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

COMPTROLLER

APR 5 2004

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
COMMANDERS OF THE COMBATANT COMMANDS
ADMINISTRATOR OF THE COALITION PROVISIONAL AUTHORITY
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTOR OF THE NATIONAL RECONNAISSANCE OFFICE
PRESIDENT OF THE NATIONAL DEFENSE UNIVERSITY
PRESIDENT OF THE UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES

SUBJECT: Fiscal Year (FY) 2004 Guidance for the Preparation of the Statement of Assurance

This memorandum is a reminder that the Head of each Department of Defense (DoD) Component must submit to the Secretary of Defense **no later than October 1, 2004,** 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 Directive 5010.38 and Instruction 5010.40 that provide policy and procedures for the Management Control Program, which complies with the "Federal Managers' Financial Integrity Act of 1982." Beginning in FY 2003, we accelerated the due date for the DoD Components Statements of Assurance to the first of October to expedite consolidation into the Performance and Accountability Report. Since timeliness is imperative, please understand we cannot provide any extension to the due date.

Attached are the guidelines for preparing your FY 2004 Statement of Assurance, which is also available on our website: http://www.dod.mil/comptroller/fmfia/index.html#latest. The guidelines are the same as last fiscal year except for some updated examples. Please make your statements clear and concise so that a member of the general public would understand.

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 peggy.johnson@osd.mil or at (703) 693-6520.

for Lawrence J. Lanzillotta
Dov S. Zakheim

Attachment:
As stated

GUIDELINES

FOR PREPARATION OF THE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

ANNUAL STATEMENT OF ASSURANCE

FISCAL YEAR 2004

TABLE OF CONTENTS

	PAGE
Department of Defense (DoD) Annual Statement of Assurance Requirements	3
DoD Components Required to Submit a FY 2004 Statement of Assurance	6
Sample Cover Memorandum for Annual Statement of Assurance	7
Conceptualizing a Material Weakness	8
Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted (Tab A)	10
Material Weakness / Corrective Actions (Tab B)	14
Lists of Uncorrected and Corrected Material Weaknesses (Tab B-1)	15
Uncorrected Material Weaknesses - Status of Corrective Actions (Tab B-2)	17
Material Weaknesses Corrected This Period (Tab B-3)	20
Management Control Program and Related Accomplishments (Tab B-4)	21

DEPARTMENT OF DEFENSE (DoD)
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: In fiscal year (FY) 2003, the DoD consolidated the DoD Statement of Assurance into the Performance and Accountability Report (PAR) and accelerated the due date for the DoD Component Statements of Assurance from the first of November to the first of October to meet the deadline for submission of the PAR. This FY 2004, the DoD will further accelerate the reporting of the PAR to November 15, 2004; however, the due date for the DoD Components Statements of Assurance will remain the first of October. **DoD Components must submit the Statement of Assurance no later than October 1, 2004.** Due to the accelerated reporting requirements, absolutely no extensions to the suspense date will be given.

The accelerated due date has resulted in the Statement of Assurance being required immediately after the close of the fiscal year, the thirtieth of September. DoD Component Heads are to submit Statements of Assurance that cover the entire fiscal year with the understanding that the Statements of Assurance include all known issues as of the date the statement is signed. Material weaknesses should not be reported as closed until all corrective actions have been implemented and the certification of closure accomplished. If a material weakness is expected to be corrected within the 4th Quarter (Qtr) of FY 2004, but all actions are not completed when the statement is signed, the DoD Component Head should report the material weakness as still ongoing. See an example on page 19, "Reason for change in date(s)."

The list of DoD Components required to submit Annual Statements of Assurance is on page 6. 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 the 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 7):

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 10).

- TAB B-1: A list of the titles of all uncorrected and corrected material weaknesses identified through FY 2004. Include the projected correction dates, e.g., 2nd Qtr, FY 2005, for uncorrected weaknesses and the actual correction dates, e.g., 3rd Qtr, FY 2004, for corrected weaknesses. See page 15 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 weaknesses identified in prior years will explain the rationale for any changes to previously reported corrective milestone dates. See page 17 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 haseffectively resolved the weakness. See page 20 for more specific guidance.

- TAB B-4 A brief summary of the most significant actions taken by the DoD Component during FY 2004 to strengthen specific management controls, the MCP execution, the management control training, 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 21 for more specific guidance.

