



**FY 2013**  
**Statement of Assurance (SoA) /**  
**Managers' Internal Control Program (MICP)**  
**for AT&L and Defense Agencies**  
**Training Session**

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Acquisition, Technology and Logistics (OUSD(AT&L))  
Acquisition Resources and Analysis (ARA)  
Property and Equipment Policy (P&EP)



## **Management Internal Controls**

- Statutory and Regulatory Guidance
- DoD Audit Readiness

## **Financial Systems and Financial Reporting Requirements**

## **Statement of Assurance Package**

## **FY 2013 SoA / MIC Program for AT&L and Defense Agencies**

- Coordination on Defense Agencies Statement of Assurances
- Requirements and Timeline Summary

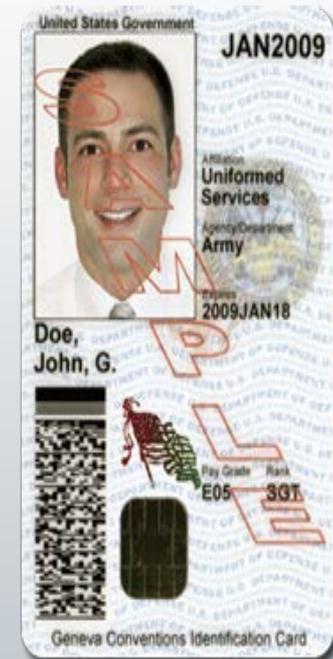


# ***Management Internal Controls***



## Management Internal Controls are...

- Methods by which an organization governs its activities to accomplish stated mission requirements
- First line of defense to prevent and protect against fraud, waste, abuse, and mismanagement
- Represent a series of actions or processes that occur regularly throughout operations, whether they are administrative, operational, or financial
- An integral part of every system management uses to regulate operations



**Do not *guarantee* success but help lessen RISK**



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



In May 1995 the San Diego Police and the California Highway Patrol chase a stolen military tank down Interstate 805. **The tank was stolen from the National Guard Armory.**



## The four categories of Internal Control (IC) Deficiencies are:

### ➤ **Control Deficiency:**

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Control deficiencies are internal to a DoD Component and not reported in the statement of assurance to the Secretary of Defense.

✓ **Reporting Requirement** - Internal to the organization and not reported externally. Progress against corrective action plans should be periodically assessed and reported to the MICP Coordinator.

### ➤ **Reportable Condition:**

A control deficiency or combination of control deficiencies, that in management's judgment, represent significant deficiencies in the design or operation of IC that could adversely affect the DoD Component's ability to meet its IC objectives.

✓ **Reporting Requirement** - Internal to the organization and not reported externally. Progress against corrective action plans should be periodically assessed and reported to the MICP Coordinator.

### ➤ **Material Weakness:**

A reportable condition or combination of reportable conditions that result in a reasonable possibility that a material misstatement will not be prevented or detected.

✓ **Reporting Requirement** - Material weaknesses and a summary of corrective actions shall be reported in the SOA. Progress against corrective actions plans should be periodically assessed and reported to the MICP Coordinator.

### ➤ **Systemic Weakness:**

Pervasive within the DoD and materially affect internal controls across the organizational and program lines, usually affecting more than one DoD Component.

✓ **Reporting Requirement** - Systemic weaknesses and a summary of corrective actions shall be reported in the SOA. Progress against corrective actions plans should be periodically assessed and reported to the MICP Coordinator.



Which of the following internal control deficiencies, is defined as “a reportable condition or combination of reportable conditions that result in a reasonable possibility that a material misstatement will not be prevented or detected?”

- Control Deficiency
- Reportable Condition
- Material Weakness
- Systemic Weakness



This is a self assessment. It does not count against your overall score. Please select your answer and click submit.

Ok

Instructions

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**Pilots' checklists for takeoff, flight, before landing, and after landing** became standard procedure after the 1935 crash of the Boeing Model 299 (predecessor to the famous Flying Fortress, B-17).

Pilots got together after the accident and decided that the new aircraft Model 299 was not “too much airplane for one man to fly,” but more than one man could remember without help. **Checklists** help compensate for the weaknesses of human memory to help ensure consistency and completeness in accomplishing a mission.





# ***Statutory and Regulatory Guidance***



## Statutory and Regulatory Guidance

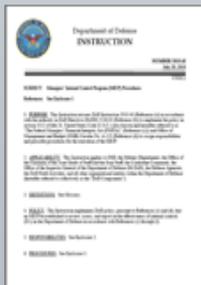


### [Federal Managers' Financial Integrity Act \(FMFIA\) of 1982](#)



### [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](#)

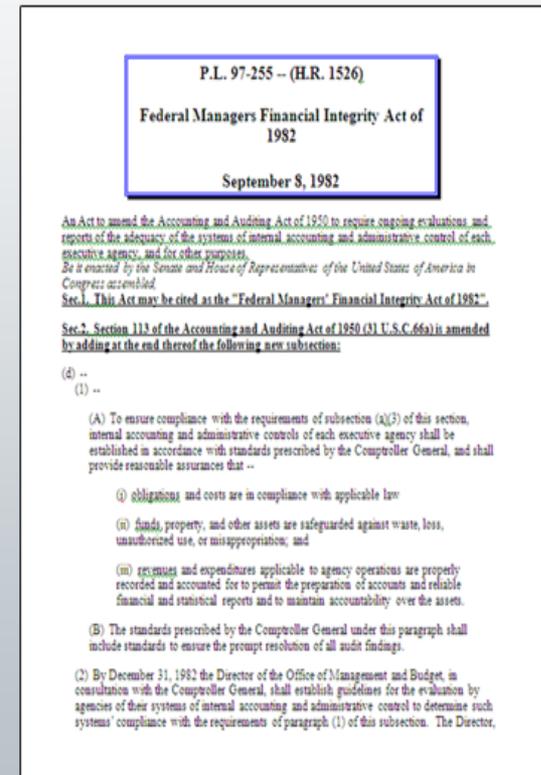


# ***FMFIA of 1982***



## 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.





## FMFIA of 1982 requires the following from:



**OMB, in consultation with the Comptroller General, is required to:**

- Establish guidelines for agency evaluation of internal controls.

**Office of Management and Budget (OMB), in consultation with the Comptroller General**



**Executive Agencies are required 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.

**Executive Offices**



The FMFIA of 1982, requires that internal controls be established to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law
- Fund, property and assets are safeguard against waste, loss, unauthorized use, or misappropriation
- 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.
- All of the above

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

**Federal Managers Financial Integrity Act of 1982**

September 8, 1982

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

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

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

(d) --  
(1) --

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

- (i) obligations and costs are in compliance with applicable law
- (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

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

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

X

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# ***OMB Circular A-123***



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

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

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



Department of Defense Agency Financial Report for FY 2013

Department of Defense (Continental) Statement of Changes in Net Position

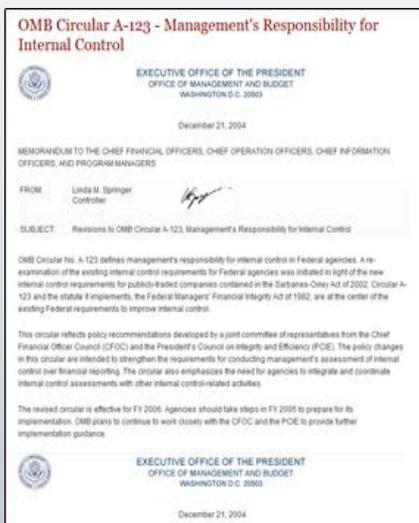
Agency Name	2012		2013		2014		2015		2016		2017	
	Actual	Change	Actual	Change								
<b>Continental Results of Operations</b>												
Operating Activities	\$ 1,234,567	\$ 100,000	\$ 1,334,567	\$ 100,000	\$ 1,434,567	\$ 100,000	\$ 1,534,567	\$ 100,000	\$ 1,634,567	\$ 100,000	\$ 1,734,567	\$ 100,000
Investing Activities	\$ 123,456	\$ 10,000	\$ 133,456	\$ 10,000	\$ 143,456	\$ 10,000	\$ 153,456	\$ 10,000	\$ 163,456	\$ 10,000	\$ 173,456	\$ 10,000
Financing Activities	\$ 567,890	\$ 50,000	\$ 617,890	\$ 50,000	\$ 667,890	\$ 50,000	\$ 717,890	\$ 50,000	\$ 767,890	\$ 50,000	\$ 817,890	\$ 50,000
<b>Net Change in Net Position</b>	<b>\$ 703,221</b>	<b>\$ 160,000</b>	<b>\$ 763,221</b>	<b>\$ 160,000</b>	<b>\$ 823,221</b>	<b>\$ 160,000</b>	<b>\$ 883,221</b>	<b>\$ 160,000</b>	<b>\$ 943,221</b>	<b>\$ 160,000</b>	<b>\$ 1,003,221</b>	<b>\$ 160,000</b>





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

- Effective and efficient operations
- Reliable financial reporting
- Compliance with applicable laws and regulations
- All of the above



This is a self assessment. It does not count against your overall score. Please select your answer and click submit.



