

**SUMMARY OF MANAGEMENT ASSURANCES AND FINANCIAL STATEMENT AUDIT**



Department leadership is resolute in its determination to continuously establish and maintain effective internal management controls for all mission-essential processes. In June 2008, the Public Relations Society of America awarded the Department's Check It campaign its prestigious Silver Anvil Award for the best internal communications campaign. Check It, with the tagline "What gets checked, Gets done," reminds the workforce to double check their work and helps ensure effective internal management controls.

The Check It campaign also sponsors a competition to report best process improvements. In two rounds of competition, 40 improvements from 24 Components were submitted to the Deputy Secretary of Defense. Submissions reported a total of \$3 billion worth of savings due to improving internal management controls.

**DoD Managers' Internal Control Program**

The Department conducts self-assessments of internal management controls throughout the Department in accordance with the Federal Managers' Financial Integrity Act (FMFIA), formally designated as the Department's Managers' Internal Control



Program. These internal management controls are the checks and balances that assist program and financial managers to achieve results, and safeguard the integrity of the programs. As prescribed by OMB Circular No. A-123, the Department's internal management control program assesses both the effectiveness of nonfinancial functions and processes, and the management controls as prescribed by Appendix A for financial reporting. A description of each self-assessed category with weaknesses and the corresponding results follow:



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### 1. FMFIA Section 2 Financial Reporting Material Weaknesses.

The DoD is using a phased-in approach for the FMFIA Section 2 Financial Reporting, and the areas that were tested in the FY 2008 are listed below.

- Fund Balance with Treasury
- Investments
- Military Equipment
- Real Property
- Medicare-Eligible Retiree Health Care Fund
- Federal Employees Compensation Act Liabilities
- Environmental Liabilities
- Appropriations Received
- Accounts Receivable
- Inventory
- Accounts Payable
- Operating Materials and Supplies
- Other Assets
- Other Liabilities
- General Property and Equipment (Defense Organizations only)
- Compilation of financial reports
- Internal Use Software (Intelligence Community only)

Table 1a identifies the resulting weaknesses. The column entitled "Ref Table 2" crosswalks the reported FMFIA manager-identified weaknesses to similar auditor-identified weaknesses in Table 2.

<b>Table 1a. Summary of Management Assurances</b>							
<b>Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)</b>							
<b>Statement of Assurance</b>	<b>No Assurance</b>						
<b>Material Weaknesses</b> <i>(information deemed necessary for clarification)</i>	<b>Ref Table 2</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
1) Valuation of Property Plant and Equipment - Military Equipment	11	1					1
2) Real Property Assets	11	1					1
3) Environmental Liabilities	3	1					1
4) Health Care <i>(Medicare-Eligible Retiree Health Care Liability in military departments direct care operations)</i>		1					1
5) Fund Balance with Treasury	10	1					1
6) Accounts Receivable	13	1					1
7) Inventory Valuation	12	1					1

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<b>Table 1a. Summary of Management Assurances - continued</b>							
<b>Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)</b>							
<b>Statement of Assurance</b>	<b>No Assurance</b>						
<b>Material Weaknesses</b> <i>(information deemed necessary for clarification)</i>	<b>Ref Table 2</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
8) Operating Materials and Supplies	6	1					1
9) Accounts Payable	1	1					1
10) Personal Property -General Personal Property <i>(Includes reported problems with the cost of DoD property and materiel in the possession of contractors. Reassessed and moved from Overall Nonfinancial Operations #3 to DoD Financial Reporting Material Weakness #10)</i>	11 & 4		1				1
11) Financial Reporting Compilation <i>(Includes Statement of Net Cost, Statement of Budgetary Resources, Statement of Net Position, and Accounting Adjustments)</i>	2, 7, & 8		1				1
12) Financial Reporting of Intragovernmental Eliminations <i>(Includes Anti-Deficiency Act Violations)</i>	5		1				1
<b>Total Financial Reporting Material Weaknesses</b>		<b>9</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12</b>

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**2. FMFIA Section 2 Overall (Nonfinancial) Operations Material Weaknesses.** The Department's 34 Component heads follow a robust, programmatic approach to establish and assess internal management controls for their respective nonfinancial, mission-essential operations. Table 1b shows the resulting weaknesses for this assessment.