- Each Component will provide both electronic and hard copies of its FY 2004 Statement of Assurance. The electronic version of the Component statements can be emailed to Peggy Johnson at email address: peggy.johnson@osd.mil. For statements longer than 100 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, 2004.** Due to the OMB accelerated reporting requirements, absolutely no extensions to the suspense date will be given. 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, 2004.** Absolutely no extensions to the suspense date will be given. 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

- In addition, 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 2004 ANNUAL STATEMENTS OF ASSURANCE

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

* New DoD Components required to submit Statements of Assurance beginning FY 2004

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. If addressed to other than the Secretary of Defense, the memorandum will be returned for revision. Revisions risk delays that could adversely affect the accuracy and timeliness of the Secretary of Defense Statement of Assurance.)**

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

As **(title of Component Head or Principal Deputy)** 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, 2004, **[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 achieve)** 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 found 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 MCP weakness, the manager must understand what the term "material weakness" means as it pertains to the MCP 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 judgment.

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 does not have to be limited to the audit report. Corrective actions should resolve the weakness, in its entirety, for the entire 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 1999 and corrected in FY 2002. Then in FY 2004, audit reports identify related problems and the component wants to report it as a new material weakness in FY 2004. The material weakness should retain the same title as the original, but the "Year Identified" date would now appear as FY 2004, not FY 1999.

Components should resolve material weaknesses as quickly as possible. Only in extraordinary instances should a weakness go uncorrected for more than 3 years and Components must clearly explain those circumstances.

The Department encourages consistency in reporting. Therefore, 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. Sometimes differences in weakness reporting among DoD Components are due to differences in senior management interpretation of what constitutes a material weakness. Nevertheless, where practical, consistency is best.

A systemic weakness is a material weakness that is occurring at more than one Component. Therefore, at any time during the fiscal year, if a Component recognizes a weakness that appears to be pervasive, the Component MCP Coordinator should notify the OUSD(C) MCP Coordinator of a potential systemic weakness.

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, 2004, 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 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). The GAO lists five standards to include: control environment, risk assessment, control activities, information and communication, and monitoring. These 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. These GAO standards offer a systematic, organized, and structured approach to assessing internal control structure. The GAO standards and evaluation tool 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 to help identify and / or report the status of "systemic weaknesses" that fall within their area of functional responsibility. Systemic weaknesses occur from two sources. First, systemic weaknesses result when management control problems are reported to the Secretary of Defense by more than one DoD Component and the weakness is determined by the Secretary of Defense or his Deputy to potentially jeopardize the Department's operations, which can result in significant incidences of fraud, waste, abuse or other violations of the public trust. Secondly, OSD Principal Staff can identify new systemic management control weaknesses for inclusion in the DoD Annual Statement of Assurance, either because the weakness in management controls cuts across areas of functional responsibility or is occurring in more than one DoD Component. The OSD Director of Administration and Management is required by the DoD Directive 5010.38 to consolidate all OSD Principal Staff and DoD Activities Statements of Assurance and submit to the Secretary of Defense. Therefore, the OSD Principal Staff will include in their FY 2004 Statement of Assurance report to the OSD Director of Administration and Management any new systemic weaknesses or the status of all existing systemic weaknesses, for which the OSD Principal Staff has proponency, as listed on page 14. The format for the systemic weaknesses will be the same as the format used for material weaknesses as described on pages 18 through 21, but it is imperative that reports for systemic weaknesses be clearly identified as systemic weaknesses and placed in a separate section at the end of the report entitled, **SYSTEMIC WEAKNESS REPORTING.**

DoD Components Systemic Weakness Disclosure

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 reported in

FY 2003 DoD Statement of Assurance, 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 FY 2003 systemic weaknesses. (See list in next paragraph below.) Identify the reference page number of related weakness(es) immediately to the right of the title of each weakness.

