UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

JUL 3 2003

MEMORANDUM FOR INTERNAL MANAGEMENT CONTROL FOCAL POINTS

SUBJECT: Fiscal Year (FY) 2003 Guidance for the Preparation of the Statement of Assurance

This memorandum is a reminder that each Department of Defense (DoD) Component must submit to the Secretary of Defense **no later than October 1, 2003,** an annual Statement of Assurance signed by the Component's Head (or principal deputy) that covers the fiscal year (FY). This is a standing requirement of DoD Instruction 5010.40, "Management Control Program Procedures." We have accelerated the due date to consolidate the Statements of Assurance into the FY 2003 Performance and Accountability Report (PAR), being submitted in December of this year.

Attached are the guidelines for preparing your FY 2003 Statement of Assurance. Please make your statements clear and concise so a member of the general public would understand. We have added a new requirement for you to provide the *quarter* in addition to the fiscal year that you expect to complete any uncorrected material weakness.

Last year, we submitted the DoD Annual Assurance Statement as part of the FY 2003 DoD Performance and Accountability Report signed January 31, 2003, which is available on the web site at http://www.dod.mil/comptroller/par/index.html. We reported eight systemic weaknesses that have the potential to cause adverse impacts on the Department's overall operations. Request you review these systemic weaknesses and address those impacting your Component in your statement.

Each DoD Component is required to submit its Statement of Assurance in both paper copy and electronically (disk or electronic mail) as specified in the attached guidance. For more information, please contact Ms. Peggy Johnson, the DoD Management Control Program Coordinator, by e-mail at johnsonp2@osd.pentagon.mil or at (703) 693-6520.

Dov S. Zakheim

Attachment:
As stated

GUIDELINES

FOR PREPARATION OF THE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

ANNUAL STATEMENT OF ASSURANCE

FISCAL YEAR 2003

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DEPARTMENT OF DEFENSE
ANNUAL STATEMENT OF ASSURANCE REQUIREMENTS

Department of Defense (DoD) Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, require the Head of each DoD Component to provide **the Secretary of Defense** an annual Statement of Assurance based on a general assessment of the effectiveness of the Component's management controls. This statement will disclose material weaknesses identified and describe the plans and schedules to correct those weaknesses. **The Head (or principal deputy) of the Component must sign the statement.** This signature authority may not be delegated below this level.

Submission Date: Beginning in fiscal year (FY) 2002, the Department of Defense has consolidated the DoD Statement of Assurance into the Performance and Accountability Report (PAR). For FY 2003, the Department of Defense will accelerate the reporting submission date of the PAR. Because of the accelerated date for the comprehensive reporting required under the PAR format, **DoD Components must submit the Statement of Assurance no later than October 1, 2003**.

The list of DoD Components required to submit Annual Statements of Assurance is on page 5. Each Statement of Assurance submission shall consist of the following:

- A cover memorandum, **addressed to the Secretary of Defense and signed by the Head of the DoD Component, or the principal deputy**, providing the assessment by the Component's senior management as to whether there is reasonable assurance that the Component's management controls are in place, operating effectively, and being used. Under Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," June 21, 1995, this statement of assurance must take one of the following three forms (see sample memorandum on page 6):

1. An unqualified Statement of Assurance (reasonable assurance). Each unqualified statement shall provide a firm basis for that position, which the Head (or principal deputy) will summarize in the cover memorandum. Tab A will contain a more extensive explanation.

2. A qualified Statement of Assurance (reasonable assurance with exception of the material weakness(es) noted). The cover memorandum must cite the material weaknesses in management controls that preclude an unqualified statement.

3. A negative statement (no reasonable assurance). The Head (or principal deputy) shall provide the reason for this position in the cover memorandum.

- TAB A: A description of how the DoD Component conducted its assurance evaluation and based on that evaluation, a statement about how the Head (or principal deputy) achieved this level of reasonable assurance (sample on page 9).

- TAB B-1: A list of titles of all uncorrected and corrected material weaknesses identified through FY 2003. Include the projected correction dates, e.g., 2nd Qtr, FY 2002, for corrected weaknesses and the actual correction dates, e.g., 3rd Qtr, FY 2002, for corrected weaknesses. See page 12 for additional guidance.

- TAB B-2: Narrative descriptions of all uncorrected material weaknesses including the plans and schedules for the corrective action(s). Include those identified during the current year and those disclosed in prior years with updated information. Narratives for updating material weakness identified in prior years will explain the rationale for any changes to previously reported corrective milestone dates. See page 14 for specific guidance.

