

**Reason for Change in Date:** N/A

**Validation Indicator:** The United States Army Audit Agency (USAAA) will review the effectiveness of these corrective actions in resolving the material weakness.

**Results Indicator:** The Army has addressed every USAAA finding and initiated corrective action.

**Source(s) Identifying Weakness:** USAAA audit report, "Managing Service Contracts," Audit Report A-2002-0580-AMA.

**Major Milestones to Include Progress to Date:**

**A. Completed Milestones:**

Date:

Milestone:

Completed	Instructed contracting officers to orient evaluators on the specific types of contracts and specific contract links.
Completed	Clarified existing guidance on quality assurance surveillance plans. Recommended to Army Commands (ACOMs) that they review guidance on surveillance when performing contract management reviews.
Completed	Issued guidance to require contracting officers to periodically review the Contracting Officer Representative (COR) contract files and provide the review results to the activity director.

**B. Planned Milestones for Fiscal Year 2010:**

<u>Date:</u>	<u>Milestone:</u>
1 <sup>st</sup> Qtr, FY 2010	Issue guidance to the acquisition community instructing contracting officers to establish the appropriate responsibilities and limitations for appointment letters.
2 <sup>nd</sup> Qtr, FY 2010	Validate that weakness is corrected and through audit conducted by USAAA.

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

## **TEMPLATE 5**

### **TAB B-3 FORMAT**

#### **MATERIAL WEAKNESS(ES) CORRECTED THIS PERIOD**

#### **ALSO FOR TABS C-3, D-3, E-3, F-3, ETC., FOR SYSTEMIC WEAKNESS(ES) FORMAT AS WELL AS FOR SYSTEMIC WEAKNESS(ES) FORMAT AND FMFIA “OVER FINANCIAL REPORTING” MATERIAL WEAKNESS(ES)**

Use Tab B-3 to provide a narrative for each material weakness for which corrective actions were completed in FY 2009. Begin each material weakness narrative at the top of a new page. Group information into two subsections: “Identified During the Period” and “Identified During Prior Periods.”

For weaknesses appearing in TAB B-3, use the format and data requirements identified for Tab B-2, Item 10, “Major Milestones to Include Progress to Date.” Begin each corrective action with an active verb in the past tense. Since this must be a corrective status, all actions must be reflected as “completed” milestones. Otherwise, the weakness cannot be classified as completed, and the reporting entity must continue to report it as ongoing in Tab B-2.

## EXAMPLE 4

### TAB B-3

#### MATERIAL WEAKNESSES CORRECTED THIS PERIOD IDENTIFIED DURING PRIOR PERIODS

**Title and Description of Issue:** Independent Logistics Assessment (ILA) Process. The Navy did not effectively implement the ILA Process; specifically, Program Executive Offices (PEOs) and Systems Commands (SYSCOMs) did not perform a significant number of ILAs, and did not always disclose results or the basis of logistics certifications to Milestone Decision Authorities. Ambiguous language and vague references in the policy documents did not support effective implementation and implied that performing ILAs was optimal. This adversely impacted the Assistant Secretary of the Navy's (Research, Development, and Acquisition) strategic goals of improving business processes and improving warfighter satisfaction.

**Functional Category:** Supply Operations

**Component:** Navy

**Senior Official in Charge:** Mr. John Paul Jones, Deputy Director of Supply and Acquisitions, Navy

**Pace of Corrective Action:**

Year Identified: FY 2005

Original Targeted Correction Date: 2<sup>nd</sup> Qtr, FY 2006

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

Current Target Date: N/A

**Reason for Change in Date:** N/A

**Validation Indicator:** All corrective action(s) were certified by an internal review audit.

**Results Indicator:** Overall, the number of ILAs performed is accurate, and the results or the basis of the logistics certification is disclosed to the appropriate parties for making informed decisions.

**Source(s) Identifying Weakness:** Naval Audit Service (NAVAUDSVC, NAVAUDSVC Report No. N2000-0027, "Independent Logistics Assessment Process," June 27, 2000.