The systemic weaknesses reported in the FY 2003 DoD Statement of Assurance were:

1. DoD Financial Management Systems and Processes – DoD financial and business management systems and processes are not fully integrated and do not provide information that is reliable, timely, and accurate. The estimated correction date is 4th Qtr, FY 2006. (OUSD (C))

2. Management of Information Technology and Assurance – DoD needs to better manage information technology and needs assurance that information technology is adequately protected. The estimated correction date is 3 Qtr, FY 2007. (OASD(NII)

3. Environmental Liabilities – The DoD has not developed the policies, procedures, and methodologies needed to ensure that cleanup costs for all of its ongoing and inactive or closed operations are identified, consistently estimated, and appropriately reported. Site inventories and cost methodologies to identify budget requirements and financial liabilities continue to need improvement. The estimated correction date is 1st Qtr, FY 2006. (OUSD (AT&L))

4. Personnel Security Investigations Program – DoD hiring is adversely affected because personnel security investigations are backlogged. The estimated correction date is 4th Qtr, FY 2004. (OASD (NII))

5. Real Property Infrastructure – The Department has not adequately managed the real property infrastructure to halt the deterioration or obsolescence of facilities on military installations. The estimated correction date is 1st Qtr, FY 2006. (OUSD (AT&L))

6. Contracting for Services – Acquisition oversight is not always adequate when contracting for DoD Services and can result in failure to obtain the best value on individual procurements. The estimated correction date is 2nd Qtr, FY2005. (OUSD (AT&L))

7. Government Card Program Management – Instances of misuse, abuse, and fraud in respect to purchase and travel card use have been attributed to inadequate DoD emphasis on proper use of the cards, poorly enforced controls, and lax oversight. (OUSD (AT&L) for Purchase Cards, and OUSD (C) for Travel Cards))

8. Valuation of Plant, Property and Equipment on Financial Reports – The valuation of general plant, property, and equipment is not always correctly reported. The estimated correction date is 4th Qtr, FY 2006. (OUSD (C))

9. Valuation of Inventory on Financial Reports – The valuation of inventory is not always correctly reported. The estimated correction date is 2nd Qtr, FY 2008. (OUSD (C))

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 ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

(TAB B-1)

Prepare this section after completing both 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 page 14.)

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

Uncorrected Weaknesses Identified During Prior Periods: (List by DoD category, in the order provided on page 14.)

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 page 14.)

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 2003 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 2004 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.

Below is an example of a TAB B-1:

(TAB B-1)
LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period

Title	Targeted Correction Date (Quarter and Fiscal Year)	Page #
Category: Other		
Lack of Written Requirements or Strategic Guidance from OSD	3rd Qtr FY 2005	Tab B-2-1

Uncorrected Weaknesses Identified During Prior Periods

Title	Year First Reported	Correction Qtr & FY Date: Per Last Annual Statement	Correction Qtr & FY Date: Per This Annual Statement	Page #
Category: Information Technology				
Combating Computer Software Piracy	FY 1999	2nd Qtr FY 2004	4th Qtr, FY 2005	Tab B-2-6
Category: Comptroller and/or Resource Management				
Continuity of Operations Planning	FY 2002	3rd Qtr FY 2004	1st Qtr, FY 2005	Tab B-2-8

Corrected Weaknesses Identified During All Periods

Title	Year First Reported	Page #
Category: Comptroller and/or Resource Management		
Disbursing Officer Suspense Account	FY 2002	Tab B-3-2
Unreliable Financial Reporting of Personal and Real Property	FY 1998	Tab B-3-3
Unmatched Disbursements (UMDs) and Negative Unliquidated Obligations (NULOs)	FY 1998	Tab B-3-5

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.

Spell out acronyms the first time they are used in each individual material weakness narrative. This is necessary because sometimes narratives will be reproduced directly from the "electronic" version of your statement. Deviation from this guidance may require your Component to revise and resubmit the DoD Component statement. A delay due to a required revision has the potential to adversely affect the accuracy 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 should be three pages or less. Avoid use of the passive voice, minimize the use of acronyms, and use "bullets" to describe both the actions taken and planned. Narratives should be succinct, void of technical jargon, and easy for the general public to interpret.**

The narratives shall follow the format below. Use the headings 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 Issue:** Confine the weakness description to three sentences if possible.

2. **Functional Category:** Indicate one of the 15 functional categories provided on page 14 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 2005, 2nd QTR, FY 2006, 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.