- 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 corrected material weaknesses that were identified in either current or prior year(s). For each corrected material weakness, the last milestone will describe the method that the Component used to validate the corrective action to include a certification that the corrective action is effectively resolving the weakness. See page 17 for more specific guidance.

- TAB B-4 A brief summary of the most significant actions taken by the DoD Component during FY 2003 to strengthen either specific management controls, the management control program, or other improvements. Examples of other improvements are the protection of government assets, efficiency of operations, conservation of resources, or improvements to customer needs. See page 18 for more specific guidance.

- Each Component will provide both electronic and hard copies of its FY 2003 Statement of Assurance. The electronic version of the Component statements shall be subdivided and submitted by statement tab instead of one continuous document. For statements longer than 15 pages, please submit on a 3.5 inch diskette rather than by electronic mail. The electronic version of each Component's statement of assurance is required by October 1, 2003. The mailing address is:

Office of the Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Room 3E843, The Pentagon
Washington, DC 20301-1100
Attention: Management Control Program Coordinator

- Each Component shall submit **its original (paper) signed copy** of the Statement of Assurance directly to the Secretary of Defense **no later than October 1, 2003.** The statement must have the signature of either the Head (or principal deputy) of the DoD Component. The mailing address is:

Honorable Donald H. Rumsfeld
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

- Information copies of the Statement of Assurance from the Combatant Commands shall be furnished to the Chairman of the Joint Chiefs of Staff. The mailing address is:

General Richard B. Myers, USAF
Chairman of the Joint Chiefs of Staff
9999 Joint Staff Pentagon
Washington, DC 20318-9999

DOD COMPONENTS REQUIRED TO SUBMIT FY 2003 ANNUAL STATEMENTS OF ASSURANCE

Office of the Secretary of Defense
Department of the Army
Department of the Navy
Department of the Air Force
Inspector General, Department of Defense
Joint Staff
Defense Advanced Research Projects Agency
Defense Information Systems Agency
Defense Commissary Agency
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Finance and Accounting Service
Defense Intelligence Agency
Defense Logistics Agency
Defense Security Cooperation Agency
Defense Security Service
Defense Threat Reduction Agency
Missile Defense Agency
National Imagery and Mapping Agency
National Reconnaissance Office
National Security Agency
Uniformed Services University of the Health Sciences
United States Central Command
United States European Command
United States Joint Forces Command
United States Northern Command
United States Pacific Command
United States Southern Command
United States Special Operations Command
United States Strategic Command
United States Transportation Command

SAMPLE COVER MEMORANDUM FOR ANNUAL STATEMENT OF ASSURANCE

MEMORANDUM FOR THE SECRETARY OF DEFENSE **(Components must address the cover memorandum to the Secretary of Defense)**

SUBJECT: Annual Statement Required under the Federal Managers' Financial Integrity Act (FMFIA) of 1982

As **(title)** of the **(name of Component)**, I recognize the importance of management controls. I have taken the necessary steps to ensure a conscientious and thorough evaluation of management controls for the **(name of Component).** The results indicate that the **(name of Component)** system of internal accounting and administrative control, in effect during the fiscal year ending September 30, 2003, **[the statement must take one of three forms: "provides reasonable assurance" (unqualified statement); "provides reasonable assurance with the exception of the material weaknesses noted" (qualified statement); "does not provide reasonable assurance" (negative statement)]** that management controls are in place, operating effectively, and being used. Furthermore, the **(name of Component) (achieved or did not achieved)**the FMFIA objectives within the limits described in Tab A. Tab A also provides information on how the **(name of Component)** conducted the evaluation and cites any deficiencies in the process.

Component's statement will include the following paragraph if the Component identified material weaknesses, either in the current fiscal year or past fiscal years:

The evaluation did identify material weaknesses. At Tab B-1 is a list of material weaknesses that still require corrective action. At Tab B-2 is an individual narrative for each material weakness listed at Tab B-1. **(Include the previous two sentences if your Component has uncorrected material weaknesses.)** At Tab B-3 is an individual narrative for each material weakness corrected during the period. (Include the previous sentence if your Component corrected any material weaknesses during the past fiscal year.) At Tab B-4 is a summary of the significant accomplishments and actions taken to improve Component management controls during the past year.

