

Department of Defense

AGENCY FINANCIAL  
REPORT FOR  
FISCAL YEAR 2009

ADDENDUM B  
OTHER ACCOMPANYING  
INFORMATION

November 16, 2009

## Addendum B – Other Accompanying Information

The Other Accompanying Information provides additional details that support the Fiscal Year (FY) 2009 Department of Defense (DoD) Agency Financial Report (AFR). This addendum includes:

- (1) Inspector General’s (IG) summary of the most significant management and performance challenges facing the Department, to include the Department’s responses to DoD IG’s assessments.
- (2) Summary of Management Assurances and Financial Statement Audit Material Weaknesses
- (3) Improper Payments Information Act Reporting
- (4) Defense Security Cooperation Agency Financial Statements and Notes

### INSPECTOR GENERAL’S SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES FOR FY 2009

The Reports Consolidation Act of 2000 requires that the Agency Financial Report include a statement prepared by the Agency’s IG summarizing what the IG considers the most serious management and performance challenges facing the Agency and briefly assessing the progress in addressing those challenges. The DoD IG identified the following eight management and performance challenges facing the Department for FY 2009:

1. Financial Management
2. Acquisition Processes and Contract Management
3. Joint Warfighting and Readiness
4. Information Assurance, Security and Privacy
5. Health Care
6. Equipping and Training Iraqi and Afghan Security Forces
7. Nuclear Enterprise
8. American Recovery and Reinvestment Act

The table below outlines these challenges and includes both DoD IG’s and the Department’s management assessment of progress made by DoD in addressing these issues.

1. Financial Management	
1-1A. Financial Information	IG Summary of Challenge
	<p>The Department continues to face financial management challenges that adversely affect DoD’s ability to provide reliable, timely, and useful financial and managerial data needed to support operating, budgeting, and policy decisions. Since the 1990s, DoD IG has identified financial management as a challenge area. The DoD’s financial management problems are so significant they constitute the single largest and most challenging impediment to the U.S. Government’s ability to obtain an opinion on its consolidated financial statements.</p> <p>In the FY 2008 audit opinion on DoD’s consolidated financial statements, the DoD IG reported the same 13 material internal control weaknesses as the previous year. These pervasive and longstanding financial management issues directly affect the Department’s ability to obtain an unqualified opinion on its financial statements. These weaknesses affect the safeguarding of assets, proper use of funds, and impair the prevention and identification of fraud, waste, and abuse.</p>

## Department of Defense Agency Financial Report for FY 2009

1-1B. Financial Information	IG Assessment of Progress
<p>One significant measure of the ongoing progress in the area of financial management would be the Department's ability to obtain an unqualified opinion on its financial statements. The Defense Commissary Agency (DeCA), Defense Contract Audit Agency (DCAA), Defense Finance and Accounting Service (DFAS), Military Retirement Fund, and DoD IG all continued to receive unqualified opinions, while the Medicare-Eligible Health Care Fund continued to receive a qualified audit opinion. The U.S. Army Corps of Engineers (USACE) showed significant financial management improvement because the qualified opinion on its FY 2007 financial statements was upgraded to an unqualified opinion on the FY 2008 financial statements.</p> <p>Although DoD is far from reaching an unqualified opinion, the Department has demonstrated improvement. One improvement area is the ability to provide timely, complete, and accurate financial information through an integrated set of enterprise business systems. DoD, through the Enterprise Transition Plan, plans to support metrics in improved financial information.</p>	
1-2A. Improving Financial Information	IG Summary of Challenge
<p>The following elements and actions continue to be key for improving the Department's financial management:</p> <ul style="list-style-type: none"> <li>• Creating an environment that will effectively identify, coordinate, implement, and monitor the financial management improvement efforts and hold managers accountable for the successful and timely implementation of those efforts.</li> <li>• Fully implementing and maintaining an effective internal review and monitoring process to identify all material financial management and reporting deficiencies, internal control weaknesses, and quality of data issues.</li> <li>• Developing corrective action plans that will adequately correct deficiencies and result in financial reporting in accordance with generally accepted accounting principles.</li> <li>• Implementing corrective action plans that address the systems, controls, reporting, and quality of data weaknesses.</li> </ul>	
1-2B. Improving Financial Information	IG Assessment of Progress
<p>The Department's ongoing initiatives in the area of financial management improvement demonstrate DoD management is responding to the significant and pervasive financial management issues identified. The Department is positioning itself to leverage planned systems and business improvements to achieve sustainable and long-term solutions. One initiative is the Financial Improvement and Audit Readiness (FIAR) Plan.</p> <p>Since the Department issued the first FIAR Plan in December 2005, the Department has continued to evaluate the overall approach to DoD financial improvement efforts. As the FIAR Plan has evolved, the Department has made, and continues to make, changes to that approach. The Department has issued seven updated versions of the FIAR Plan since the December 2005 version. The Department issued the December 2005 FIAR Plan as the roadmap to fix internal controls, correct processes, and obtain an unqualified audit opinion by focusing on certain financial statement line items. As discussed in the March 2008 update to the FIAR Plan, the Department refined the FIAR Plan's audit strategy to validate and sustain financial improvements and audit readiness not across individual line items, as previously done, but across segments of the business environment. In the March 2009 FIAR Plan, the Department acknowledged that a new strategy was being formulated to focus on the tasks that will provide the greatest improvements in the Department's ability to manage its finances. Preliminary planning efforts by the Department to revise the approach indicate that the Department plans to focus improvement efforts primarily on the financial information for budgetary and mission critical assets, which the Department considers the most useful type of financial information for managers and warfighters.</p> <p>Further, recent legislation established requirements that should assist the Department to refine and strengthen the framework for the financial improvement efforts and integrate those efforts with the Department's overall business transformation effort. The "National Defense Authorization Act for Fiscal Year 2008," P.L. 110-181, section 904, January 28, 2008 established the DoD Chief Management Officer (CMO) and the military department CMO positions that are responsible for the management and effective and efficient organization of the business operations of the Department or the respective military department. The responsibilities of the DoD CMO position include the development of a strategic management plan that identifies:</p> <ul style="list-style-type: none"> <li>• Performance goals and measures for improving and evaluating the overall efficiency and effectiveness of</li> </ul>	