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

### Federal managers must:

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



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



True or False: The cost of the controls should be relative to the importance and risk associated with a given program.

True

False



True or False. Select you answer and then select submit.

Ok

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**The Sarbanes-Oxley Act of 2002 applies to commercial organizations:**

- Attempts to prevent the manipulation of financial statements and restore public trust in financial statements and stock markets.
- Makes senior executives responsible for the accuracy and completeness of their firm's financial statements.
- Requires auditor independence (limits auditor conflicts of interest).

**OMB Circular A-123, Appendix A, Internal Control Over Financial Reporting (ICOFR), applies to Federal agencies:**

- The concept of executive responsibility for financial reporting was extended to Federal agencies.
- ICOFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting.



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

### Key Elements for Assessing Controls over Financial Reporting:

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



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

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

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

### Documenting ICOFR:

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



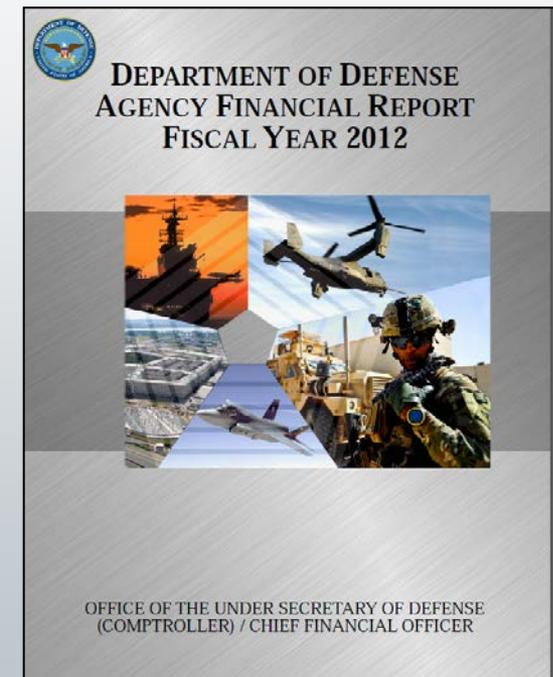
## OMB Circular A-123, Management's Responsibility for Internal Control:

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

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

**To view the DoD AFR, go to:**

<http://comptroller.defense.gov/afr/fy2012.html>

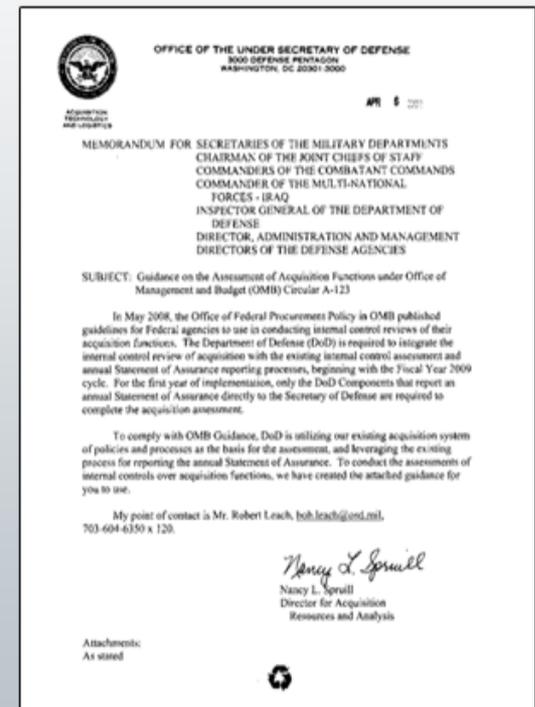




## OMB Circular A-123, Management's Responsibility for Internal Control:

### OMB Guidelines for Assessing the Acquisition Function released May 2008 from OMB Office of Federal Procurement Policy.

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





## Assessment of Acquisition Functions

OUSD (AT&L) created a DoD template to assist when completing the assessment. The OMB and DoD template contain the same four interrelated cornerstones. These cornerstones are the foundation for evaluating the acquisition function:

### ➤ Organizational Alignment and Leadership

- ✓ Looks at the appropriate placement of the acquisition function in the agency.
- ✓ In this section, each Component must assess whether the current placement of its acquisition function is meeting its organizational needs.

### ➤ Policies and Processes

- ✓ Policies establish expectations about the management of the acquisition function.
- ✓ Processes are the means by which management functions will be performed and implemented in support of agency missions.

### ➤ Human Capital

- ✓ The value of an organization and its ability to satisfy its customers depends heavily on its people.
- ✓ Components should think strategically about developing and retaining talent.

### ➤ Information Management and Stewardship

- ✓ Information Management and Stewardship
- ✓ Effective knowledge and information management provide credible, reliable, and timely data to make acquisition decisions.



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

The 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**

[Guidance on the Assessment of Acquisition Functions](#) is also outlined in guidance provided by OUSD(C)

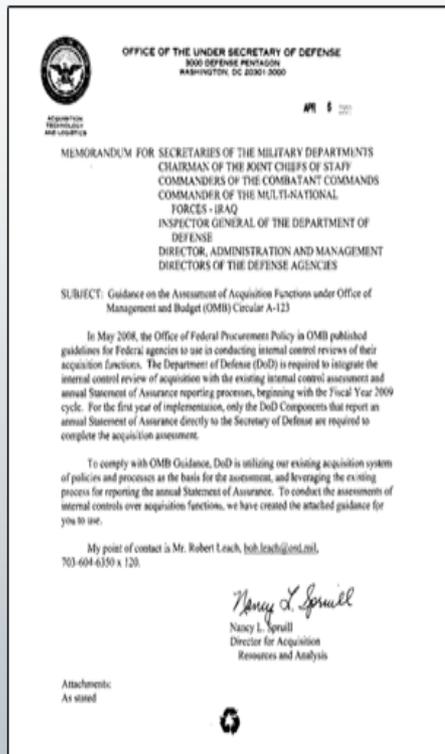
- DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures”
- Department of Defense Federal Managers’ Financial Integrity Act Statement of Assurance Fiscal Year Guidance (April 18, 2013)

<b>Cornerstones</b>	<b>Control Environment</b>	<b>Risk Assessment</b>	<b>Control Activities</b>	<b>Monitoring</b>
<b>Organizational Alignment and Leadership</b> Aligning Acquisition with Agency Mission and Needs  Commitment from Leadership	<b>Streamlined and Effective Management.</b> Responsibility for the acquisition of systems shall be decentralized to the maximum extent practicable. The milestone Decision Authority (MDA) shall provide a single individual with sufficient authority to accomplish MDA-approved program objectives for development, production, and sustainment. The MDA shall ensure accountability and maximize credibility in cost, schedule, and performance reporting. (Ref. DoDD 5000.01, 4.3.5)			



The four interrelated cornerstones in the OMB and DoD templates are the foundation for evaluating the acquisition function. They are: Organizational Alignment and Leadership, Polices and Process and:

- Human Capital and Information Management and Stewardship
- Control Environment and Risk Assessment
- Human Capital and Control Activities
- Risk Assessment and Information Management and Stewardship



Instructions

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Ok

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# ***DoD | 5010.40***



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

DoD I 5010.40 implements the policy in the FMFIA and OMB Circular A-123 to assign responsibilities and prescribe procedures for the execution on the MICP



Department of Defense  
**INSTRUCTION**

NUMBER 5010.40  
May 30, 2013

USD(C)/CFO

**SUBJECT:** Managers' Internal Control Program Procedures

**References:** See Enclosure 1

1. **PURPOSE.** This instruction:

a. Reissues DoD Instruction 5010.40 (Reference (a)) in accordance with the authority in DoD Directive (DoDD) 5118.03 (Reference (b)) to implement the policy in section 3512 of Title 31, United States Code (U.S.C.) (also known and referred to in this instruction as "The Federal Managers' Financial Integrity Act (FMFIA)") (Reference (c)) and Office of Management and Budget (OMB) Circular No. A-123 (Reference (d)).

b. Assigns responsibilities and prescribes procedures for the execution of the Managers' Internal Control Program.

2. **APPLICABILITY.** This instruction applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities, and all other organizational entities within the DoD (referred to collectively in this instruction as the "DoD Components").

3. **POLICY.** This instruction implements DoD policy, pursuant to References (c) and (d), that a Managers' Internal Control Program be established to review, assess, and report on the effectiveness of internal control (IC).

4. **RESPONSIBILITIES.** See Enclosure 2.

5. **PROCEDURES.** See Enclosure 3.



## Requirements per the DoD I 5010.40 are:

### ➤ OSD Component Heads and Principal Staff Assistants (PSAs):

- ✓ Approve the statement of assurance of the Defense Agencies and DoD Field Activities under their authority, direction, and control prior to submission to the Secretary of Defense.
- ✓ In their capacity as the DoD functional proponents, maintain ownership of any DoD-wide material weaknesses. This includes:
  - Identifying and reporting systemic material weaknesses and reporting the status, until resolved.
  - Reviewing the reported actions of the DoD Components that pertain to their area of functional responsibility and promptly assisting to resolve any material weaknesses where leadership action is needed to correct the weakness.



## Requirements per the DoD I 5010.40 are:

### ➤ DoD and OSD Component Heads:

- ✓ Establish a MICP to:
  - Assess inherent risk in mission-essential processes
  - Document and design internal controls
  - Test the design and operating effectiveness of existing internal controls
  - Identify and classify control deficiencies and promptly prepare and execute corrective action plans
  - Monitor and report the status of corrective action plans until testing confirms resolution of identified weaknesses
  
- ✓ Designate in writing the MICP Coordinator of the DoD Component and oversee the MICP Coordinator's implementation of procedures
  
- ✓ Conduct a formal assessment of the acquisition functions requirements outlined in the USD(AT&L) Memorandum and provide a summary of the assessment in the statement of assurance.
  
- ✓ Submit the annual statement of assurance to the Sec Def. Provide separate explicit levels of assurance in a statement of assurance for each of the following three IC assessments required:
  - (1) Operational and administrative controls relevant to all mission-essential functions throughout their DoD Component, except financial reporting and financial systems
  - (2) Financial reporting functions, as assessed under the oversight of the senior assessment team
  - (3) Integrated financial management systems (IFMS) conformance with the federal requirements



## Requirements per the DoD I 5010.40 are:

### ➤ **Requires each DoD and OSD MICP:**

- Establish a Managers' Internal Control Program that provides an annual statement of assurance to the Secretary of Defense, which includes an explicit level of assurance about the effectiveness of ICs. A copy of the statement of assurance will be provided to the Director, FIAR.
- Designate a Managers' Internal Control Program Coordinator to assist in the execution of the Managers' Internal Control Program.



## Requirements per the DoD I 5010.40 are:

### ➤ Assessable Unit Managers shall:

- ✓ Assess risk that may adversely affect the assessable unit's mission or operations
- ✓ Identify internal control (IC) objectives that support the assessable unit
- ✓ Document operational, administrative, system and financial controls
- ✓ Review processes and procedures to provide recommendations for the enhancement, elimination or implementation of assessable unit internal controls
- ✓ Recommend the retention of controls, enhancement, elimination, or implementation of internal controls for the assessable unit
- ✓ Test the effectiveness of IC identified
- ✓ Identify and classify IC deficiencies according to the reporting categories
- ✓ Develop corrective action plans (CAPs) and track the progress of the plans
- ✓ Actively communicate with the MICP Coordinator on CAPs as required for reporting and resolution of all control deficiencies
- ✓ Maintain MICP documentation



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

**The three separate explicit levels of assurance in an SoA are:**

- **Operations Assessment** – overall program, operational, and administrative controls relevant to all mission-essential functions, except financial reporting and financial systems
- **Financial Reporting Assessment** – identifying and assessing the financial reporting internal controls by assessing the effectiveness of financial reporting ICs and identifying and reporting IC material weakness
- **Financial Systems Assessment** – assess, evaluate, and report the conformance of the DoD Components IFMS compliance with Federal requirements



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

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

- **Communications**
- **Intelligence**
- **Security**
- **Comptroller and Resource Management**
- **Contract Administration**
- **Force Readiness**
- **Information Technology**
- **Acquisition**
- **Manufacturing, Maintenance and Repair**
- **Other**
- **Personnel and Organizational Management**
- **Procurement**
- **Property Management**
- **Research, Development, Test and Evaluation**
- **Security Assistance**
- **Supply Operations**
- **Support Services**



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

When reporting financial reporting or financial system IC material weakness, according to evaluations conducted, the DoD Component will classify the end-to-end business processes affected by the control weakness. The following IC categories will be used to classify the financial material weakness:

- **Budget-to-Report**
- **Hire-to-Retire**
- **Order-to-Cash**
- **Procure-to-Pay**
- **Acquire-to-Retire**
- **Plan-to-Stock**



## 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.



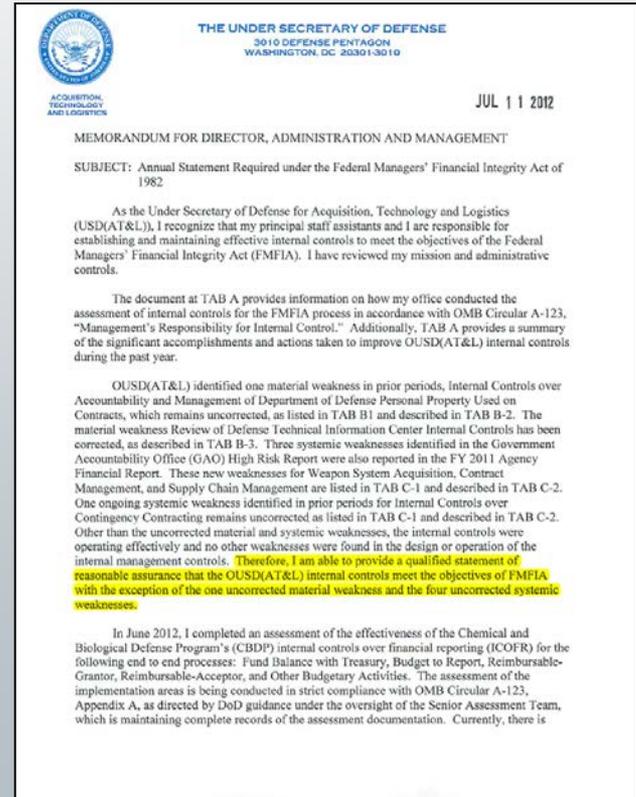
## Reasonable Assurance:

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

## There are three possible assurance statements:

- **Unqualified statement of assurance** – provides reasonable assurance that IC are effective with no material weaknesses reported
- **Qualified statement of assurance** – provides reasonable assurance that IC are effective with the exception of one or more reported material weaknesses
- **Statement of no assurance** – unable to provide reasonable assurance because no assessments were conducted or the noted material weaknesses are extensive and/or pervasive.