**Major Milestones to Include Progress to Date:**

**A. Completed Milestones:**

<u>Date:</u>	<u>Milestone:</u>
Completed	Revised Navy acquisition policy to clearly state: (a) whether performing independent assessments of logistics is a requirement, and is the basis for logistics certification; (b) the desired outcome of the ILA process, and (c) whether or not use of a Chief of Naval Operations (CNO) – validated assessment process is required.
Completed	Revised ILA policy to: (a) clearly articulate the desired outcome of the ILA process; (b) clarify the full scope of individual implementation procedures which include the overall management of ILAs and all associated responsibilities; (c) clearly define procedures for submitting the ILA implementation procedures for validation; and (d) provide guidelines for development and implementation that ensure timely and effective supportability review and an opportunity for the decision process prior to initial operational capability.
Completed	Revised guidance, which addresses ILAs in detail, to provide additional guidance to SYSCOMS, PEOs, and Program Managers.
Completed	Validated the weakness was corrected through an on-site internal review audit performed by the Naval Audit Service.

## GUIDELINES

### FMFIA “OVER FINANCIAL REPORTING” SOA

The OSD PSAs and, in some cases, their DoD Field Activities, must prepare, in addition to their regular SOAs, FMFIA SOA(s) “Over Financial Reporting.” SOAs. These SOAs must be based on strict assessments, following the requirements of the *FY 2009 Guidance for the Internal Controls Over Financial Reporting As Required By OMB Circular No. A-123, Appendix A*, and available on the following website:  
[http://www.defenselink.mil/comptroller/micp\\_guidance.html](http://www.defenselink.mil/comptroller/micp_guidance.html)

When assessments of internal management controls within financial reporting disclose material weaknesses, the plans and schedules to correct them will use the same format for the material weakness status reports as provided for the Tab B format on pages 22 through 32 of this guidance and Examples 6, 7, and 8, on pages 36 through 42 of this guidance. **The PSA or Principal Deputy of the reporting entity must sign the statement.** This signature authority may not be delegated below this level.

The SOAs will cover the one year period from July 1, 2008, through June 30, 2009, and will be effective **as of June 30, FY 2009**. If a material weakness is expected to be corrected within the 4<sup>th</sup> Quarter, FY 2009, but all actions are not completed as of June 30, the OSD PSA should report the material weakness as ongoing.

Each SOA submission shall consist of the following:

1. A memorandum, as described in Template 6 and Example 5 on pages 35 through 37 of this guidance, shall be **addressed to the OSD Director of Administration and Management and signed by the PSA or Principal Deputy of the reporting entity**. The FMFIA “Over Financial Reporting” SOA will be presented in separate paragraph(s) on the same memorandum as the FMFIA “Over Non-Financial Operations” SOA. Therefore, the OSD PSA will only be required to sign one memorandum regardless of the number of Financial Statement Reporting Entities (FSREs) for which the reporting entity must provide financial reporting assurance. A separate paragraph will provide senior management’s assessment on whether there is reasonable assurance that internal management controls are in place, operating effectively, and being used for each FSRE. The level of assurance can be in one of three forms as discussed in the paragraphs below. A reporting entity could have an unqualified assurance on the FMFIA “Over Non-Financial Reporting” and a qualified assurance on the FMFIA “Over Financial Reporting” for the General Fund. In another example, a reporting entity could have a qualified assurance on the FMFIA “Over Non-Financial Reporting,” an unqualified assurance for the General Fund, and no assurance for the Working Capital Fund. Remember, regardless of the number of FSREs, a separate paragraph should report the assurance level for each FSRE.

a. An Unqualified SOA (reasonable assurance that internal management controls over financial reporting are effective, with no material weaknesses reported). Each unqualified statement shall provide a firm basis for that position, which the OSD PSA or Principal Deputy will summarize in the cover memorandum.

b. A Qualified SOA (reasonable assurance that internal management controls over financial reporting are effective with exception of one or more material weakness(es) noted). The cover memorandum must cite the material weakness(es) in internal management controls that preclude an unqualified statement.

c. A Statement of No Assurance (no reasonable assurance because no assessments conducted or the noted material weaknesses are pervasive). The OSD PSA or Principal Deputy shall provide an extensive rationale for this position.