(Signature of Component Head or Principal Deputy)

CONCEPTUALIZING A MATERIAL WEAKNESS

Each manager is responsible for defining and specifying management control material weaknesses in his or her area of responsibility. In order to identify and clearly define a specific Management Control (MC) Program weakness, the manager must understand what the term "material weakness" means as it pertains to the Management Control Program and the Statement of Assurance. The appearance of a weakness in an audit report does not necessarily warrant reporting it as a material weakness in the Component's Statement of Assurance. OMB Circular A-123 states that a deficiency that the agency head determines to be significant enough to be reported outside the agency shall be considered a "material weakness." This designation requires agency managers to use judgment as to the relative risk and significance of deficiencies. The bottom line is that the weakness is considered material if the Head (or principal deputy) of the Component determines to include the weakness in the Statement of Assurance submitted to the Secretary of Defense either to request assistance in resolving it or to make him aware of the problem. Therefore, the decision of whether a weakness is "material" is leadership's judgement.

Beyond audit reports, the DoD Components are expected to conduct, as a minimum, annual self-assessments that may identify management control weaknesses. As stated in DoD Instruction 5010.40, the determination about whether a weakness is sufficiently material to warrant reporting to higher levels is a management judgment. Even if an audit report first identifies a weakness, the scope of the corrective actions do not have to be limited to the audit report. Corrective actions should resolve the weakness, in its entirety, for the entire DoD Component.

Once reported, the same weakness should never reappear as a new, re-titled weakness in future Statements of Assurance 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 weakness that a component originally identified in FY 1998 and corrected in FY 2000. Then in FY 2003, audit reports identify related problems and the component wants to report it as a material weakness in FY 2003. The material weakness should retain the same title as the original, but the "Year Identified" date would now appear as FY 2003, not FY 1998.

Components should resolve material weaknesses as quickly as possible. Only in rare instances should a weakness go uncorrected for more than 3 years and that occurs when extraordinary circumstances prevent quicker resolution. Components must clearly explain extraordinary circumstances.

Each Component should review the management control weaknesses reported by the other DoD Components when preparing the Statement of Assurance. In previous annual DoD Statements of Assurance, there have been differences in weakness reporting among DoD Components, particularly among the Military Departments. Differences in senior management interpretation of the weakness materiality may account for some of the disparity. However, the Department prefers consistency and encourages DoD Components to review prior year statements to ensure consistency. When a Component identifies a weakness that is probably shared by other DoD Components, the Component Management Control Program Coordinator should report this fact to the OUSD(C) Management Control Program Coordinator, who will alert the responsible Principal Staff Assistant to the possibility of a systemic weakness. A systemic weakness is a material weakness that is occurring at more than one Component. Component Management Control Program Coordinators should work together to promote greater accuracy, consistency, and completeness in the reporting of weaknesses.

Components must be consistent when specifying a weakness and associated corrective actions (milestones). For example, if an audit report concluded inadequate controls for effectively implementing the equal employment opportunity (EEO) requirements, the reported weakness and milestones should address that problem. It is incorrect to report deficiencies in the civilian hiring practices, and then include corrective actions that only address EEO requirements' deficiency. In this case, the specification of the weakness is too broad (i.e., implying an action greater than the Component intends to correct).

Sometimes, it is preferable to address several related problems in one weakness statement; however, Components should be cautious when defining a weakness. For example, in addition to the hypothetical weakness stated above, a Component 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 Component 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) addressed. Consolidation of like weaknesses into a single comprehensive weakness is encouraged only when appropriate conditions apply. Avoid bundling a number of related weaknesses for the principal purpose of reducing the number of material weaknesses reported.

As a final note, Component management control program coordinators sometimes are uncertain when attempting to distinguish between a section 2 management control weakness and a section 4 noncompliant financial management system. The answer can be found by determining whether the failure is in the financial management system design. If the failure is in the execution of a financial management system's procedures (e.g., data collection, human error, or failure to follow guidance)--when the system itself is properly designed and compliant with the established system operating requirements-- the problem should be reported as a section 2 management control weakness (Tab B).

