



**OFFICE OF THE SECRETARY OF DEFENSE  
AND  
DEPARTMENT OF DEFENSE FIELD ACTIVITY**

**GUIDELINES**

**FOR PREPARATION OF THE  
FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT**

**ANNUAL STATEMENT OF ASSURANCE**

**FISCAL YEAR 2002**

**August 16, 2002**

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**OFFICE OF THE SECRETARY OF DEFENSE (OSD)  
AND  
DEPARTMENT OF DEFENSE (DoD) FIELD ACTIVITY  
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 OSD Principals and Directors of DoD Field Activities to submit--to the Secretary of Defense--a Statement of Assurance based on a general assessment of the effectiveness of the organization's management controls. This statement also shall include the disclosure of material weaknesses and plans to correct those weaknesses. The statement shall be signed by the OSD Principal/Director of the DoD Field Activity, or the principal deputy. Signature authority for the statement may not be delegated below this level. DoD Field Activity Statements will be submitted through the applicable OSD Principal.

Beginning in fiscal year (FY) 2002, the Department of Defense must submit a Performance and Accountability Report (PAR) that incorporates the information reported previously under the annual DoD Statement of Assurance. Because of the more comprehensive reporting required under the PAR format, DoD Component Statement of Assurance submissions will be required **earlier than in the past years**.

Each Statement of Assurance submission shall consist of the following:

- A cover memorandum, addressed to the Director, Administration and Management, signed by the OSD Principal/Director of DoD Field Activity (or the principal deputy), that assesses whether there is reasonable assurance that the Component's management controls are in place and effectively operating. Under Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," June 21, 1995, this Statement of Assurance shall take one of the following three forms (see sample memorandum on page 3):

1. An unqualified Statement of Assurance (reasonable assurance). Each unqualified statement must have a firm, verifiable basis for that assessment that is summarized in the cover memorandum. A comprehensive explanation of that assessment must be clearly articulated clearly in the text of the statement.

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

3. A negative statement (no reasonable assurance). The cover memorandum shall summarize the basis for this assessment.

- TAB A: A description of how the organization evaluation was conducted and a statement, based on that evaluation, that supports the level of reasonable assurance status achieved (sample on page 6).

- TAB B-1: A listing of the titles of all uncorrected and corrected material weaknesses identified as of the conclusion of FY2002 including the projected correction dates (for uncorrected weaknesses) and actual correction dates (for corrected weaknesses). See page 11 for additional guidance.

- TAB B-2: Narrative descriptions of all uncorrected material weaknesses including those identified during the current year and updates of disclosures for prior years. These

narratives shall include the specific plans and schedules for corrective action. Since the corrective actions may be under development, the narratives may reflect the current perceptions of the Component's senior management. The updated material weakness narratives for prior years, however, shall explain the reasons for changes to corrective milestones and dates. See page 12 for specific guidance.

- TAB B-3: Narrative descriptions of material weaknesses corrected in the current year, including specific actions taken to correct the weakness. This section shall include material weaknesses from both current and prior years. Each corrected material weakness shall include, as the last milestone, a validation milestone that describes how the corrective action was evaluated and how its effectiveness was certified. See page 16 for more specific guidance.

- **TAB B-4 A brief narrative summary of the actual accomplishments (measurable improvements in performance) and description of the most significant actions taken by the DoD Component during FY 2002 to strengthen management controls and improve the operation of its management control program. Please note that other management actions and accomplishments that are not specifically related to the correction of a specific material weakness also may appear in this tab. See page 17 for more specific guidance.**

**SAMPLE COVER MEMORANDUM FOR ANNUAL STATEMENT OF ASSURANCE  
FOR OSD AND DoD FIELD ACTIVITIES**

MEMORANDUM FOR THE DIRECTOR, ADMINISTRATION AND MANAGEMENT

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

As **(title)** of the **(name of organization)**, I recognize the importance of management controls. I have taken the necessary measures to ensure that the evaluation of the system of management control of the **(name of organization)** has been conducted in a conscientious and thorough manner. The results indicate that the **(name of organization)** system of internal accounting and administrative control in effect during the fiscal year that ended September 30, 2002, taken as a whole, **[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 and effectively operating. Furthermore, the objectives of the FMFIA were **(achieved or not achieved)** within the limits described in Tab A. Tab A also provides information on how the evaluation was conducted and cites any deficiencies in the process.

**The following paragraph shall be included if material weaknesses were identified, 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 organization 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 organization 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 organization management controls during the past year.