## Department of Defense Agency Financial Report for FY 2009

the Department's business operations, and progress in achieving an integrated management system.

- Key initiatives and resources to achieve the performance goals.
- Procedures to monitor progress in meeting the performance goals and measures.
- Procedures to review and approve plans and budgets for changes in business operations or requests for defense business systems.

Additionally, section 908, "Business Transformation Initiatives for the Military Departments" of the "Duncan Hunter National Defense Authorization Act for Fiscal Year 2009," P.L. 110-417, October 14, 2008 assigns responsibilities and establishes an organizational structure within each military department for business transformation. Specifically, Section 908 requires each Military Department, acting through the military department CMO position to:

- Develop a comprehensive business transformation plan, an enterprise-wide business systems architecture, and a transition plan.
- Implement those plans.
- Establish a business transformation office that reports directly to the military department CMO.

One of the responsibilities of the military department business transformation office and CMO, is to ensure each element of the business transformation initiative for that military department is consistent with the Department's overall Business Enterprise Architecture and Transition Plan.

The IG considers the following DoD financial management efforts to be limited successes:

- Implementation of integrated organizational structures and processes to address financial management improvement
- Assignment of accountability to DoD managers
- DoD improvement initiatives at the entity and line item level

Although the IG anticipates that DoD will need to make improvements in these areas, the IG considers these the critical steps for establishing a culture and institutionalizing a structure that will facilitate DoD managers in identifying internal control weaknesses and plan effectively for resolution of those weaknesses. This culture and structure also will hold DoD managers accountable for improving internal controls over financial reporting. Further, these steps should result in a financial management structure that can provide accurate, relevant, and timely financial management information for decision-making.

### 1. Financial Management

### Management's Overall Assessment

On August 11, 2009, the Under Secretary of Defense (Comptroller) (USD(C)) established DoD-wide priorities for improving financial information and achieving audit readiness. These DoD-wide priorities were approved by the Deputy Secretary of Defense and vetted with key stakeholders in the Department, as well as Congress, Office of Management and Budget (OMB) and Government Accountability Office (GAO).

The USD(C) audit priorities recognize the importance of achieving auditable financial statements and resolving the long-standing 13 material weaknesses, but focuses improvement efforts first on financial and other information most useful to DoD decision makers. The USD(C) priorities are:

- Budgetary Information - Budget authority, obligations, expenditures, and outlays leading to auditable Statements of Budgetary Resources.
- Mission Critical Asset Information - Existence, location, condition, and other information pertaining to mission critical assets (i.e., Military and General Equipment, Real Property, Inventory, and Operating Materials and Supplies).

The DoD FIAR Plan and the Component's financial improvement plans are being modified to address and accomplish the USD(C)'s priorities. In addition to addressing the USD(C)'s priorities, the Department has taken significant steps to improve the overall effectiveness of the FIAR Plan, many of which address the issues identified in the IG's challenges and assessment of progress. They include:

- FIAR Framework -- A standard template for the Components' Financial Improvement Plans (FIPs) was developed and is now being used that brings consistency to the FIPs and identifies key control objectives and capabilities ensuring improved internal controls and sustainability.
- FIAR Metrics -- Metrics were developed and are being implemented to better track progress and provide oversight to management, Congress, OMB and GAO.

## Department of Defense Agency Financial Report for FY 2009

- Accountability -- Component FIPs are required to identify accountable organizations and people to ensure that such organizations and people are aware of their responsibilities and to hold them accountable.
- Resources -- Resource requirements to execute improvement work are now being captured to ensure resource requirements are known and planned.

In summary, the Department agrees with the IG's summary of challenges and assessment of progress and continues to work aggressively to resolve the long-standing material weaknesses and achieve auditable financial statements. However, as indicated above, the Department's priorities have been revised to focus limited resources on improving information used by management and keep the end goal of auditable financial statements in sight.