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

(TAB A)

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 Component)'s** senior management evaluated the system of internal accounting and administrative control, in effect during the fiscal year ending September 30, 2003, in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by DoD Directive 5010.38, "Management Control Program," dated August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996. The OMB guidelines were issued in consultation 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 control for the **(name of Component)** is in compliance with standards prescribed by the Comptroller General. **NOTE: If a self-evaluation of the system of internal accounting and administrative control 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 control of the (name of Component) are to provide reasonable assurance that:

- The obligations and costs are in compliance with applicable laws
- Funds, property, and other assets are safeguarded 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 reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The evaluation of management controls extends to every responsibility and activity undertaken by **(name of Component)** and applies to financial, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of 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. **NOTE: Address the expected benefits and related costs of control procedures using estimates and managerial judgment.** Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, 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 Component)** performed the evaluation in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the **(name of Component)** in effect during the fiscal year that ended September 30, 2003, 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.

The description of how the **(name of Component)** conducted the evaluation should include the following, as applicable:

1. The progress achieved in institutionalizing management controls (i.e., a brief description of how the Component Management Control Program (MCP) is applied or reviewed for compliance also could be used here if it has already been fully implemented)

2. Any improvements to MCP coverage

3. A description of the problems encountered in implementing the MCP

4. Other considerations (e.g., resource constraints, technological bottlenecks, and operational or mission considerations) affecting the MCP

5. Any deviations from the process as outlined in the OMB Guidelines

6. Any special concerns addressed in reports by the IG, DoD or Component audit, investigation, inspection and/or internal review organizations regarding MCP progress, program 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. MCP weakness tracking system (number of weaknesses and milestones)

    b. Component Inspector General or Audit Service findings

    c. Reports of Component internal reviews and inspections

    d. IG, DoD reports and reviews

    e. MCP training

    f. MCP performance standards (e.g., such as those found in the GAO Internal Control Management and Evaluation Tool (August 2001))

    g. GAO reports and reviews

    h. Review of Office of the Secretary of Defense (OSD) Functional Proponent Proposals (e.g., systemic weaknesses)

    i. Information Technology initiatives

    j. MCP references in directives, regulations, and other guidance

k. Congressional reviews and hearings

l. Command or other subordinate organization "Letters of Assurance"

m. Productivity statistics

n. Defense Regional Interservice Support studies

o. Management reviews in other functional areas (e.g., procurement; command, control, communications and intelligence; financial; or environmental)

p. Quality Assurance reviews

q. "Hot Line" reports.

In addition, the General Accounting Office (GAO) has issued its "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999). Those standards identify the overall framework for establishing and maintaining internal control and for identifying and addressing major performance challenges and areas of greatest risk for fraud, waste, abuse and mismanagement. The GAO also has issued an "Internal Control Management Evaluation Tool" (GAO-01-1008G, August 2001) to assist agencies in maintaining or implementing effective internal control. Although use of this tool is not mandatory, it is intended to offer a systematic, organized and structured approach to assessing internal control structure. These can be found at www.gao.gov.

Office of the Secretary of Defense (OSD) Systemic Weakness Disclosure

DoD Directive 5010.38 requires that OSD Principal Staff Assistants (PSAs) identify and report "systemic weaknesses" that fall within their area of functional responsibility. Systemic weaknesses are management control problems identified by more than one DoD Component that are judged to be of such consequence as to potentially jeopardize the Department's operations or result in significant incidences of fraud, waste, abuse or other violations of the public trust. OSD Principal Staff Assistants (PSAs) will forward narratives identifying OSD systemic weaknesses to the DoD Component focal points as they become available.

As a last disclosure in Tab A, all DoD Components shall develop a section entitled "Systemic Weaknesses." Components will list below the title of each OSD systemic weakness, all the material weaknesses, both corrected and uncorrected, contained in your organization's current fiscal year annual Statement of Assurance that are related to the systemic weaknesses. Identify the reference page number of related weakness(es) immediately to the right of the title of each weakness. The OUSD(C) will forward to Components the listing of FY 2003 systemic weaknesses as soon as possible.

The systemic weaknesses reported by the OSD PSAs in the FY 2002 DoD Statement of Assurance were:

1. DoD Financial Management Systems and Processes – DoD financial management systems and business processes do not provide information that is reliable, timely and accurate. (OUSD(C))

2. Information Assurance – Numerous computer system intrusions revealed that DoD's systems are vulnerable to an information warfare attack. (OASD(C3I))

3. Environmental Liability – DoD financial statements continue to under-report environmental liabilities. (OUSD(AT&L))

4. Management of Munitions and Explosives – The DoD maintains a number of active/inactive firing ranges and related training facilities, along with closed ranges and other areas on property currently or formerly owned by the Department, where munitions and other explosives were used. If not managed properly, these sites may present a significant health and safety hazard. (OUSD(AT&L))