<b>Table 1b. Summary of Management Assurances</b>							
<b>Effectiveness of Internal Control over Overall (Nonfinancial) Operations (FMFIA Section 2)</b>							
<b>Statement of Assurance</b>	<b>Qualified</b>						
<b>Overall Material Weaknesses</b> <i>(information deemed necessary for clarification)</i>	<b>Ref Table 2</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
1) Department of Defense Financial Management Systems and Processes <i>(Reassessed as a consolidation into Conformance with Financial Management System Requirement FMFIA Section 4, Material Weakness #1, Table 1c.)</i>		1				1	
2) Management of Information Technology and Assurance		1					1
3) Personal Property <i>(Reassessed as new financial weakness #10, Table 1a.)</i>		1				1	
4) Personnel Security Investigations		1					1
5) Real Property Infrastructure		1		1			
6) Government Card Program		1		1			
7) Contracting		1					1
8) Procurement Data		1		1			
9) Interagency Acquisition and Potential Anti-Deficiency Act Violations		1		1			
10) Certain Audits Do Not Meet Professional Standards			1				1
<b>Total Material Weaknesses for Overall Operations</b>		<b>9</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>2</b>	<b>4</b>

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**3. FMFIA Section 4 Financial System Nonconformance Weaknesses:** The Department considers financial system conformance with governmentwide requirements and reports one weakness that covers the wide range of pervasive problems identified during the assessment. Table 1c shows the resulting weakness.

Table 1c. Summary of Management Assurances							
Conformance with Financial Management System Requirements (FMFIA Section 4)							
Statement of Assurance	No Assurance						
System Nonconformance <i>(information deemed necessary for clarification)</i>	Ref Table 2	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
1) Department of Defense Financial Management Systems and Processes	9	1					1
<b>Total System Conformance Material Weaknesses</b>		<b>1</b>					<b>1</b>
<b>Total FMFIA Weaknesses</b>		<b>19</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>2</b>	<b>17</b>

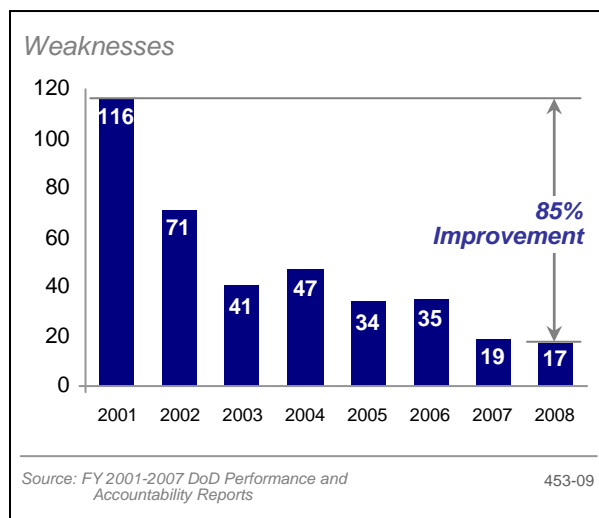
### Improvement Results

Since FY 2001, the Department has reduced the number of outstanding management-identified material weaknesses by 85 percent—from 116 material weaknesses to 17 (Figure 3-1). From FY 2003 to FY 2007, the total number decreased 59 percent, from 41 to 19. And in the last year, the Department further reduced the self-identified weaknesses from 19 to 17 by correcting four, reassessing two, and identifying four new weaknesses.

### Financial Statement Audit

In addition to the management-identified weaknesses described in the categories above, the Department of Defense Inspector General identified material weaknesses in financial statement reporting as shown in Table 2.

**Figure 3-1. Reducing Internal Management Control Weaknesses**



<b>Table 2. Summary of Financial Statement Audit</b>						
Audit Opinion			Disclaimer			
Restatement			Yes			
	Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
1	Accounts Payable	1				1
2	Accounting Entries	1				1
3	Environmental Liabilities	1				1
4	Government Property in Possession of Contractors	1				1
5	Intragovernmental Elimination	1				1
6	Operating Materials and Supplies	1				1
7	Reconciliation of Net Cost of Operations to Budget	1				1
8	Statement of Net Cost	1				1
9	Financial Management Systems	1				1
10	Fund Balance with Treasury	1				1
11	General Property, Plant & Equipment	1				1
12	Inventory	1				1
13	Accounts Receivable	1				1
<b>Total Material Weaknesses</b>		<b>13</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13</b>

**Compliance with Federal Financial Management Improvement Act**

Table 3 shows the Department’s compliance with the Federal Financial Management Improvement Act. The Department is committed to implementing the FIAR Plan and the ETP to achieve significant progress toward financial management improvement.

<b>Table 3. Compliance with Federal Financial Management Improvement Act</b>		
	Agency	Auditor
Overall Substantial Compliance	No	No
1. System Requirements	No	No
2. Accounting Standards	No	No
3. U.S. Standard General Ledger at Transaction Level	No	No

**Good News Results**

The Department has improved its financial management by focusing its efforts on fixing material weaknesses and strengthening internal controls. This approach has yielded positive results providing a more complete depiction of the Department’s financial health and improved operational processes. The Department remains committed to transformational efforts to continue reducing material weaknesses.