### 2. Acquisition Processes and Contract Management

#### 2-1A. Acquisition Workforce

#### IG Summary of Challenge

Since the 1990s, DoD IG has identified DoD acquisition and contract management processes as a challenge area. Acquisition initiatives that began in the 1990s led to reductions in acquisition oversight assets. When the spending trend dramatically reversed after September 11th, the Department was not able to react quickly to the need for more contract and oversight support. The emphasis on urgency to support the war effort, especially for contracting in an expeditionary environment, has only served to increase the challenges. One way in which DoD coped with the limited resources was to use other agencies' contracting resources. Increasingly, funds were sent to other agencies to perform work for the Department and in FY 2005 interagency contracting was added to the challenges when it became a GAO high-risk area. In FY 2010, the Defense budget with funding for contingency operations could approach about \$700 billion. This total is more than double the last DoD budget preceding September 11, 2001. Keeping pace with this spending would be a difficult proposition if acquisition and oversight assets were increasing at a proportional rate. However, from 1990 until the end of FY 1999, total personnel included in the DoD acquisition workforce decreased about 50 percent, from 460,516 to 230,556 personnel.

As one example, the Army's Logistics Civil Augmentation Program (LOGCAP) Office, which is co-located in Illinois with the Rock Island contracting center, suffers from significant understaffing. Its executive director told the Commission on Wartime Contracting that Rock Island is authorized 384 people to support its contracting mission, but as of February 2009, only 279 were on hand. The result is 6-day workweeks of 10 to 12 hours per day. Rock Island is working to hire additional staff to get up to 300.

As of May 2008, there were approximately 25,000 contracting officers to handle procurements of goods and services that had grown to about \$400 billion by FY 2008. Other organizations such as Defense Contract Management Agency (DCMA), which is responsible for much of the administration and surveillance of DoD contracts, decreased its staff levels by similar amounts during the same period. Even within DoD IG's Office, we reported in our March 31, 2008 Growth Plan that our auditors are unable to keep pace with the ballooning Defense budget and this growth "leaves the Department increasingly more vulnerable to fraud, waste, and abuse."

#### 2-1B. Acquisition Workforce

#### IG Assessment of Progress

Progress in training and equipping more contract officials within DoD to handle the increased workload will take time. However, a number of initiatives are underway that are addressing the challenges, both within the Department and from proposed legislation. A commission, headed by Dr. Jacques Gansler, evaluated the Army Expeditionary Contracting and recommended urgent reform. As a result, the U.S. Army Materiel Command activated the Army Contracting Command, which will oversee more than \$85 billion in contracts annually and focus on maintaining and improving the Army's ability to respond globally in support of warfighters' needs.

In April 2009, Secretary Gates announced plans to hire 20,000 new acquisition professionals by 2015. Of those, 9,000 will be new jobs and 11,000 will convert from contractor held positions. The shift will begin in FY 2010 with 1,600 new jobs and 2,500 conversions. The positions will fill gaps identified in a recent workforce competency survey, according to the Department's acquisition policy director.

#### 2-2A. Major Weapon Acquisition

#### IG Summary of Challenge

Challenges also continued with major acquisition programs. Many large weapons systems acquisitions are receiving Congressional scrutiny because of continued cost, schedule, and control problems. The GAO reported between FY 2003 and FY 2008 the number of DoD major defense acquisition programs increased from 77 to 96, total planned commitments grew from \$1.2 trillion to \$1.6 trillion, and the average schedule delay in delivering initial capabilities increased from 16 to 22 months.

## Department of Defense Agency Financial Report for FY 2009

As program costs increase, DoD must request more funding to cover the overruns, make trade-offs with existing programs, delay the start of new programs, or take funds from other accounts. Delays in providing capabilities to the warfighter will result in the need to operate costly legacy systems longer than expected, to find alternatives to fill capability gaps, or to go without the capability.

### 2-2B. Major Weapon Acquisition

#### IG Assessment of Progress

The DoD also outlined a series of initiatives to the House Oversight Committee on acquisition improvements. Three recent studies produced 55 recommendations for improving acquisition processes. Of the 55 recommendations, 48 have been fully or partially implemented. Initiatives include early and competitive prototyping, continuous improvement through use of process review tools, stability in program management tenure, use of capital funding and configuration steering boards, and a capital funding pilot program. Another proposed initiative to improve major acquisition programs would require all new efforts to move through a "material development decision" milestone and would shift the crucial Milestone B decision to later in the process.

DoD continues to make limited progress in controlling cost and schedule of major acquisition programs and will have to make critical decisions about which systems should be cut based on competing resources. The DDG 1000 is one recent example of a major system that succumbed to cost and schedule pressures.