   Targeted Correction Date in Last Report: Quarter and fiscal year of the targeted correction date as it was reported in the Component's FY 2003 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 quarter and fiscal year of Current Target Date from the Target Correction Date in Last Report as indicated in item #3 above. If applicable, 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 2004) 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 2004 Statement of Assurance report shall be based upon the DoD Component's FY 2006 Budget Estimates Submissions (BES) as follows:

		($000s)					
Title	**Appropriation(s)**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**Cost-To-Complete**	**Total**

6. **Validation Indicator:** Briefly indicate the methodology that Components will use to certify the effectiveness of the corrective action(s) and the projected date that the certification will take place. In addition, indicate the role that the 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) MCP 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.

9. **Progress to Date:** Use narrative to describe significant accomplishments or actions taken within FY 2004 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 2005, and (b) milestones planned beyond FY 2005. 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**.

Below is an example of the TAB B-2:

(TAB B-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS

"Uncorrected Weaknesses Identified During Prior Periods"

Description of Issue	The Defense Finance and Accounting Service (DFAS) Charleston Vendor Pay does not perform post payment audits on vendor payments that Navy activities send in electronically. Post payment audits are necessary to verify that the supporting documentation justifies that the vendor payments are correct and being maintained appropriately by Naval activities.
Functional Category	Comptroller / Resources Management
Component	Defense Finance and Accounting Service
Pace of Corrective Action	▪ *Year Identified* - FY 2002 ▪ *Original Targeted Correction Date* – 4th Qtr, FY 2004 ▪ *Targeted Correction Date in Last Report* – 4th Qtr, FY 2004 ▪ *Current Target Date*: 1st Qtr, FY 2005
Reason For Change in Date (s):	The final validation action was projected to be completed in the fourth quarter of FY 2004. However, since the Annual Statement of Assurance was signed before the end of the fourth quarter to meet the due date required by the Department of Defense, the final validation had not been completed at the time of providing this report.
Component/ Appropriation/ Account Number	DFAS Working Capital Fund
Validation Indicator	DFAS Charleston Vendor Pay will conduct an on-site post payment audit to ensure that proper documentation supports payments and that these documents are being maintained per Memorandum of Understanding (MOU). The Inspector General or other audit services are not required for verification of corrective actions. Therefore, the current target date was extended one quarter to allow for completion of the validation actions.
Results Indicators	There were a number of instances where proper documentation did not support payments. there were instances where incorrect payment data was provided to STARS-One Pay, the automated system being used. Correction will improve reliability of payment information.
Source Document	Post Payment Audit, January 28 – February 1, 2002.
Progress to Date	Major Milestones in Corrective Action: A. Completed Milestones:

Date:	Milestone:
Completed	Conducted Post Payment Audit at Indian Head.
Completed	Conducted Post Payment Audit at Carderock and Port Hueneme

B. Planned Milestones for FY 2005:

Date:	Milestone:
1st Qtr, FY 2005	Conduct Post Payment Audit at Naval Research Laboratory and Defense Automated Printing Service and Crane.

C. Planned Milestones for Beyond FY 2005: None

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 2004. Begin each material weakness narrative at the top of a new page. Group information into two subsections: "Identified During the Period" and "Identified During Prior Periods."

For weaknesses appearing in Tab B-3 use the format and data requirements identified for Tab B-2. Item 10, "Major Milestones in Corrective Actions," however, shall reflect only completed milestones.

Below is an example of TAB B-3:

(TAB B-3)
MATERIAL WEAKNESSES CORRECTED THIS PERIOD

"Identified During Prior Periods"