5. Personnel Security Investigations Program – DoD hiring is adversely affected because personnel security investigations are backlogged. (OASD(C3I))

6. Real Property Infrastructure – The Department does not have a long range plan to address facility requirements and DoD Components do not uniformly use private sector housing to address family housing needs. (OUSD(AT&L))

7. Contracting for Services – The Department does not have adequate acquisition oversight when contracting for DoD services which can result in failure to obtain the best value on individual procurements. (OUSD(AT&L)

8. Government Card Program Management – Audit reports have revealed instances of misuse, abuse, and fraud that were caused by inadequate DoD activity level emphasis on proper use of the purchase card, poorly enforced controls, and lax oversight. (OUSD(AT&L) for Purchase Cards, and OUSD(C) for Travel Cards)

MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

(TAB B)

This section presents management control weakness information in three subset tabs:

- 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)
- Narratives for the uncorrected material weaknesses identified in the summary listing (Tab B-2)
- Narratives for all material weaknesses corrected during the current period (Tab B-3).

The three subset tabs are illustrated on the following pages.

DoD Management Control Reporting Categories: Group material weaknesses, both uncorrected and corrected, by the DoD functional category designations are displayed below.

These categories are defined in Enclosure 4 of DoD Instruction 5010.40, "Management Control Program Procedures."

- Research, Development, Test and Evaluation
- Major Systems Acquisition
- Procurement
- Contract Administration
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Supply Operations
- Property Management
- Communications and/or Intelligence and/or Security
- Information Technology
- Personnel and/or Organization Management
- Comptroller and/or Resource Management
- Support Services
- Security Assistance
- Other (primarily Transportation)

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

(TAB B-1)

Prepare this section after completing Tab B-2 and Tab B-3 since it is a summary listing of Tab B-2 and Tab B-3 weakness titles and correction dates. The material weakness titles shall be divided into three groupings: Uncorrected Weaknesses Identified During the Period (the current fiscal year); Uncorrected Weaknesses Identified During Prior Periods; and Corrected Weaknesses Identified During All Periods.

Uncorrected Weaknesses Identified During the Period: (List by DoD category, in the order provided on pages 12 and 13)

Title (1)	(Quarter and Fiscal Year) Targeted Correction Date (4)	Page # (5)

Uncorrected Weaknesses Identified During Prior Periods: (List by DoD category, in the order provided on pages 12 and 13)

Title (1)	Year First Reported (2)	Correction QTR & FY Date: Per Last Annual Statement (3)	Correction QTR & FY Date: Per This Annual Statement (4)	Page # (5)

Corrected Weaknesses Identified During All Periods: (List by DoD category, in the order provided on pages 12 and 13)

Title (1)	Year First Reported (2)	Page # (5)

NOTES:

1. Titles should be identical to those found on the material weakness narratives provided in Tab B-2 or B-3.
2. Use the fiscal year in which this weakness first was reported. List starting with the most recently reported material weakness, continuing to the oldest.
3. This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the Component's FY 2002 Annual Statement.
4. This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the Component's FY 2003 Annual Statement.
5. The page number is that of the first page of the material weakness narrative as found in Tab B-2 or B-3.

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

(TAB B-2)

This attachment should provide a narrative for each uncorrected material weakness identified by the Component 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 guidance and should not appear in your Annual Statement. Only the headings should appear. The headings should not be in bold type in your annual Statement of Assurance.

Spell out acronyms the first time they are used in each individual material weakness narrative. This is necessary because narratives are reproduced directly from the "electronic" version of your statement. Other sections of Component statements may not be used in the DoD statement. Deviation from this guidance delays the completion of the DoD statement.

Simplify your status reports to the greatest extent possible by summarizing what previously was presented in detail. **Each uncorrected material weakness report shall be no longer than three pages in length. 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 written for the general public and not include technical jargon.**

The narratives shall follow the format below. Use the headings 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 here only to assist in your comprehension of this guidance.

1. **Description of the Issue:** Confine the weakness description to no more than three or four sentences if possible.

2. **Functional Category:** Indicate one of the 15 functional categories provided on pages 12 and 13 of this guidance.

3. **Pace of Corrective Action: (For *all* targeted correction dates, Components must show both the Quarter and Fiscal Year, e.g., 1st Qtr, FY 2004, 2nd QTR, FY 2005, etc.)**

Year Identified: Fiscal year of the annual Statement of Assurance in which Component first reported the weakness.