However, progress has been made to implement new policies. The Department has revised its policies and guidance to improve its acquisition of weapon systems and address contract management issues. For example, in December 2008, DoD revised its policy governing major defense acquisition programs to provide key department leaders with the knowledge needed to make informed decisions before a program starts and to maintain discipline once it begins. The revised policy includes the completion of key systems engineering activities before the start of the systems development, a requirement for more prototyping early in programs, and the establishment of review boards to monitor weapon system configuration changes. The DoD also issued guidance to address contracting weaknesses and promote the use of sound business arrangements. The DoD established a framework for reviewing major services acquisitions, developed guidance on linking monetary incentives for contractors to acquisition outcomes, and implemented regulations to better manage its use of contracting arrangements that can pose additional risks for DoD. These are positive steps, but inconsistent implementation has hindered past DoD efforts to address these high-risk areas. To improve outcomes DoD must ensure these policy changes and others are consistently put into practice and reflected in decisions made on individual acquisitions.

Further, the Weapon Systems Acquisition Reform Act of 2009 strengthened the Department's oversight of the acquisition process with the objective of reducing program cost overruns, shortening the delivery schedule, and improving system performance. Through this Act, Congress legislated that the Department establish an independent Director of Cost Assessment and Program Evaluation to improve cost estimates and a Director of Developmental Test and Evaluation to ensure developmental test and evaluation activities of the Department are fully integrated into, and consistent with, the systems engineering planning processes. It also provides an increased role for the commanders of the combatant commands in identifying joint military requirements.

### 2-3A. Contracting and the Impact on Decision Making

#### IG Summary of Challenge

Dealing with the decreasing acquisition workforce has created a myriad of other challenges.

The Department has increasingly relied on interagency contracting and use of contractors to fill the gap from the reduced acquisition and oversight workforce, bordering on inherently governmental functions, thereby potentially taking on decision-making roles. Key areas where use of contractor support has bordered on inherently government functions that impact decision-making include: strategic planning within programs and organizations; acquisition planning for specific acquisitions; source selection assistance and source selection decision making; contract administration and surveillance; and contractor testing of systems and weapons in which they participate in the development.

Our recent audit coverage has found a number of problems with use of interagency contracting, including lack of competition, inadequate and unreasonable price determinations, and insufficient surveillance. In addition, the use of contractors has raised concerns about contractor ethics requirements and conflicts of interest.

Distorted use of acquisition initiatives, such as commercial item procurements to achieve speed and reduce oversight in procurements, continues to challenge contracting officials and the oversight community. Use of commercial items is beneficial when there is an established market to allow contracting officials to use the marketplace to establish reasonable pricing for the items we buy. It also reduces the need for Government quality

## Department of Defense Agency Financial Report for FY 2009

assurance when the Department can rely on a well-established commercial quality assurance program. However, because the broad definition of commercial items includes items that are not commercial items, but are “of a type” or have not been in the marketplace, such as items offered to the public or items that will be available in time to meet the Government’s needs, cause significant challenges to ensure reasonable prices and sufficient quality assurance practices.

Another concern voiced by DoD IG in testimony from 1998 was the lack of oversight in services contracting, another high-risk area for waste and mismanagement. Services contracts were a growth area in DoD, and continue to increase because of the expanded emphasis on outsourcing. In FY 1998, about \$49 billion was spent on services contracts. However, there were almost no oversight mechanisms for service contracting, and the Office of the Secretary of Defense (OSD) received little information on how the Department was managing services contracts. We saw no comprehensive efforts by the Department to oversee or manage the growth, costs, profits, or fees for services contracts. In just the last decade, the value of services contracting more than tripled and yet the number of acquisition and oversight staff was essentially flattened. For FY 2008, DoD, as the largest purchasing organization in the world, obligated over \$396 billion for contracts. More than 50 percent of those dollars were spent on the acquisition of services.

The Department continues to be challenged to strike a balance between urgent contracting to support the warfighter and performing all of the appropriate acquisition requirements. Our audit coverage has found numerous shortcuts in the acquisition process related to urgent procurements. This is especially true when contracting in an expeditionary environment. In one instance, we estimated that 68 percent of Non Tactical Vehicle (NTV) contract files did not contain adequate justification for the NTVs and 85 percent did not contain documentation to show contracting officers appointed contracting officer’s representatives to oversee the contracts.

### 2-3B. Contracting and the Impact on Decision Making

### IG Assessment of Progress

The Under Secretary of Defense (Acquisition, Technology, and Logistics (USD(AT&L))), and the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) have taken a series of corrective actions to improve systemic problems that our audits disclosed on interagency contracting. Each Under Secretary issues policy memoranda to implement actions based on our recommendations, and the USD (C)/CFO formed a task force to review the potential Antideficiency Act Violations we reported.

In addition, Section 813 of the John Warner National Defense Authorization Act (NDAA) for FY 2007 directed DoD to establish a Panel on Contracting Integrity. The Panel, consisting of senior leaders, is focused on eliminating areas of vulnerability in contracting that allow fraud, waste, and abuse. The committee has established subcommittees in the areas of sustained senior leadership, capable contracting workforce, adequate pricing, appropriate contracting approaches, and techniques, sufficient contract surveillance, contracting integrity in a contingent environment, procurement fraud indicators, and contractor employee conflicts of interest. Initially, the Panel developed 21 recommendations for FY 2008 and an additional 28 actions for FY 2009 and is working to improve the contracting process.