FY 2012 SOA





Which of the following is not one of the MICP roles for the OSD Principal Staff Assistants?

- Identify and report new systemic weakness
- Report on the status of the existing systemic weakness until resolved
- Monitor compliance with DOD Instruction 5010.40
- Review weakness reported by the DoD Components and help resolve them

This is a self assessment. It does not count against your overall score. Please select your answer and click submit.



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# ***General Guidance***



### Understanding Management Controls

- Internal controls are designed to protect the Department from fraud, waste, abuse and mismanagement.
  
- Controls are:
  - The methods by which an organization governs its activities to accomplish stated mission requirements;
  - The first line of defense to prevent and protect against fraud, waste, abuse, and mismanagement;
  - A representation of a series of actions or processes that occur regularly throughout operations, whether they are administrative, operational, or financial,
  - A representation of an integral part of every system management uses to regulate operations.
  - Embedded in specific sets of policies, procedures and activities designed to meet a Component's overall objectives
  - Automated or manual
  - A means by which an organization's resources are directed, monitored, and measured
  - Formal system of checks and balances



**The Internal Control Program is:**

- Mandatory for all Components within the Department,
- Dependent upon a formal **communication framework** to include the assessable unit managers, MICP Coordinator, senior managers and the Component Head,
- Formalized strategy to evaluate, adjust and provide a level of assurance regarding the effectiveness of the internal controls, and
- Relies upon assessable units, controls, risk and mission objectives to ensure continuous effective and efficient controls are in place, changes in both internal and external forces require continuous reviews and revision to controls, to ensure recent changes in such forces do not result in material weaknesses.



**The Internal Control Program:**

- The following elements assist in the development and maintenance of an effective program:
  - Establishing a clear tone from the leadership, commonly referred to and throughout this document as a “Tone at the Top”.
  - A description of the Risk Assessment Methodology to include how the Component determines risks and what is performed to ensure resources are applied to the higher risk areas.
  - A description of how the Component Monitors and Evaluates Internal Controls is as important as the testing and evaluations.
  - How deficiencies and corrective actions are tracked.
  - Training efforts must support effective and efficient operations.
  - Appointing a Primary and Alternate MICP Coordinator

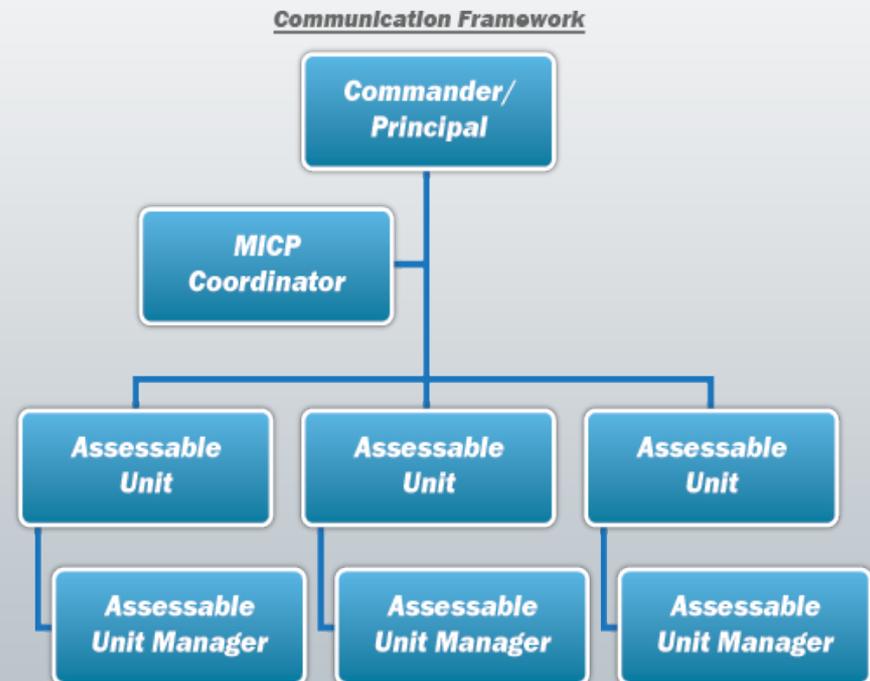


**Purpose of the Communication Framework is to:**

1. Ensure short-term and long-term mission requirements of the Component are effectively communicated through the organization for proper alignment with the Component's short-term and long-term mission priorities and associated risk,
2. Provide leadership a direct communication link to those responsible for specific operational, program and administrative processes, and procedures in order to be appraised of potential risks if warranted.

**In establishing the control program:**

- All levels of leadership must demonstrate commitment to excellence in the workplace.
- Management must clearly define areas of authority and responsibility and appropriately delegate the authority and responsibility throughout the agency.

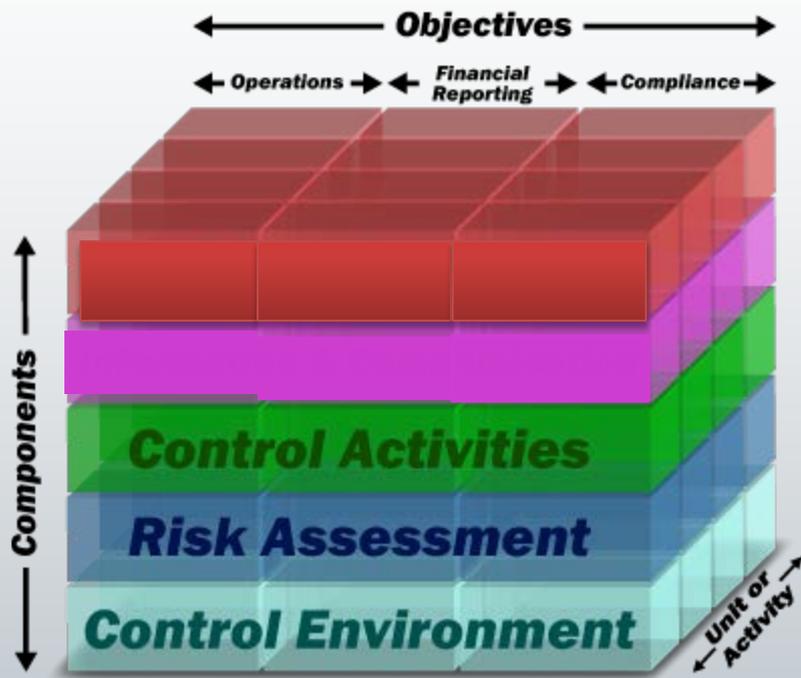




The Committee of Sponsoring Organizations (COSO) Integrated Risk Management Framework consists of **five interrelated components**:

- **Control Environment** – Organizational structure and culture created, by management and employees, influencing the sustainability of an organizations effective internal control.
- **Risk Assessment** – Identification and analysis of risks to the achievement of program objectives and is used to assist in the management of the risks.
- **Control Activities** – Policies and procedures that help ensure necessary actions are taken to address risks related to the achievement of the program’s objectives.
- **Information and Communication** – Encompasses the activities required to identify and communicate information in a timeframe that enables employees to carry out their responsibilities and take actions.
- **Monitoring** – Process to assess the quality of the internal control system’s performance over time, including regular management and supervisory activities





The COSO Integrated Risk Management Framework consists of five interrelated components. They are: Control Environment, Risk Assessment, Control Activities and:

- Human Capital and Information and Communication
- Information and Communication, and Monitoring
- Human Capital and Monitoring
- Organizational Alignment and Leadership and Information Management

This is a self assessment. It does not count against your overall score. Please select your answer and click submit.