Original Targeted Correction Date: Quarter and fiscal year of the targeted correction date as Component first reported it in item 3, above.

Targeted Correction Date in Last Report: Quarter and fiscal year of the targeted correction date as it was reported in the Component's FY 2001 annual Statement of Assurance.

Current Target Date: Quarter and fiscal year of targeted correction date per this reporting.

4. **Reason For Change in Date(s):** Reason for change in fiscal year of Current Target Date if response to item 3 is different from the target date information reported in FY 2002 submission. The reason for change should include a brief description of the impact (cost, operational) of any delay in correcting the weakness.

5. **Component/Appropriation/Account Number**: Identify the funds budgeted (by fiscal year, appropriation and amount, including an estimated cost-to-complete) to correct each systemic and uncorrected material weakness reported in the Component's Statement of Assurance submission. Please note that prior year (pre-FY 2002) or "sunk costs" need not be identified. When identifying the appropriation(s), use standard DoD designations, e.g., Operation and Maintenance, Army; Research, Development, Test and Evaluation, Navy; Aircraft Procurement, Air Force; and Military Construction, Defense Agencies. The budget information requested as part of the FY 2003 Statement of Assurance report shall be based upon the DoD Component's FY 2004 Budget Estimates Submissions (BES) as follows:

		($000s)					
Title	**Appropriation(s)**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**Cost-To-Complete**	**Total**

6. **Validation Indicator:** Briefly indicate the methodology that Components will use to certify the effectiveness of the corrective action and the projected date that the certification will take place. In addition, indicate the role that the Inspector General, DoD or the Component Audit Service can or should play in verification of the corrective action.

7. **Results Indicators**: 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 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.**

8. **Source(s) Document:** Use the following other applicable sources: (a) Management Control Program Evaluation; (b) IG, DoD; (c) Component Audit Service; (d) GAO; (e) Component internal review organization; (f) Component IG; or (g) 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. **NOTE: Write all dates in civilian style (i.e., December 31, 2001) without abbreviating the month.**

9. **Progress to Date:** Use narrative to describe significant accomplishments or actions taken within FY 2003 to correct the weakness. Describe in bullet style.

10. **Major Milestones:** Use a milestone chart indicating actions taken and actions planned for the future. Separate milestones into two categories: (a) milestones planned for FY 2003, and (b) milestones planned beyond FY 2003. List milestones in chronological order by milestone completion date with the terminal milestone listed last. The terminal milestone is the final corrective action, and should either be or include the verification of the correction.

An example of a completed report on an uncorrected material weakness, status of corrective actions follows:

GENERAL/FLAG OFFICERS QUARTERS (GFOQ)

Description of the Issue	The Navy did not fully implement its management controls over the recording of GFOQ operation and maintenance costs. Housing personnel improperly charged operation and maintenance costs and supporting documentation was not available to justify costs recorded. As a result, the Navy's accounting for GFOQ costs was unreliable and reports to the Congress and the Office of the Secretary of Defense were inaccurate.
Functional Category	Comptroller/Resource Management
Component	Navy
Pace of Corrective Action	▪ *Year Identified* - FY 2001 ▪ *Original Targeted Correction Date* – 1st Qtr, FY 2002 ▪ *Targeted Correction Date in Last Report* - N/A ▪ *Current Target Date* - N/A
Validation Indicator	All corrective action(s) are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control reviews.
Results Indicators	The installation of an improved GFOQ annual cost tracking system to identify, by budget project, specific costs for the annual operation and maintenance of individual GFOQ. The initial submission of this cost report format is expected in January 2002 covering the FY 2002 first quarter costs for the Navy's flag homes.
Source Document	The following sources identified flag quarter issues: ▪ Office of the Inspector General (OIG), DoD Report No. D-2001-027, "Navy Management Controls over General and Flag Officer Quarters Costs," December 26, 2000. ▪ OIG, DoD Report No. D-2000-071, "Maintenance and Repair of DoD General and Flag Officer Quarters," January 27, 2000.