In September 2008, the USD (AT&L) issued a memorandum on peer reviews of contracts for supplies and services. The memorandum established DoD policy for peer reviews. The objectives of peer reviews are three fold: 1) to ensure that Contracting Officers across the Department are implementing policy and regulations in a consistent manner; 2) to continue to improve the quality of contracting processes across the Department; and 3) to facilitate cross-sharing of best practices and lessons learned across the Department.

On February 18, 2009, AT&L issued a memorandum on review criteria for the acquisition of services. AT&L reviews and approves all proposed acquisitions for services with a total estimated value greater than \$1 billion, as well as service acquisitions that are categorized as “Special Interest.” These reviews seek to ensure the requirements are clear and well defined, the acquisition approach and business strategy are appropriate, and there are mechanisms in place to provide for proper oversight of contractor performance.

In addition, the Joint Contracting Command-Iraq/Afghanistan updated its Acquisition Instruction to include guidance for maintaining contract files. Implementation of this guidance will help ensure contracting officers maintain contract files that provide an adequate history of the contract actions.

## 2. Acquisition Processes and Contract Management

## Management’s Overall Assessment

The DoD continues to work a number of acquisition excellence initiatives that address contracting and contract management issues to include contracting in an expeditionary environment, addressing the GAO high-risk area of interagency contracting, growing the contracting workforce, and increasing DoD organic acquisition management capability.

## Department of Defense Agency Financial Report for FY 2009

DoD initiatives to improve contingency contracting include increasing staffing in the Office of the Director, Defense Procurement and Acquisition Policy (DPAP) dedicated specifically to contracting in expeditionary operations and development of the first-ever Joint Contingency Contracting Handbook that provides essential tools and training for contingency contracting officers. The recently released second edition of the handbook, includes many enhancements such as critical action checklists, laminated foldout charts, color-coded pages to flag vital information, and summary-level key points. Draft Expeditionary Contracting Policy has been developed, and forms a foundation for the handbook. DPAP is also developing electronic solutions for in-theater problems experienced in requirements generation, contract writing, invoicing, and the use of the Government Purchase Card.

DPAP continues to lead efforts across the Department to ensure initiatives to benefit the warfighter in current and future contingencies are developed, staffed, and implemented. A campaign, led by a joint Task Force, is developing near-term and long-term solutions to resourcing contingency contract administration services (CCAS). The CCAS effort is examining the manning levels needed to support contracting, quality assurance, and property administration functions for a contingency operation involving two major regional conflicts. The Deputy Secretary of Defense has tasked the Services to plan for and fund the necessary resources, and the Services have responded.

In another example, DPAP is providing support and input to the Commission on Wartime Contracting in Iraq/Afghanistan, which was established in the FY 2009 National Defense Authorization Act. Appointed by the Secretary of Defense to assist in the Commission's mission, DPAP led and escorted members of the Commission, as well as Department of State representatives, on a December 2008 trip into theater of operations that provided the Commission with its first sense of the climate and working conditions in a deployed environment.

The Department established a Joint Task Force to evaluate the June 10, 2009 interim report of the Commission on Wartime Contracting, with particular focus on the interim report's issues of concern. Among the issues that the Task Force is examining is the LOGCAP program. The Task Force findings and recommendations will be provided in October 2009. The Task Force exemplifies the Department's dedication to improving contingency contracting in Iraq and Afghanistan. The group advocates the good work accomplished by the Department's committed professionals. The involved organizations will continue to enhance contingency contracting, regardless of the locale, to best support our troops in any deployed mission.

In response to GAO concerns regarding interagency contracting, the Director, DPAP issued a policy memorandum on October 31, 2008, which endorsed the Office of Federal Procurement Policy memorandum of June 2008 and required the use of an Interagency Agreement for any interagency acquisition, regardless of dollar value. The memorandum provides clarifications on DoD policy regarding Interagency Acquisition. The Department has posted on its Interagency Acquisition webpage a model Interagency Agreement required for all interagency acquisitions in excess of \$500,000. In August 2009, the Department issued a comprehensive policy memorandum, including a list of Frequently Asked Questions (FAQs) that specifically addressed numerous findings in relevant DoD IG audits related to interagency acquisition.

The DoD continues to work a number of initiatives that address the contracting workforce. The cornerstone of many of these initiatives is the Contracting Competency Assessment, completed in September 2008. This effort targeted 20,573 contracting professionals DoD-wide and achieved a participation rate of over 87 percent. The purpose was to assess individual capabilities and training needs, and evaluate overall organization/command capabilities and gaps. Assessment results were given to each participating organization/command to provide senior procurement executives and contracting leaders with an organization/command-level view of their workforce's overall proficiency levels. A key role for senior contracting leaders was to apply their leadership judgment to these results as a way to identify workforce gaps and the appropriate gap closure strategies, align their workforce with their mission, and develop a workforce for the future.