Instructions

Ok

Submit



**To Properly Conduct a Risk Assessment:**

- Understand the Component’s missions and objectives;
- Develop a preliminary understanding of critical risks and processes, and their alignment with the Component’s strategic plan, missions, and objectives;
- Create a customized risk universe framework to categorize key risks that reflects the risks that impact the Component;
- Assess, prioritize, and validate risks;
- Scope the risk assessment with input from all stakeholders, preferably management;
- Report the results of the risk assessment to the Commander/Principal and use the results to develop a strategy for reviewing and assessing them;
- Determine current risk monitoring activities; and
- Understand the effectiveness of entity-level controls, such as:
  - Policies and procedures,
  - Code of conduct,
  - Segregation of duties,
  - Continuity and disaster recovery plans for all primary data centers and business unit facilities, which are typically imbedded in the Continuity of Operations Plans (COOP), and
  - Fraud prevention/detection programs

**Risk assessments require identifying, analyzing, and managing both internal and external risks that may affect the ability to achieve the organization mission and goals.**



**Types of Risk:**

**Inherent Risk** – events or conditions that exist which could negatively impact mission objectives, assuming no controls are in place.

**Control Risk** – when controls are in place but fail to prevent or detect identified inherent risks.

**Residual Risk** – includes risks that exist after management has responded to and modified controls already in place and results in the need to possibly incorporate additional controls.

**Fraud Risk** – when fraud or misuse of assets cause resources to be wasted, which prevents the accomplishment of the mission. While controls may be put into place no program is developed to eradicate neither fraud nor can it be expected that fraud will be detected; however, understanding that fraud exists is critical.

**There are three simple questions regarding risk:**

1. Have all the risks been identified that might clearly impact the mission or objectives,
2. Are controls in place to cover or mitigate the risk, and
3. Are the controls in place or mitigation steps working?



Once management has identified risks within the organization, the risk must be assessed. The likelihood represents the probability of occurrence and the impact is the consequence of occurrence. There are many ways to determine which risks require more attention. A simple risk assessment must clearly identify or categorize risks as low, medium or high. Low risk do not materially impact the organization, medium risks may materially impact the organization; however high risks do impact the organization in a material manner and lead to failures in a myriad of ways. The following is one of several charts that may be used to identify risk and is not required, but strongly encouraged.

Likelihood of Occurrence	Consequence of Impact To Organization				
	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain	Medium	Medium	High	High	High
Likely	Medium	Medium	Medium	High	High
Possible	Low	Medium	Medium	High	High
Unlikely	Low	Low	Medium	Medium	High
Remote	Low	Low	Low	Medium	Medium
	Insignificant	Minor	Moderate	Major	Catastrophic



## DoD Components should consider available sources of management evaluation activity, such as:

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

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



True or False: The annual assessment of internal controls should be isolated from daily operating and management activities.

True

False



True or False. Select you answer and then select submit.

Ok

Instructions

Submit



# ***DoD***

# ***Audit Readiness***



## Phases in "The Journey":

### "The Journey"



### Phase 1:

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

### Phase 2:

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

### Phase 3:

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



**Success Requires Attention in Three Areas:**

**People**

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

**Process**

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

**Technology**

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



**Citizens Demand and Deserve Sound Financial Reports  
and Internal Controls**



# ***Financial Systems & Financial Reporting Requirements***



## The following Components are required to submit an Annual SoA for Operations, Financial Reporting, and Financial Systems Control:

- Army, GF & WCF
- Air Force, GF & WCF
- Navy, GF & WCF
- **Chemical Biological Defense Program, GF**
- **Defense Advanced Research Projects Agency, GF**
- **Defense Technical Information Center, GF**
- Defense Commissary Agency, GF & WCF
- Defense Contract Audit Agency, GF
- **Defense Contract Management Agency, GF**
- Defense Finance and Accounting Service, GF
- Defense Information Systems Agency, GF & WCF
- Defense Intelligence Agency, WCF
- **Defense Logistics Agency, WCF**
- Defense Security Cooperation Agency, GF
- **Defense Threat Reduction Agency, GF**
- Host Nation Support for U.S. Relocation Activities, Defense, GF
- Medicare-Eligible Retiree Health Care Fund, GF
- Military Housing Privatization Initiative, GF
- Military Retirement Trust Fund, GF
- **Missile Defense Agency, GF**
- National Security Agency, WCF
- National Geospatial – Intelligence Agency
- Office of the Inspector General, DoD, GF
- Office of the Secretary of Defense, GF
- Office of the Secretary of Defense (WHS), GF
- Pentagon Reservation Maintenance Revolving Fund (WHS), GF
- Service Medical Activity, GF
- TRICARE Management Activity, GF
- TMA-FOD, GF
- United States Special Operations Command, GF
- United States Transportation Command, WCF
- Washington Headquarters Services, GF

**For SOA reporting purposes the applicable fund (GF – General Fund / WCF – Working Capital Fund) is noted.**



Applies to financial management systems of all agencies

Conduct a Financial System assessment and report results annually in the SOA

FFMIA requires that the Component's IFMS be compliant with (substantial compliance requirements):

- Federal system requirements;
- Federal accounting standards; and
- U.S. Standard General Ledger at the transaction level

*OMB Circular No. A-127 – Prescribes Policies and Standards for Executive Departments and Agencies to Follow Concerning Their Financial System*

[http://www.whitehouse.gov/omb/circulars\\_a127/](http://www.whitehouse.gov/omb/circulars_a127/)

The screenshot shows the official website of the Office of Management and Budget. The header includes the OMB logo and the text "Office of Management and Budget". Below the header is a navigation menu with links for "About", "OMBlog", "The Budget", "Management", "Regulation & Information Policy", "Legislative Information", "Join OMB", and "Contact OMB". The main content area features the title "Circular No. A-127 Revised" in red. To the left is a sidebar with a list of categories such as "Leadership Bios", "OMB Organization Chart", "Open Government Plan", "OMB News Releases", "RSS Feeds", "Intellectual Property", "Agency Info", "Bullets", "Circulars", "Budget", "State and Local Governments", "Educational and Non-Profit Institutions", "Federal Procurement", "Federal Financial Management", "Federal Information Resources / Data Collection", "Other Special Purpose Memoranda", "Privacy Guidance", "Reports", "Federal Register", "FOIA", "No FEAR", and "OMB Locator". The main text area contains the following information: "Circular No. A-127 Revised" dated January 8, 2009. The subject is "Financial Management Systems". The text states that OMB Circular A-127 prescribes policies and standards for executive departments and agencies to follow when managing their financial business systems. Revisions include incorporating new requirements for agencies to adopt standard financial business practices to use financial management shared service providers to implement and maintain their core financial system. Further, pursuant to the Federal Financial Management Improvement Act of 1996 (FFMIA), Public Law 104-208, Title VII (31 U.S.C. 3512 note), the Circular now includes and clarifies the guidance for reporting substantial compliance with this law. It also notes that this circular replaces and revises all previously issued OMB Circular A-127 dated July 23, 1993, June 10, 1999, and December 1, 2004. All significant changes are summarized in the first page of the Circular. This revision of Circular A-127 is effective October 2009. However, early implementation is encouraged. A revised version of the entire Circular is available on the OMB web site. All questions or inquiries concerning Circular A-127 should be addressed to the Office of Federal Financial Management, Financial Analysis and Systems Branch, (202) 395-3993. The contact information listed is Jim Isaacs, Director.



## Compliance with Federal Financial Management Improvement Act

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

### Head of Reporting entity is Responsible for:

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



## Requirement for Entities that Participate in Financial Reporting

### Beginning in FY 2011:

#### **Components were no longer required to:**

- Submit a Corrective Action Plan (CAP) with their Financial Reporting SOA memorandum.
  - All CAPs should be included in the Component Financial Improvement Plans (FIPs) contained in the Financial Improvement and Audit Readiness (FIAR) Planning Tool.

### For FY 2013:

#### **By July 15, 2013 Components are required to submit:**

- A summary of the material weakness CAP to the OSD Senior Accountable Official.
- Their Financial Reporting SOA memorandum signed by the Component Senior Assessment Team (SAT) Chair, along with the CAP summaries to the OSD FIAR office.