**(Signature of OSD Principal/Director of DoD Field Activity, 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 conceptualize the abstraction that is identified as “the weakness.” He or she must define and specify the weakness so as to provide the relevant parameters that will enable DoD senior managers to describe the breadth, dimensions and impact of the weakness. The milestones specified to correct the weakness should be formulated to resolve the materiality of the problem for the entire reporting organization.

Although audit reports are an important source for identification of weaknesses, not all weaknesses are “material.” 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. Consequently, the appearance of a weakness in an audit report does not necessarily warrant reporting it as a material weakness.

Beyond audit reports, organizations are expected to conduct at least 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 levels higher than that at which it was discovered always is a management judgment. If a weakness first was identified in an audit report, the scope of the corrective actions should not focus on, or be limited to, a single site or a few physical locations cited in an audit report. It would be the exceptional weakness that is sufficiently material to warrant reporting to the Secretary of Defense when limited to only one (or a small number of) physical location(s). Corrective action milestones should resolve the specified weakness, in its entirety, for the entire organization. For smaller organizations with only a few operating locations or elements, the “one site” focus of an audit report may be sufficient to warrant reporting.

Once reported, the same weakness should not reappear as a new or retitled weakness in a future annual Statement of Assurance just because a subsequent audit report has revealed new instances of the same problem at other locations. However, in order to more accurately report on the progress of correcting the weakness, if the original weakness has been corrected, the fiscal year of the weakness should be revised to reflect that fact even if there are reports of subsequent, related weaknesses. For example, if a material weakness was originally identified in FY 1993 and was corrected in FY 1996, but subsequent, related problems were identified in FY 1997, the material weakness would maintain the title of the original, but the date the weakness was first identified would now appear as FY 1997 and not FY 1993. The organization’s current-year annual Statement must reflect all such revisions. Remember, a weakness should be resolved throughout the organization, and not just in a limited context.

**Every effort should be expended to resolve material weaknesses as swiftly as possible so that no weakness goes uncorrected for more than 3 years unless extraordinary circumstances prevent more timely correction. Such extraordinary circumstances must be documented clearly in the organization’s Statement.**

Each organization should review the management control weaknesses reported by the other DoD Components when preparing their self-assessment. In previous annual DoD Statements of Assurance, there have been disparities in the reporting of weaknesses among DoD Components, particularly at the Military Department level. While differences in senior management interpretation of the materiality of weaknesses may account for some of the disparity, all DoD

Components are encouraged to review prior year Statements to ensure that their own self-assessments are, at a minimum, consistent with the scope and level of reporting used by other DoD Components that share similar missions or functions. When a Component identifies a weakness that it has a reason to believe is--or actual evidence that it may be--shared by other DoD Components, it should report that information to the OUSD(C) Management Control Program Coordinator.

Components must be consistent when specifying a weakness and associated corrective actions (milestones). For example, if an audit report in the civilian personnel environment concluded that an organization had inadequate controls to assure effective implementation of equal employment opportunity (EEO) requirements, the reported weakness and milestones should be consistent with that problem. It would be incorrect to report a weakness by stating that the organization will correct deficiencies in civilian hiring practices and then report milestones that address only the EEO requirements deficiency. In that case, the specification of the weakness would be too broad (i.e., implying action greater than the organization intends to take). Furthermore, if the audit report addressed only a deficiency in one aspect of EEO requirements, then the weakness should specify the more narrow, and accurate, specification of the problem. The organization should not report a weakness that implies a deficient application of all EEO requirements unless management intends purposely to broaden the scope of the action.

It often is preferable to address several related problems in one weakness statement; however, organizations should be cautious when defining a weakness. For example, in addition to the hypothetical EEO weakness stated above, an organization might have concluded that there are other control problems related to civilian hiring practices. Combining all the problems and reporting one weakness under a broad statement that the organization will correct deficiencies in civilian hiring practices still is too general and overstates 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 the appropriate conditions apply. The weaknesses must all be related functionally and share a common corrective action(s). Such conditions also include the ability to define specific and realistic corrective actions that can be accomplished within a reasonable timeframe. Take care to specify clearly when a prior year uncorrected weakness is being reported as a newly consolidated weakness to permit accurate tracking with past Statements and for greater clarity of reporting. Avoid merely rolling up a number of related weaknesses for the principal purpose of reducing the number of material weaknesses reported.