The Defense Acquisition Workforce Development Fund (DAWDF) and the FY 2010 Defense Budget together provide senior leaders with the means to close workforce gaps and adjust human capital strategies. Today, the Department is implementing DAWDF initiatives to include training enhancement and capacity expansion, retention and recognition efforts, career broadening and academic programs, intern programs, recruiting incentives, outreach programs, journeyman-hiring programs, and hiring expert knowledge and/or highly qualified professionals. In addition, the Department will grow the contracting workforce and increase DoD organic acquisition management capability. This will create a better balance between our government workforce and contractor support personnel and ensure that critical and inherently governmental functions are performed by government employees. The Department's strategy will increase and improve the Department's oversight capabilities, thereby ensuring we get what we pay for; ferret out waste, and assist in combating contract fraud. Together, these actions ensure we will have the workforce we need to deliver mission critical capabilities.

The DoD's commitment to a long-range vision for improving the contracting and contract management processes and the continued accomplishment of near-term initiatives ensures both immediate and long-term improvements in contracting and contract management in expeditionary operations.



3. Joint Warfighting and Readiness	
3-1A. Joint Warfighting and Readiness	IG Summary of Challenge
<p>The challenge of Joint Warfighting and Readiness is to provide the right force, the right personnel, and the right equipment and supplies in the right place, at the right time, and in the right quantity, across the full range of military operations. This challenge is compounded by the strain on resources because of Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF). The challenges facing the Department will increase, in both the near- and long-term, as the Department prepares for, and begins, the scheduled withdrawal of forces from Iraq and the deployment and redeployment of forces to Afghanistan. In the near-term, the Department must plan for and execute the withdrawal and redeployment. In the long-term, the Department faces the challenge of resetting the Services; retraining skills that have not been required for the current operations; and reengaging with other nations' militaries. This challenge encompasses the need to ensure basic services continue uninterrupted for the members of the armed forces and their families. The other management challenges encompass areas that support the ability of the U.S. to conduct joint warfighting and readiness issues. The synergy of those other management challenges will shape the U.S. ability to achieve its national objectives through joint operations.</p>	
3-1B. Joint Warfighting and Readiness	IG Assessment of Progress
<p>The Department is making progress on the issue of Joint Warfighting and Readiness, but that progress must be monitored to ensure it continues. The Department cannot afford to ignore new, and in some cases, recurring, situations that will require attention. For example, although planning is underway for the withdrawal from Iraq, it must be monitored to ensure all equipment and personnel are properly accounted for; only items approved for transfer are transferred; and the training of indigenous forces continues. Similarly, the increase of forces in Afghanistan must be monitored to ensure forces receive the support required. In addition, the ongoing efforts to relocate service members to Guam and other locations around the globe will enable the armed forces to better shape and focus their force structure in a way that will provide greater flexibility in responding to threats. However, some challenges facing the Department were evident during reviews pertaining to the reset of Army equipment returning from OIF and the training of DoD ground forces supporting OIF.</p> <p>Military operations depend on information and information systems for many simultaneous and integrated activities. Information Operations are essential to the successful execution of military operations. Therefore, a key goal of Information Operations is to achieve and maintain information superiority for the U.S. and its allies.</p> <p>Although DoD has made strides in advancing Information Operations as a core military competency, we concluded that there is a weakness in DoD oversight management processes. Until DoD improves oversight, it cannot efficiently and effectively advance Information Operations into a warfighting capability for combatant commanders</p>	
3-2A. Alignment of Resources	IG Summary of Challenge
<p>While U.S. forces continue to operate around the world, changes are underway to better align the resources of the Department to benefit the warfighters, wherever they are. Those changes have taken a variety of forms, not the least of which is the improvement of the tools used to fight the enemies of the U.S..</p> <p>The fight against terrorism, as well as the ongoing OEF and OIF, continue to test the limits of the Department and its ability to successfully defend the U.S.. These have been shared battles, with each Service shouldering its portion of the load. For example, DoD IG's investigative component, the Defense Criminal Investigative Service, has worked effectively with the Army's Criminal Investigation Command, the Federal Bureau of Investigation, the Special Inspector General for Iraq Reconstruction, and the Special Inspector General for Afghanistan Reconstruction by assigning 12 special agents to Iraq, Kuwait, and Afghanistan for 6 month rotating details. These agents specifically address allegations related to bribery, kickbacks, contracting irregularities, and other matters that involve procurement fraud and public corruption that impact joint warfighting capabilities. In addition, in June 2007 DoD IG established a field office in Afghanistan to conduct audits of contracts, funds management, and other accountability related issues in support of Operation Enduring Freedom.</p> <p>The Department's available resources are finite and require constant monitoring of our abilities and of the world situation to enable the Department to operate successfully on a global scale. The combination of these various factors continues to challenge the Department.</p>	