**Component SAT Chair should brief the Component Head (or Principal Deputy) on the content and level of assurance contained within the ICOFR SOA memorandum prior to the submission.**



## Requirement for Entities that Participate in Financial Reporting

### For FY 2013 (Continued):

- The OSD Senior Accountable Official will brief the Department's summary CAP to the FIAR Governance Board in August 2013.
- The Financial Reporting SOA memorandum signed by the Component SAT Chair should be included as part of the Component's overall SOA submission to the Deputy Sec Def.

		<b>DoD Material Weakness Corrective Action Plan</b>	
<b>Applicable Components:</b> List of applicable Components with this weakness.			
<b>First Year Reported:</b> Show earliest date reported to OSD. If multiple Component level material weaknesses roll up to the DoD Material Weakness, report earliest date any of those weaknesses were reported.		<b>Original Target Date:</b> Target Date First Reported. If multiple Component level material weaknesses roll up to the DoD Material Weakness, report the original target date for the earliest reported Component level weakness.	
<b>Target Date on Prior Year SOA:</b> Show Target Date Reported on FY 2010 SOA. If multiple Component level material weaknesses roll up to the DoD Material Weakness, report the Target Date (Reported on FY 2010 SOA) for the Component level material weaknesses with the latest target date.		<b>Status:</b> (On Track)* <b>Slipped</b> <i>*If slipped- provide reason for slippage in the Impediments Section below</i>	
<b>Current Target Date:</b> Target Date Reported on the 2012 SOA			
<b>Description of Weakness:</b>	<i>Describe the issue(s) recognized with the design or operation of a control or control(s) that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements related to financial reporting on a timely basis.</i>		
<b>Multiple Component Material Weaknesses may be linked under a single DoD Weakness</b>			
<b>Corrective Action Summary:</b>	<i>Present the high level summary of actions procedures in resolving the reported weakness. For example: (1) New system implementation, (2) Process or Control changes that will be implemented, (3) Testing existing compensating controls and improving them or identifying compensating controls that need to be put in place until new system is deployed, and (4) Analyze test results to determine if the weakness has been corrected.</i>		
<b>Impediments:</b>	<i>Identify the areas which are causing or may cause delay in meeting milestones in the Component's FIP(s) for correcting the material weakness. <b>If date slipped</b> from previous year, describe what caused the slippage.</i>		
<b>Component Update for OSD Governance Board</b>			



# ***Statement of Assurance Package***



## Cover Memo signed by Director - Statement of reasonable assurance on internal controls

- Unqualified statement of reasonable assurance (no material weaknesses) OR
- Qualified statement of reasonable assurance (with material weaknesses) OR
- No assurance (pervasive weaknesses)

## Tab A-1: Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted

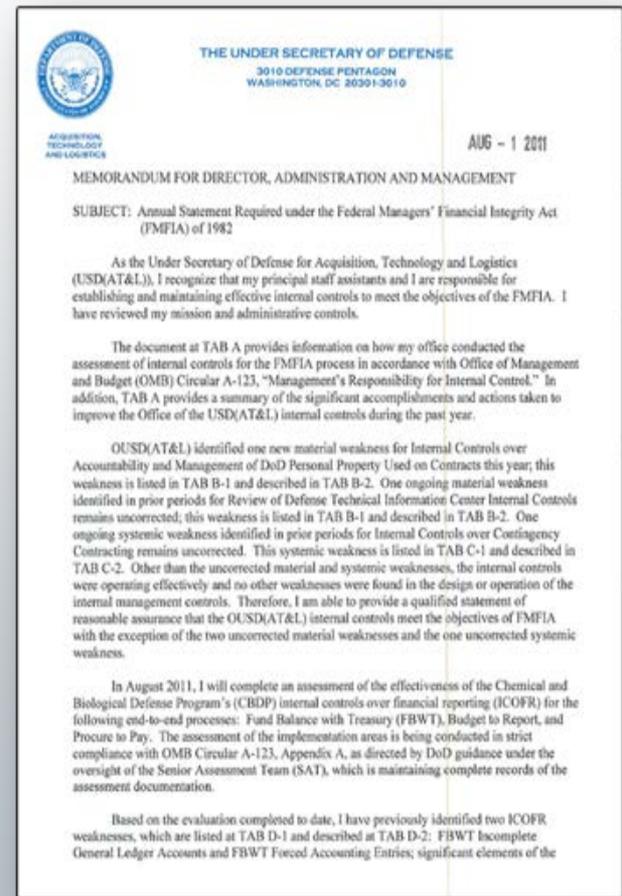
- Assessment of Acquisition Functions
- Reporting on Internal Controls Over Financial System Process (ICOFs)

## Tab A-2: Significant MICP Accomplishments

## Tab B: Descriptions of material weaknesses

## Tab C: Descriptions of systemic weaknesses

## Tab D: Description of Financial Reporting material





TAB C

TAB A

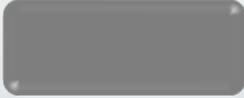
TAB B

TAB D

Cover Memo



Statement of reasonable assurance on internal controls



Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted



Description of material weakness



Description of systemic weakness



Description of Internal Controls Over Financial Reporting (ICOFr) material weakness



Match the Sections of the Statement of Assurance package to their contents, then select submit

Ok

Instructions

Submit



## Tab A, How the Evaluation was Conducted:

Describe how the organization conducted its annual assessment of internal controls and arrived at its conclusion on reasonable assurance.

- **Assessment of Acquisition Functions**

Summarize actions to strengthen internal controls, improve execution of the MIC Program and related improvements (the OUSD (Comptroller) guidance provides a template for this).

The Reporting Entity should provide an overall introductory summary statement to accompany and explain the [associated] table regarding its compliance with FMFIA.

Cite any Internal Control Improvements / Accomplishments, such as correcting a control deficiency or improving a control situation. The format is simple:

- Description of Issue (a brief title)
- Improvements / Accomplishments (describe in bullet form)



## TAB A, Assessment of Acquisition Functions

### **Complete the DoD Assessment of Internal Control over Acquisition Functions Template**

- DoD Components are not required to submit the completed DoD template. However, the completed template must be made available, if requested by OUSD (AT&L) for review.

### **Determine if there are new deficiencies or weaknesses and develop a corrective action plan (CAP)**

- Report the CAP in the annual Statement of Assurance in accordance with FMFIA and annual OUSD (Comptroller) guidance ... just as it's done for all other (non-financial reporting) weaknesses.

**Summarize the results of the completed assessment and briefly explain how the DoD and OMB templates were used to determine deficiencies and weaknesses in TAB A of the SOA.**

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



## Tab A, Example of FY 2012 Internal Control Accomplishment provided by Defense Procurement and Acquisition Policy (DPAP):

### Description of Issue: Deployment of New Contracting Curriculum

#### Accomplishment:

- Completed deployment of the Defense Acquisition Workforce Improvement Act certification standards (Levels I, II, III) and curriculum for the contracting, purchasing, and industrial property career fields. The new curriculum incorporates more pricing, competition, contract administration, services acquisition, small business, and the Better Buying Power efficiency initiatives. Improved training for 30,000 members of the DoD contracting workforce results in more affordable goods and services for the warfighter and demonstrates good stewardship of taxpayer dollars.