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

Pace of Corrective Action	▪ *Year Identified* - FY 2000 ▪ *Original Targeted Correction Date* – 2nd Qtr, FY 2001 ▪ *Targeted Correction Date in Last Report* – 4th Qtr, FY 2004 ▪ *Current Target Date*: N/A ▪ *Reason For Change in Date (s)*: N/A
Validation Indicator	All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control reviews.
Results Indicators	Overall, the number of ILA's performed would be accurate, and the results or the basis of the logistics certification would be disclosed to the appropriate parties for making informed decisions.
Source Document	Source(s) Identifying Weakness: Naval Audit Service (NAVAUDSVC, NAVAUDSVC Report No. N2000-0027, "Independent Logistics Assessment Process," June 27, 2000.
Progress to Date	Completed milestones: ▪ Revised Navy acquisition policy to clearly state: (a) whether or not performing independent assessments of logistics is a requirement, and is the basis for logistics certification; (b) the desired outcome of the ILA process, and (c) whether or not use of a Chief of Naval Operations (CNO) – validated assessment process is required. ▪ Revised ILA policy to: (a) clearly articulate the ASN (RD&A) – desired outcome of the ILA process; (b) clarify that the full scope of individual PEO or SYSCOM implementation procedures should include overall management of ILAs and all associated responsibilities; (c) clearly define submission of PEO and SYSCOM individual ILA implementation procedures to the Deputy CNO (N432) for validation; and (d) provide guidelines for PEO or SYSCOM development and implementation to ensure a more timely and effective supportability review and opportunity for decision process prior to initial operational capability. ▪ Revised SECNAVINST 4105.1, which addresses ILAs in detail, to provide additional guidance to SYSCOMS, PEOs and Program Managers. ▪ Verification that corrective actions are effective: Validation of the implementation of the corrective milestones was accomplished by an on-site verification in accordance with planned validation indicator procedures.

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

Use Tab B-4 to highlight the most significant MCP and related accomplishments achieved during FY 2004. Use this tab to identify other management improvements that are not specifically part of the Component's MCP. 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). Below is an example of TAB B-4:

(TAB B-4)

MANAGEMENT CONTROL PROGRAM AND RELATED ACCOMPLISHMENTS

Army Management Control Program

Description of the Issue

- Third US Army Strengthening of Management Controls in a Forward-Deployed Theatre – The Third US Army, the Army's component of Central Command, needed to ensure that strong, effective management controls were in place for its forces deployed in challenging environment of Kuwait, Saudi Arabia, and Qatar.

Accomplishments

Established a Command Security Team to formulate, assess, and improve operation security / physical security within the operational headquarters.
Directed each staff section to evaluate two highly vulnerable areas – information security and property accountability – in forward deployed organizations.
Developed numerous financial management policies and procedures to facilitate efficient funding of command requirements, while maintaining 100 percent accountability of funds, to include: establishing management controls to ensure funds were used appropriately and to prevent fraud, waste, and abuse; establishing a thorough budget reconciliation and file maintenance process to improve efficiency of budget execution and accountability of funds; and developing detailed tactics, techniques and procedures for resource management in forward area to use in reconciling their financial accounts.
Established a Combined Acquisition Review Board to review all requirements over 200,000 and certain special items (e.g., automation equipment, cell phones and non-tactical vehicles) to determine that there is an operational need before recommending approval, disapproval, or quantity adjustments.
Established a monthly Award Fee Review Board to evaluate performance standards of the $70 million annual Combat Service Support Contract, which provides base operations support to US Army Forces, US Central Command – Kuwait and maintenance support for the Army Pre-positioned Stock fleet in Kuwait.
Conducted training on Foreign Disclosure duties and responsibilities to ensure that the sharing of certain classified information with coalition partners did not jeopardize US security.
Provided training on operational security measures with embedded media to ensure unit missions were not compromised, identified ground rules, and required media members sign an agreement to abide by these rules.
Employed an internet minimization phase plan that blocks non-official websites and enables more efficient use of the theater's limited bandwidth. Also, employed a minimization phase plan for non-official phone calls that utilize the Defense Switch Network. These plans effectively improved capability to conduct official business when operational requirements dramatically increased demand.

Army Management Control Training

Description of the Issue

- Army needed training material that provided a more detailed approach to training its Management Control Administrators (MCAs), commanders, and managers.

Accomplishments

The Army's Management Control Steering Group and the US Army Reserve Readiness Training Center (ARRTC) initiated four efforts to provide training to MCAs, commanders, and managers and assists MCAs in the administration of their programs.
▪ Modular training program. This program consists of seven easy-to-use and easy-to-understand training modules on: The Management Control Process; Becoming a Management Control Administrator; GAO standards; Developing a Management Control Plan; Conducting and Documenting Management control Evaluations; Writing a Material Weakness; and Risk Management. This modular program was distributed Army-wide in CD form and is available through the ARRTC website as a PowerPoint presentation with narrative.
▪ Tool Box for Army MCAs. Distributed in CD form, this Tool Box is a collection of real-life documents developed by successful Army MCAs to accomplish many of the tasks required under the Army's Management Control Process. The Tool Box allows MCAs to download examples of documents and modify them to fit their own needs.
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.