## Department of Defense Agency Financial Report for FY 2009

3-2B. Alignment of Resources	IG Assessment of Progress
<p>Despite high operating tempo, U.S. Forces are effectively executing their missions globally. Sustained operations in Iraq and Afghanistan impact equipment, the troops, and their families. Forward deployed units are trained, manned, and equipped to accomplish missions. However, non-deployed units' unit readiness levels are impacted because resources are limited. Non-deployed units realize additional costs by ensuring that deployed and next-to-deploy units have adequate manning, training, and equipment. In addition, the continued use of equipment over the past several years in harsh environments is causing wear and tear at higher rates than planned.</p> <p>Increased deployments and shorter dwell times impact the readiness of equipment, the troops, and their families. Insufficient dwell time affects readiness of the total force because it does not allow our troops time to reconnect fully with an important support system – their families.</p> <p>Maintaining readiness, resetting the force during the extended war, modernizing to face future challenges, and allowing troops to reconnect with their families are challenges that the Department and Congress must continually address.</p>	
<b>3. Joint Warfighting and Readiness Acquisition</b>	<b>Management's Overall Assessment</b>
USD Personnel and Readiness concurs with the IG's Summary of Challenge and Assessment of Progress.	
<b>4. Information Assurance, Security and Privacy</b>	
4-1A. Risk Management	IG Summary of Challenge
<p>Ensuring a robust risk management, security, and information assurance program has been – and continues to be – a significant, on-going challenge to the Department. Such a program includes periodic risk assessments; physical and information security awareness training; security policies, procedures, and practices, as well as tests of their effectiveness; procedures for addressing deficiencies and for detecting, reporting, and responding to security incidents and privacy data breaches; and ensuring the continuity of operations.</p> <p>On top of the challenge of ensuring that advances in technology do not compromise security and privacy protections, DoD faces the additional challenge of securing information from cyber attacks. The Defense Science Board Task Force noted that as reliance on automated information systems for command, control, communications, and operations increases, it is essential that defenses of these information systems also increase. Cyber attacks can result in a commander's loss of confidence in information systems, the loss of classified information, or even the loss of critical operational capabilities.</p> <p>DoD must also develop policies and procedures to ensure the integrity of information and the oversight of such tools for the recent widespread use of social networking technologies.</p>	
4-1B. Risk Management	IG Assessment of Progress
<p>The Department has made little improvement in its information assurance and security posture. Previous issues have been exacerbated by ongoing losses of privacy and sensitive, but unclassified government data. The lack of clear DoD policy regarding protection of such data and the reporting of incidents regarding its compromise has also contributing to the ongoing issues. Still of particular concern is protection of DoD information in the hands of contractors, to include all members of the Defense Industrial Base, and other non-DoD entities such as foreign, state, local and tribal governmental entities.</p>	
<b>4-1. Risk Management</b>	<b>Management's Overall Assessment</b>
<p>With regard to DoD's improvements in Information Assurance (IA) and security posture, DoD made the following significant advances in FY09:</p> <ul style="list-style-type: none"> <li>Expanded enterprise rollout of Host Based Security System for both Secret Internet Protocol Router Network and Nonsecured Internet Protocol Router Network IAW Communications Task Order (CTO) 07-12 and Fragmentary Order (FRAGO) 13.</li> <li>Implemented Security Contact Automate Protocol compliant Federal Desktop Core Configuration compliance scanning capability as part of Host Based Security System Policy Auditor module. This capability supports OMB direction for automated compliance scanning capability.</li> </ul>	

## Department of Defense Agency Financial Report for FY 2009

- As part of the Enterprise Solutions Steering Group (ESSG) efforts, DoD is in process of developing a replacement and updated contract for automated computer vulnerability scanning and remediation tools.
- ESSG insider threat mitigation tool availability has been coordinated with DNI and Office of the National Counter Intelligence Executive (ONCIX) representatives as part of an increased focus on Insider Threat mitigation.
- Coordinated with U.S. Strategic Command Headquarters (USSTRATCOM-HQ), Joint Task Force – Global Network Operation and Defense Information Systems Agency in the development and details supporting Computer Network Defense priorities and funding for FY09-13 Operation Buckshot Yankee Requirements.
- Established blanket purchase agreements for data at rest encryption products to facilitate the protection of sensitive data, both through disk encryption and file encryption.
- Increased the number of certified IA professionals in support of DoD Instruction (DoDI) 8570.

Supported USSTRATCOM requirements for Operation Gladiator Phoenix and the development and coordination of an IA Campaign Plan outlining multiple initiatives to ensure IA supremacy and capability to respond to and protect DoD networks and systems from cyber attack.