## Tab A, Example of FY 2012 Internal Control Accomplishment provided by International Cooperation (IC):

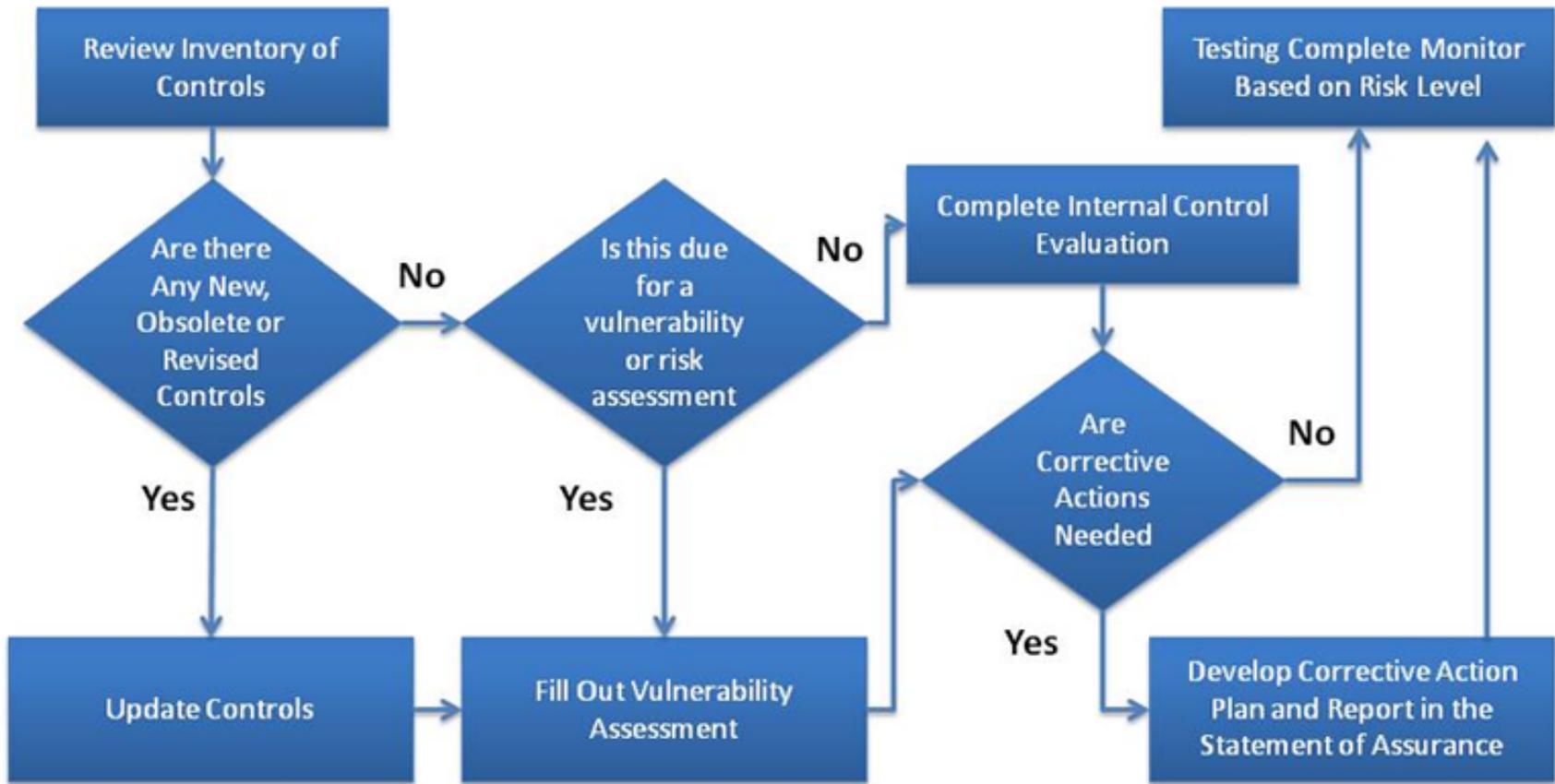
**Description of Issue:** U.S. Warfighters almost always operate in coalition with other nations, but most materiel solutions developed are U.S.-only. International cooperation is needed to identify and redress coalition Warfighting capability gaps.

### **Accomplishment:**

- The Coalition Warfare Program (CWP) improves coalition capabilities, interoperability and provides advanced technologies for DoD forces at reduced cost to the DoD. CWP aligns research and development activities with operational priorities through outreach and active engagement with Combatant Commands, Services and Agencies.
- The FY 2013-2014 CWP Management Plan provides internal controls to leverage both U.S. and foreign resources and technical expertise while conducting selection process, monitoring project execution, accomplishments, challenges, and budget execution. CWP team monitors project progress through projects' monthly budget reporting, quarterly progress reporting, and participates as appropriate in project planning meetings and other events.
- Leverages returns to DoD. Since inception, CWP has funded 110 projects with 90 partners, with 14 projects selected in FY 2012 to start in FY 2013. CWP has provided \$106 million, other U.S. sources \$330.8 million (1:3.1), and foreign partners \$463.8 million (1:4.4) for a total of \$900.7 million (1:7.5) in leveraged funding to resolve coalition warfighting issues.



## Conducting an IC Assessment and Developing a Corrective Action Plan for Identified Material Weakness





## 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.*

**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.**



## 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.



## Tab D, Financial Reporting Material Weaknesses:

**The Financial Reporting statement of assurance is based on a year-long process of actions prescribed by OMB and OUSD (C).**

**OUSD (C) guidance directs the:**

- Financial Statement Reporting Entities (FSREs) that must provide an ICOFR statement of assurance,
- Financial implementation areas each FSRE must assess,
- Process to be used for this assessment, and
- Schedule of specific deliverables.

**The Financial Reporting 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 and Defense Technical Information Center.**



## 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.



## Summary Corrective Action Plan Format:

### Template for Material Weaknesses Reporting

#### Summary of Uncorrected and/or Corrected Material Weaknesses and Corrective Action Plans

#### Uncorrected/Corrected Material Weaknesses Identified During the/In a Prior Period:

IC Reporting Category: (a)

First Year Reported: (b)

Target Correction Date: (c)

Description of Material Weakness: (d)

Corrective Action Summary: (e)

### **NOTES:**

- a. Internal Control Reporting Categories are defined in Enclosure 5 of DODI 5010.40.
- b. Enter the FY in which this material weakness was first reported. This date will not change once the weakness has been identified.
- c. This is the expected date of resolution. If this date changes, then below the Corrective Action Summary provide a brief explanation on why this date changed.
- d. Provide a brief description of the overall weakness and the impact to the organization. This shouldn't be more than a paragraph in length.
- e. Describe, in summary, the steps necessary to correct the deficiency. Ensure you explain how you will validate the deficiency no longer exists. The validation may either be a documented independent audit review or the accomplishment of a pre-established reported metric. This shouldn't be more than a paragraph in length.

**This format will be included in the annual Statement of Assurance**



## Format for a Detailed Corrective Action Plan

### CORRECTIVE ACTION PLANS AND MILESTONES

#### Detail of Uncorrected and Corrected Material Weaknesses, Corrective Action Plans and Milestones Template

##### Detail of Uncorrected and/or Corrected Material Weaknesses and Corrective Action Plans

Internal Control Reporting Category: *(Note a, below)*

Targeted Correction Date: *(Note b, below)*

Description of Material Weakness: *(Note c, below)*

Detailed Corrective Action Plan: *Provide a detailed corrective action plan (including milestones) for each material weakness identified (example below). Describe the steps necessary to correct the deficiency. Explain how your organization will validate that the deficiency no longer exists and validate actions taken. The validation may either be a documented independent audit review or the accomplishment of a pre-established reported metric.*

4 <sup>th</sup> Qtr, FY 20xx	Review policies to support standardizing data and processes established across the Command.
1 <sup>st</sup> Qtr, FY 20xx	Identify two programs for implementation of revised processes and begin tracking compliance and use.
2 <sup>nd</sup> Qtr, FY 20xx	Develop and deploy a formal training program.
3 <sup>rd</sup> Qtr, FY 20xx	Training curriculum developed and deployed.
3 <sup>rd</sup> Qtr, FY 20xx	Surveillance/oversight in place to support annual report of compliance to the expected standard.
4 <sup>th</sup> Qtr, FY 20xx	Implement recommended changes for centralization of the process ownership and consistent support for programs.
4 <sup>th</sup> Qtr, FY 20xx	Implement recommended changes for staffing levels and oversight of processes.
4 <sup>th</sup> Qtr, FY 20xx	Implement recommended changes to address shipbuilding program office capability and support.
4 <sup>th</sup> Qtr, FY 20xx	Policy compliance meets target level.
4 <sup>th</sup> Qtr, FY 20xx	Validate corrective action plan effectiveness by testing shipbuilding program office compliance with the program changes.