2. Tabs D-1, E-1, F-1, etc.: For each FSRE, provide a list of the titles of all uncorrected and corrected material weaknesses. Use the same format as described in Template 3 on page 23 and Example 6 on page 38 of this guidance. The numbering of the tabs will begin with Tab D because Tab B is for the material weaknesses of the FMFIA “Over Non-Financial Operations” and Tab C is reserved for systemic weakness write-ups by the OSD PSAs discussed on pages 11 and 12, Item No. 6, of this guidance. For example, if the OSD PSA has three FSREs and each has material weaknesses that are being reported, Tab D-1 can provide the material weakness information for FSRE #1, Tab E-1 is for FSRE #2, and Tab F-1 is for FSRE #3. Each tab must reflect the name of the FSRE for which it applies. Clearly reporting FSREs is crucial.

3. Tabs D-2, E-2, F-2, etc. (Uncorrected Weaknesses): For each FSRE, provide detailed narrative descriptions of all uncorrected weaknesses including the plans and schedules for the corrective actions. Use the instructions in Template 4 on page 24 and Example 7 on page 39 of this guidance.

4. TABs D-3, E-3, F-3, etc. (Corrected Weaknesses): For each FSRE, provide a brief narrative describing the material weaknesses corrected in the current year, including the most significant actions taken to correct the weakness. Use the instructions in Template 5 on page 30 and Example 8 on pages 41 and 42 of this guidance.

## TEMPLATE 6

### FMFIA SOA WHEN ONE OR MORE SOAs FOR “OVER FINANCIAL REPORTING” IS REQUIRED

#### SAMPLE MEMORANDUM

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT  
(OSD PSAs must follow the format for the memorandum as prescribed.)

SUBJECT: Annual Statement Required under the Federal Managers’ Financial Integrity Act \

As the OSD PSA or Principal Deputy of **(name of reporting entity)**, I recognize that the **(name of reporting entity)** management is responsible for establishing and maintaining effective internal management controls to meet the objectives of the Federal Managers’ Financial Integrity Act (FMFIA). I am able to provide **[the statement must take one of three forms: an unqualified statement of reasonable assurance (no material weaknesses being reported); a qualified statement of reasonable assurance (one or more material weaknesses being reported); or no assurance (no processes in place to assess the internal management controls or pervasive material weaknesses that cannot be assessed)]** that the **(name of reporting entity)** internal management controls meet the objectives of FMFIA overall programs, administrative, and operations, **(if qualified)** with the exception of **(number)** material weakness(es) described in Tab B. These material weaknesses were found in the internal management controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in Tab B, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal management controls.

**The statement will include the following paragraph only if the reporting entity identified material weaknesses:**

The **(name of reporting entity)** FMFIA evaluation did identify material weaknesses. Tab B-1 is a list of material weaknesses that still require corrective action and those corrected during the period. Tab B-2 is an individual narrative for each uncorrected material weakness listed in Tab B-1. **(Include the previous two sentences if your reporting entity has uncorrected material weaknesses.)** Tab B-3 is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your reporting entity corrected any material weaknesses during the past fiscal year.)**

**(The statement must include the following.)** Tab A provides additional information on how the **(name of reporting entity)** conducted the assessment of internal management controls for the FMFIA “Over Non-Financial Operations,” which was conducted according to OMB Circular A-123, “Management’s Responsibility for Internal Control.” In addition, Tab A provides a summary of the significant accomplishments and actions taken to improve the **(name of reporting entity)** internal management controls during the past year.