Progress to Date

The Department of the Navy has taken steps to correct its GFOQ weakness. These steps include:

- Tasked the newly chartered Family Housing Funding Management Review Group to review the budget policy, preparation, and execution for Family Housing. The scope of the review extended to the key stages in the project approval process, to determine if Family Housing management issues including violations of the Antideficiency Act (ADA) were caused by systemic problems or because internal controls were not followed.
- Initiated actions to investigate potential statutory, regulatory or administrative violations for selected GFOQs.
- Performed a comprehensive review of operations and maintenance costs for all GFOQs for FY 2000 and for selected GFOQs for FYs 1998 and 1999, to ensure that costs were incurred as authorized, classified correctly, completely captured, recorded accurately, and sufficiently documented.
- Ensured that GFOQ costs have been corrected for FYs 1998 and 1999, and congressional reporting of GFOQ costs are updated to reflect accounting error corrections.
- Required periodic evaluations of the effectiveness of GFOQ housing management controls to ensure compliance with applicable laws and regulations.
- Required all Navy housing offices to submit detailed GFOQ cost reports on a quarterly bases.
- Reviewed costs for accuracy and compliance with budget limitations.
- Initiated a complete review of all grounds maintenance costs to ensure that costs are charged to the GFOQ occupant unless a waiver has been granted and comply with current Navy guidance on grounds maintenance.

Major Milestones

The following table identifies the major milestones that the Department plans to complete during FY 2002.

Planned (FY 2002)	▪ Complete Chief of Naval Operations comprehensive review of all GFOQ ground maintenance waiver requests.
	▪ Naval Facilities Engineering Command issue guidance to all Navy housing offices providing revised detailed GFOQ cost report formats for the quarterly execution reports. This will allow more detailed review of costs for accuracy and compliance with budget limitations.
	▪ Complete a functional assessment of Family Housing management to propose alternative methods of managing those funds.
	▪ Issue Family Housing Funding Management Review Group report on Family Housing budget policy, preparation, and execution and management issues.
	▪ Validate implementation of the corrective milestones via on-site verification.

MATERIAL WEAKNESSES CORRECTED THIS PERIOD (TAB B-3)

Use Tab B-3 to provide a narrative for each material weakness for which corrective actions were completed in FY 2002. 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 12, "Major Milestones in Corrective Actions," however, shall reflect only completed milestones. Omit Item 13, "Status of Participating Functional Office/Organization."

MANAGEMENT CONTROL PROGRAM AND RELATED ACCOMPLISHMENTS (TAB B-4)

Use Tab B-4 to highlight the most significant management control program and related accomplishments achieved during FY 2002. Use this tab to identify other management improvements that are not specifically part of the Component's management control program. Those improvements, however, must relate directly to the protection of government property, efficiency of agency operations, conservation of resources, improvements in responsiveness to external customer needs, or enforcement of laws and regulations. Present narrative in simple, concise bullet-style descriptions. This information may be extracted from information reported elsewhere in the Component Statement of Assurance report (e.g., the cover memorandum, or the Progress to Date section of Tab B-2). Two examples follow:

Navy Management Control Program

Description of the Issue

- The Naval Audit Service found that several Navy activities failed to fully implement the Navy's management control program. It also found that existing management controls were inconsistently documented.

Accomplishments

To improve management control program compliance, the Navy has: (1) developed new training materials for a Department-wide course, (2) revised its guidance to clarify management control program requirements and to incorporate the most recent GAO standards, and (3) created a web-based assessment survey tool to provide its activities with an objective "current state" measurement of management controls. The Navy also is developing a web-based system to improve its internal control reporting process and maintain adequate documentation.
Navy managers and the Naval Audit Service jointly have agreed to revisit the newly instituted management control program reforms during FY 2002 to determine their efficacy and make adjustments as necessary.

Financial Operations Metrics Program

Description of the Issue

- The Department needs enhanced methods to effectively manage and identify problems with financial operations.
- Beginning in August 2001, the Under Secretary of Defense (Comptroller) began an aggressive program to develop and report on financial management problem areas through an extensive metrics program. The information is used to direct appropriate corrective actions.

Accomplishments

Developed over 100 metrics in ten major problem areas of financial operations such as interest penalties paid, backlog of commercial payments, and timeliness of travel card payments.
Established clear lines of communication with the Military Services and Defense Agencies to participate actively in the financial operations metrics program. These include: (1) providing raw data needed for the metric, (2) analyzing results, (3) preparing supporting justification for trend discussion at monthly updates, (4) actively participating in developing targets and goals, (5) providing management oversight, and (6) implementing corrective action. The OIG, DoD and the OMB participate in this process.
Established a process to add additional metrics as required. The metrics task force currently is evaluating ten additional areas.