As a final note, organization 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. This can be resolved 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--then 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. The concept of reasonable assurance should be described as follows:

The system of internal accounting and administrative control, of the **(name of organization)**, in effect during the fiscal year ending September 30, 2002, was evaluated 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 of the **(name of organization)** 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 organization)** 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 organization)** and is applicable 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 evaluation was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the **(name of organization)** in effect during the fiscal year that ended September 30, 2002, 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 evaluation was conducted should include the following:

1. The progress achieved in institutionalizing management controls (i.e., a brief description of how the Organization 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 DoD IG, or other audits, investigations, inspections and/or internal reviews 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. Organization Inspector General or Audit Service findings
  - c. Reports of internal reviews and inspections
  - d. DoD IG 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.

If your management control process employs any of the preceding items, or any other methods, mechanisms, or techniques, describe them in the narrative for Tab A.

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. As such, it may serve as a useful adjunct to the DoD mandated management control program implementation guidance and should be carefully considered by each organization.**

#### **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” (i.e., 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) that fall within their area of functional responsibility. Narratives identifying OSD systemic weaknesses are forwarded to DoD Component focal points as they become available.

As a last disclosure in Tab A, all organizations shall develop a section entitled “Systemic Weaknesses.” 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 DoD Components the listing of FY 2002 systemic weaknesses as soon as possible.

The systemic weaknesses reported by the OSD PSAs in the FY 2001 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))

## 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 displayed below. The categories are defined at 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)

<b><u>Title</u></b> (1)	<b><u>Targeted Correction Date</u></b> (4)	<b><u>Page #</u></b> (5)
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**Uncorrected Weaknesses Identified During Prior Periods:** (List by DoD category, in the order provided on pages 12 and 13)

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

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

	<b><u>Year First Reported</u></b>	
<b><u>Title</u></b> (1)	<b><u>Reported</u></b> (2)	<b><u>Page #</u></b> (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 fiscal year noted as the targeted date for correction of the material weakness in the organization's FY 2001 Annual Statement.
4. This is the fiscal year noted as the targeted date for correction of the material weakness in the organization's FY 2002 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 organization 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 organization 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” wherever feasible to describe succinctly both the actions taken and planned. Narratives should be written for the general public and not as a technical report that assumes knowledge of, or experience with, the matter being discussed.**

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:** The description of the weakness should be confined 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**

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

Original Targeted Correction Date: Fiscal year of the targeted correction date as it first was reported by the Component in item 3, above.

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

Current Target Date: 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 2001 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 organization'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 2002 Statement of Assurance report shall be based upon the DoD Component's FY 2004 Budget Estimates Submissions (BES) as follows:

<u>Title</u>	<u>Appropriation(s)</u>	(\$000s)				<u>Cost-To-Complete</u>	<u>Total</u>
		<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>		

6. **Validation Indicator**: Briefly indicate the methodology that will be used to certify the effectiveness of the corrective action and the date that certification is projected to take place. In addition, indicate the role that the Inspector General, DoD or the organization 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) Organization Audit Service; (d) GAO; (e) Organization internal review staff; (f) Organization 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: Dates should be written civilian style (i.e., December 31, 2001), not military style (i.e., 31 December 2001). Do not abbreviate the month.**
9. **Progress to Date**: Use narrative to describe significant accomplishments or actions taken within FY 2002 to correct the weakness. Use of short descriptions in bullet style is preferred.
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)

<i>Description of the Issue</i>	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.
<i>Functional Category</i>	Comptroller/Resource Management
<i>Component</i>	Navy
<i>Pace of Corrective Action</i>	<ul style="list-style-type: none"><li>▪ <u>Year Identified</u> - FY 2001</li><li>▪ <u>Original Targeted Correction Date</u> - FY 2002</li><li>▪ <u>Targeted Correction Date in Last Report</u> - N/A</li><li>▪ <u>Current Target Date</u> - N/A</li></ul>
<i>Validation Indicator</i>	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.
<i>Results Indicators</i>	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.
<i>Source Document</i>	The following sources identified flag quarter issues: <ul style="list-style-type: none"><li>▪ 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.</li><li>▪ OIG, DoD Report No. D-2000-071, "Maintenance and Repair of DoD General and Flag Officer Quarters," January 27, 2000.</li></ul>
<i>Progress to Date</i>	The Department of the Navy has taken steps to correct its GFOQ weakness. These steps include: <ul style="list-style-type: none"><li>▪ 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.</li><li>▪ Initiated actions to investigate potential statutory, regulatory or administrative violations for selected GFOQs.</li><li>▪ 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.</li></ul>



- 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.

<i>Planned (FY 2002)</i>	▪ 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 organization'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 organization 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.
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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.
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### *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.
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Established clear lines of communication with the Military Services and Defense Agencies to participate
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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.