**If applicable, include a separate paragraph stating the level of assurance for each FSRE under the OSD PSA’s purview. (See Table 3 on page 9 of this guidance.)**

The **(name of reporting entity)** conducted an internal management controls assessment of the effectiveness of the **(FSRE’s name)** internal management controls over financial reporting for the following implementation area(s): **(List the implementation areas assessed.)** The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the Senior Assessment Team, which is maintaining complete records of the assessment documentation. Based on the results of this evaluation, I am able to provide [**The statement must take one of three forms: an unqualified statement of assurance (no material weaknesses being reported); a qualified statement of assurance (one or more material weaknesses being reported); or no assurance (no processes in place to assess the internal management controls or pervasive material weaknesses that cannot be assessed)**] that the **(name of reporting entity)** FSRE’s internal management controls over financial reporting implementation areas as of June 30, 2009, were operating effectively [**(if qualified)** with the exception of **(number)** material weakness(es) described in Tab D) **(or if more than one FSRE (Tab E, F, etc.))**]. These material weaknesses were found in the internal management controls over the reliability of financial reporting as of June 30, 2009. Other than the material weaknesses noted in Tab D [**(or if more than one FSRE) (Tab E, F, etc.)**], the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal management controls over financial reporting for the **(name of the FSRE)**.” Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the **(name of the FSRE)**.

**The OSD PSA’s statement will include the following paragraph if the reporting entity identified material weaknesses over financial reporting for one or more FSREs:**

The **(name of the FSRE)** material weaknesses are described in Tab D. Tab D-1 **(or Tab E-1, F-1, etc., for each FSRE)** is a list of material weaknesses that still require corrective action and those corrected during the period. Tab D-2 **(or Tab E-2, F-2, etc.)** is an individual narrative for each uncorrected material weakness listed in Tab D-1 **(or Tab E-1, F-1, etc.)**. **(Include the previous two sentences if your reporting entity has uncorrected material weaknesses.)** Tab D-3 **(or Tab E-3, F-3, etc.)**, is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your reporting entity corrected any material weaknesses during the past fiscal year.)**

**(Signature of OSD PSA or Principal Deputy)**

## EXAMPLE 5

### FMFIA SOA WHEN ONE OR MORE SOAs “OVER FINANCIAL REPORTING” IS REQUIRED

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT

SUBJECT: Annual Statement Required under the Federal Managers’ Financial Integrity Act

As Director of the Defense Aircraft Agency, I recognize that the Defense Aircraft Agency’s management is responsible for establishing and maintaining effective internal management controls to meet the objectives of the Federal Managers’ Financial Integrity Act (FMFIA). I am able to provide an unqualified statement of reasonable assurance that the Defense Aircraft Agency’s internal management controls meet the objectives of the FMFIA overall programs, administrative, and operations.

Tab A provides additional information on how the Defense Aircraft Agency conducted the assessment of internal management controls for the FMFIA over non-financial operations, which was conducted according to OMB Circular A-123, “Management’s Responsibility for Internal Control.” In addition, Tab A provides a summary of the significant accomplishments and actions taken to improve Component internal management controls during the past year.

The Defense Aircraft Agency conducted an internal management controls assessment of the effectiveness of the General Fund’s internal management controls over financial reporting for the following implementation areas: Fund Balance with Treasury, Accounts Receivable, Operating Materials and Supplies, Real Property and Military Equipment. The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the Senior Assessment Team, which is maintaining complete records of the assessment documentation. Based on the results of this evaluation, I am able to provide a qualified statement of assurance that the Defense Aircraft Agency General Fund’s internal management controls over financial reporting implementation areas as of June 30, 2009, were operating effectively with the exception of the two material weaknesses described in Tab D. These material weaknesses were found in the internal management controls over the reliability of financial reporting as of June 30, 2009. Other than the material weaknesses noted in Tab D, the internal management controls were operating effectively, and no other material weaknesses were found in the design or operation of the internal management controls over financial reporting for the Defense Aircraft Agency General Fund. Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the Defense Aircraft Agency General Fund.

The Defense Aircraft Agency General Fund material weaknesses are described in Tab D. Tab D-1 is a list of material weaknesses that still require corrective action and those corrected during the period. Tab D-2 is an individual narrative for each uncorrected material weakness listed in Tab D-1. Tab D-3 is an individual narrative for each material weakness corrected during the period.