- a. Internal Control Reporting Category: Defined in Enclosure 5, DoDI 5010.40.
- b. Targeted Correction Date: Expected date of resolution. If this date changes, provide a brief explanation in the Corrective Action Summary cell.
- c. Description of Material Weakness: Provide a brief description, approximately 50 – 75 words in length, of the overall weakness and the impact to the organization.

**This detailed weakness will be maintained by the AT&L MICP Manager**



## Material Weakness Examples – Title and Descriptions:

### **Internal Controls over Accountability and Management of DoD Personal Property Used on Contracts.**

The Department has not properly trained the staff or enabled sufficient tools to address the accountability requirements in place to adequately oversee and execute personal property transactions. Audit reports have consistently identified a lack of accountability concerning personal property for which the DoD has title but not immediate physical control, typically manifested in property used on contracts.

### **Internal Controls over Contingency Contracting.**

The acquisition workforce is not adequately staffed, trained, structured, or empowered to meet the needs of the 21st Century deployed Warfighters. Audit reports conclude that internal controls to mitigate risks in the contracting process were ineffective or non-existent. Additionally inadequate surveillance of service contracts due to a significant shortfall of Contracting Officer's Representatives (CORs) affected DoD's oversight capability and left the Department vulnerable.



## New Material Weakness Template:

### Uncorrected/Corrected Material Weaknesses Identified During the / In a Prior Period:

IC Reporting Category: Property Management

First Year Reported: *FY 2011*

Target Correction Date: *1<sup>st</sup> QTR, FY 2014*

#### Description of Material Weakness:

The Department has not properly trained the staff or enabled sufficient tools to address the accountability requirements in place to adequately oversee and execute personal property transactions. Audit reports have consistently identified a lack of accountability concerning personal property for which the DoD has title but not immediate physical control, typically manifested in property used on contracts.



## The Importance of Your Role:

**Your input will support the USD (AT&L)'s Statement of Assurance to the Director, Administration and Management.**

**Your systemic weaknesses – and many of your material weaknesses – will be included in:**

- The OSD Statement of Assurance to the SECDEF.
- The DoD Agency Financial Report to the OMB and the Congress.

**Your systemic weaknesses address the most complex internal control problems in DoD. Their resolution represents a major improvement in controls.**



***FY 2013 SoA/MIC  
Program for AT&L and  
Defense Agencies***



## TAB A, Internal Control Accomplishments – AT&L Organizations

The USD(AT&L) memorandum, “Initial Guidance from the Acting USD(AT&L)”, dated October 7, 2011, list USD(AT&L)’s priorities. The FY 2013 SOA IC accomplishments, should align with the following six priorities:

- Supporting forces who are engaged in Overseas Contingency Operations
- Achieving affordable programs
- Improving efficiency
- Strengthening the industrial base
- Strengthening the acquisition workforce
- Protect our future





## Requirements and Timeline – AT&L Organizations

### Tab A

- ARA / P&EP will draft narrative “Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted.”
- In support of the narrative, the OUSD (AT&L) staff must submit Internal Control Accomplishments that align with any of the 6 AT&L priorities

### Tabs B – D (Material and Systemic Weaknesses)

- OUSD (AT&L) staff must submit material and systemic weaknesses (updated weaknesses and new weaknesses)
  - Submit a detailed **and** summary corrective action plan for each material weakness identified.

### Helpful Hints

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

**Inputs Due July 3, 2013**



## Requirements and Timeline – AT&L Organizations

### Draft AT&L Statement of Assurance Package

- ARA/P&EP will consolidate inputs and prepare SoA document, including Cover Memo.
  - If clarifications or edits are needed, we will contact you.
- Final Package will be entered into SACCP for Formal Coordination with Principal Staff Assistants (PSAs).
  - PSAs will be asked to sign Coordination Sheet containing a statement appropriate to the PSA.
  - Coordination to begin about **July 17, 2013**.



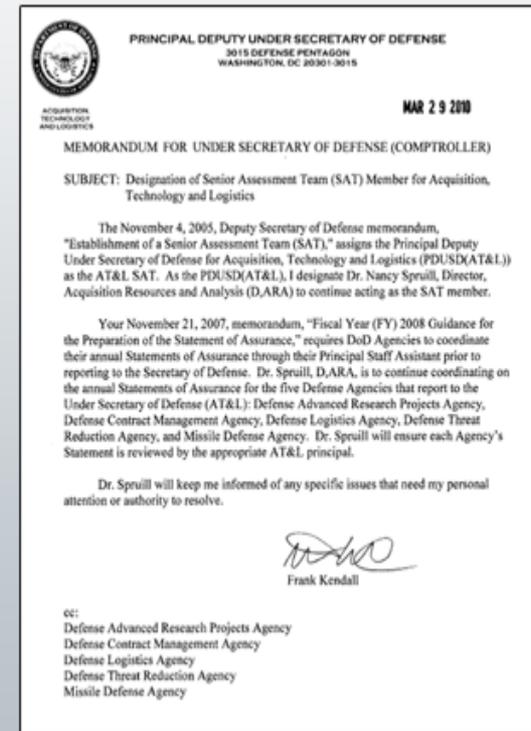
# ***Coordination on Defense Agencies SoAs***



## Coordination on Defense Agency Statements of Assurance

### D, ARA coordinates on Defense Agency Statements of Assurance

- Per PDUSD (AT&L) Memo, Designation of Senior Assessment Team (SAT) Member for AT&L, dated March 29, 2010.
- Defense Agency Point of Contact (POC) is to send **signed** SoA in both hard copy and via e-mail to the corresponding AT&L Principal Coordination (POC) by **July 26, 2013**.





## Coordination on Defense Agency Statements of Assurance

**AT&L Principal Coordination POC is to obtain their AT&L Principal's concurrence on the Agency's SoA.**

- Use Coordination Sheet (to be provided by ARA / P&EP).
- After obtaining AT&L Principal's coordination, contact Agency POC for pickup.

**Agency POC is to pick up SoA package from AT&L Principal Office and hand-carry it to Pentagon, Room 3C949A and place it in the ARA / P&EP Mailbox.**

- Package must be submitted to ARA by **August 9, 2013**.

**D,ARA will provide coordination by August 30, 2013.**



## Coordination on Defense Agency Statements of Assurance

### The Agency POC is responsible for:

- Submit both Microsoft Word and PDF files of its signed SOA via email to the Managers' Internal Control Program (MICP) account at [MICP@osd.mil](mailto:MICP@osd.mil).
- The electronic versions of each Component SOA are required no later than the first Wednesday following Labor Day.

**OUSD (Comptroller) will log the date of the SoA submittal**



## Coordination on Defense Agency Statements of Assurance

### **ARA / P&EP will:**

- Obtain Director, ARA coordination, and
- Then notify the Agency POC that the coordinated Statement of Assurance is ready for pickup.

### **ARA / P&EP will send via e-mail a scanned version of each Cover Memo showing the Coordination to:**

- Appropriate Agency and AT&L Principal Coordination POCs, and
- The DoD Managers' Internal Control Program Manager in OUSD (Comptroller).



# ***Requirements and Timeline Summary***



## AT&L SoA Summary

### Due Dates:

Internal Control Accomplishments and  
All weaknesses, existing and new – **July 3, 2013**

**Final Statement entered into SACCP for Formal Coordination with Principal Staff Assistants (PSA).**

PSAs will be asked to sign Coordination Sheet containing statement appropriate to them.  
Coordination to begin about **July 17, 2013**



## Defense Agencies SoA Summary

Defense Agency POC is to send **signed** SoA in both hard copy and via e-mail to the corresponding AT&L Principal Coordination POC by **July 26, 2013**.

AT&L Principal Coordination POC is to obtain their AT&L Principal's concurrence on the Agency's SoA.

Package must be submitted to P&EP by **August 9, 2013**.

D, ARA will provide coordination by **August 30, 2013**.



**OSD (AT&L) POCs:**

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