Jane Deer  
Director, Defense Aircraft Agency

[Below are examples of Tab D-1 (List of All Uncorrected and Corrected Material Weaknesses), Tab D-2 (Uncorrected Material Weaknesses Identified During the Period), and Tab D-3 (Material Weaknesses Corrected Identified During Prior Periods), which correspond with the preceding example memorandum. For instructions on how to complete Tabs D-1, D-2, and D-3, see the Tab B format on pages 22 through 32 of this guidance.]

**EXAMPLE 6**

**TAB D-1**

**LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES**

**Uncorrected Weaknesses Identified During the Period:**

<b>Title</b>	<b>Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date</b>	<b>Page #</b>
Category: <u>Financial Reporting</u> Accounts Receivable	2 <sup>nd</sup> Qtr, FY 2011	TAB D-2-1

**Uncorrected Weaknesses Identified During Prior Periods:**

<b>Title</b>	<b>Year First Reported</b>	<b>Correction QTR &amp; FY Date</b>		<b>Page #</b>
		<b>Per Last Annual Statement</b>	<b>Per This Annual Statement</b>	
N/A	N/A	N/A	N/A	N/A

**Corrected Weaknesses Identified During All Periods:**

<b>Title</b>	<b>Year First Reported</b>	<b>Page #</b>
Category: <u>Financial Reporting</u> Accounts Payable	FY 2006	TAB D-3-1

## EXAMPLE 7

### TAB D-2

#### UNCORRECTED WEAKNESSES IDENTIFIED DURING THE PERIOD

**Title and Description of Issue:** Accounts Receivable. All costs not captured to appropriate orders. Customer invoiced for incorrect amount of goods or services received. The inability to reconcile invoice with customer orders may lead to misstatement of Accounts Receivable.

**Functional Category:** Financial Reporting, Accounts Receivable

**Component:** Defense Aircraft Agency (DAA) General Fund

**Senior Official In Charge:** Ms. Buck Fawn, Comptroller, Defense Aircraft Agency

**Pace of Corrective Action:**

Year Identified: FY 2009

Original Targeted Correction Date: N/A

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

Current Target Date: 2<sup>nd</sup> Qtr, FY 2011

**Reason for Change in Date:** N/A

**Validation Indicator:** All costs will be captured to projects. Monthly reconciliation of costs to DAA projects will result in variance of less than 5 percent.

**Results Indicator:** Reduced billing errors and more accurate Accounts Receivable reporting.

**Source(s) Identifying Weakness:** Control Test results, June 2009

**Major Milestones to Include Progress to Date:**

**A. Completed Milestones:**

Date:

Milestone:

Completed

Evaluated current accounting system capabilities for capturing costs.

Completed

Developed preliminary reconciliation process.

**B. Planned Milestones for Fiscal Year 2010:**

Date:

Milestone:

3<sup>rd</sup> Qtr, FY 2010

Develop reconciliation procedures.

4<sup>th</sup> Qtr, FY 2010

Issue reconciliation procedures.

**C. Planned Milestones Beyond Fiscal Year 2010:**

Date:

Milestone:

1<sup>st</sup> Qtr, FY 2011

Test procedures for variance.

1<sup>st</sup> Qtr, FY 2011

Train employees on new procedures and implement.

2<sup>nd</sup> Qtr, FY 2011

Validate that variance is less than 5 percent, during monthly reconciliation of costs to DAA projects.

## EXAMPLE 8

### TAB D-3

#### **MATERIAL WEAKNESSES CORRECTED IDENTIFIED DURING PRIOR PERIODS**

**Title and Description of Issue:** Accounts Payable. Requesting Component and Performing DoD Component do not reconcile payables. This may result in financial reporting misstatements.

**Functional Category:** Financial Reporting, Accounts Payable

**Component:** Defense Aircraft Agency (DAA) General Fund

**Senior Official in Charge:** Mr. Buck Fawn, Comptroller, Defense Aircraft Agency

**Pace of Corrective Action:**

Year Identified: FY 2006

Original Targeted Correction Date: 3<sup>rd</sup> Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 3<sup>rd</sup> Qtr, FY 2009

Current Target Date: N/A

**Reason for Change in Date:** N/A

**Validation Indicator:** Payables balance is reflected accurately in correct period.

**Results Indicator:** A benchmark of at least 98% of instances where Requesting Component and Performing DoD Component reconcile payables in the same accounting period. Variances can be explained.

**Source(s) Identifying Weakness:** Control Tests, May 2009

**Major Milestones to Include Progress to Date:**

**A. Completed Milestones:**

Date:

Milestone:

Completed

Implemented process that required reconciliation between Requesting Component's and Performing DoD Component's payables in the same accounting period.

**A. Completed Milestones (cont):**

Completed	Management represents that reconciliation results in financial reports that are properly classified, described, and disclosed.
Completed	Validated that the weakness is corrected; payables balance is accurate for correct period.

## DEFINITIONS

### DoD INTERNAL MANAGEMENT CONTROLS REPORTING FUNCTIONAL CATEGORIES

Group material weaknesses, both uncorrected and corrected, by the DoD functional category designations listed and defined below.

1. Research, Development, Test, and Evaluation. The basic project definition, approval, and transition from basic research through development, test, and evaluation and all DoD and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.

2. Major Systems Acquisition. Items designated as major systems and are subject to the procedures of the Defense Acquisition Board, the Military Services Acquisition Review Councils, or the Selected Acquisition Reporting System.

3. Procurement. The decisions to purchase items and services with certain actions to award and amend contracts (e.g., contractual provisions, type of contract, invitation to bid, independent Government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting).

4. Contract Administration. The fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the Government.

5. Force Readiness. The operational readiness capability of combat and combat support (both Active and Reserve) forces based on analyses of the use of resources to attain required combat capability or readiness levels.

6. Manufacturing, Maintenance, and Repair. The management and operation of in-house and contractor-operated facilities performing maintenance and repair and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

7. Supply Operations. The supply operations at the wholesale (depot and inventory control point) level from the initial determination of materiel requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materiel and supplies). Covers all supply operations at retail (customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of materiel, equipment, and supplies).

8. Property Management. Construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both

military and civil works construction) and includes all phases of property life-cycle management. Also covers disposal actions for all materiel, equipment, and supplies, including the Defense Reutilization and Marketing System.

9. Communications and/or Intelligence and/or Security. The plans, operations, systems, and management activities for accomplishing the communications and intelligence missions and safeguarding classified resources (not peripheral assets and support functions covered by other reporting categories). Also covers the DoD programs for protection of classified information.

10. Information Technology. The design, development, testing, approval, deployment, use, and security of automated information systems (using a combination of computer hardware, software, data or telecommunications that performs functions such as collecting, processing, storing, transmitting, or displaying information) and other technologies for processing management information. This includes requirements for justification of equipment and software.

11. Personnel and/or Organization Management. Authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the Department of Defense. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

12. Comptroller and/or Resource Management. The budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76, Performance of Commercial Activities, May 29, 2003.

13. Support Services. All support service functions financed from appropriated funds not covered by the other reporting categories such as healthcare, veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category.

14. Security Assistance. Management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

15. Other (Primarily Transportation). All functional responsibilities not contained in sections 1. through 14., including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.

16. Financial Reporting. Processes, procedures, and systems used to prepare, compile, and generate the Department of Defense's financial statements according to Section 3512 of title 31, United States Code; DoDD 8910.1-M, "DoD Procedures for Management of Information Requirements," June 1998; the Federal Accounting Standards Advisory Board (FASAB); the Department of Treasury Financial Manual, Volume 1: Federal Agencies; the

United States Standard General Ledger (USSGL); OMB Circular No. A-136, “Financial Reporting Requirements,” June 3, 2008; and DoD 7000.14-R, “DoD Financial Management Regulations.”

17. Financial System Conformance. Integrated financial system conformance with the Federal requirements of the Federal Financial Management Improvement Act of 1996 and the OMB Circular No. A-127, and as prescribed by DoD 7000.14-R, Volume 1, Chapter 3, “Federal Financial Management Improvement Act of 1996 Compliance, Evaluation, and Reporting,” October, 2008.