- Finalized and coordinated with DoD Components details of a cyber demilitarized zone standard security design.
- Improved operational testing of IA/computer network defense security through Bulwark Defender and other exercises.
- In support of DoDI 8530, achieved Certification and Accreditation of all Computer Network Defense Service Provider Organizations.
- DoD expanded the Data at Rest enterprise effort providing multiple technical solutions to address the need for encryption of data at rest for laptop computers.
- In response to the proliferation and utilization of social networking technologies DoD is in process of developing and coordinating a policy that will address DoD use of these technologies, including consideration of potential cyber risks and appropriate mitigation strategies.
- In FY 2009, DoD developed and coordinated with DoD Components an updated Information Assurance Strategy document outlining the primary IA goals and capabilities being pursued by the Department in order to adequately defend and protect the networks.
- Directive Type Memorandum (DTM) M-08-27, "Security of Unclassified DoD Information on Non-DoD Information Systems" dated 31 July 2009, established policy for managing the security of unclassified DoD information on non-DoD (including contractor) information systems. This new guidance stresses that appropriate requirements must be incorporated into all contracts, grants, and other legal agreements or understandings with non-DoD entities.
- AT&L proposed interim contracting guidance to strengthen the DTM. A modification to the Defense Federal Acquisition and Contracting Regulation has been developed on cyber security reporting and information assurance standards and is expected to be released for Advanced Notice of Proposed Rulemaking in the fall of 2009.
- DoD initiated a pilot program addressing Defense Industrial Base (DIB) Cyber Security and IA activities. This program establishes a comprehensive approach between DoD and industry for protecting unclassified DoD information requiring controls transiting or residing on DIB unclassified networks. Through this collaborative effort, the pilot program involves 29 companies and is focused on threat information sharing of unclassified and classified threat information, incident reporting and mitigation, and cyber intrusion damage assessment. The DoD Cyber Crime Center is designated the operational focal point for the DIB and U.S. government in executing this program. The objective is to transition from pilot to program status in FY 2010 and open the program to all qualified cleared defense contractors, which number over 2600 companies. A phased expansion is planned to accommodate the increased number of DIB partners.
- DoD also has policies that govern the use of certain insecure technologies. Specifically, DoD has policy governing the use of file transfer protocol (FTP), which as an insecure protocol is subject to limitations set out in policy guidance on where it can be employed and what types of data may be hosted on an FTP server.

4-2A. Protecting DoD Information

IG Summary of Challenge

One of the major challenges remaining is the protection of DoD information in the hands of contractors and the appropriate response to data breaches involving both privacy-protected data, such as personally identifiable information, and sensitive, but unclassified, information, such as contractor proprietary information. This challenge is amplified by challenges associated with continued critical inaccuracies in the DoD database used for oversight

## Department of Defense Agency Financial Report for FY 2009

of the DoD information system inventory. Further, DoD has made very limited progress in developing a Homeland Security Presidential Directive-12 compliant Personal Identity Verification credential, thereby failing to take advantage of possible enhancements to DoD physical and logical access security programs.

Another significant challenge with protecting DoD information is concerned with the sanitizing and disposal of excess unclassified information technology equipment in accordance with Federal, DoD security, and environmental regulations. Specifically, excess unclassified information technology equipment must be disposed of in a manner that safeguards sensitive information.

### 4-2B. Protecting DoD Information

#### IG Assessment of Progress

The Department continues to lack an accurate, authoritative data repository for information regarding DoD systems and does not have a requirement for an inventory of systems containing DoD information operated by contractors and other non-DoD entities. Metrics based on systems regarding DoD information security and privacy are not that meaningful for management oversight and verification of reported data. Further, DoD has yet to develop a Homeland Security Presidential Directive-12 compliant Personal Identity Verification credential, thus failing to achieve the possible benefits of utilizing such a credential for logical and physical access envisioned by the 2004 Presidential Directive. In addition, internal controls over card stock for existing DoD identification credentials are inadequate.

DoD Components have not been properly sanitizing and accounting for unclassified information technology equipment before releasing this equipment to other organizations. As a result, DoD could not ensure that personally identifiable information or other sensitive information was protected from unauthorized release.

### 4-2. Protecting DoD Information

#### Management's Overall Assessment

- Assistant Secretary of Defense, Network and Information Integration/DoD Chief Information Officer does maintain an accurate and authoritative data repository for information regarding DoD systems. It is called the Defense IT Portfolio Repository (DITPR). Automated data entry controls which prevent the introduction of inconsistent data have been implemented in DITPR, as well as in DITPR feeder systems maintained by the Departments of the Navy and Air Force. Similar measures are in the process of being implemented in the Army. These continuous improvements in DITPR have resulted in an inventory that is increasingly accurate and authoritative and provides meaningful data on which to base metrics for management oversight.
- Federal Information Security Management Act requires an inventory of agency-operated systems and systems operated on behalf of agencies. It does not require agencies to maintain inventories of systems owned and operated by contractors and other non-DoD entities simply because they may contain DoD information provided by DoD or developed as a function of doing business with the Department. DTM 08-027, discussed above, and other guidance issued by the Department address security requirements for such systems. The Department has no plans to attempt to compile an inventory of the estimated 40,000 plus information systems in this category.
- DoD is now able to issue a Homeland Security Presidential Directive-12 compliant Personal Identity Verification (PIV) credential.
- During FY09, DoD made changes to its Public Key Infrastructure (PKI) architecture to publish Certificate Revocation Lists (CRLs) every 18 hours, as required by the Federal Common Policy Framework Certificate Policy.
- DoD worked along with the Federal community to revise the timeframe requirement for populating the next update field in CRLs, as specified in the Federal Common Policy Framework Certificate Policy, section 4.9.7. DoD can now meet the requirement .
- DoD worked with the Federal community and OMB to come to agreement on an approach for handling the requirement to indicate the status of a Mission Assurance Category-I. The DoD meets the approach.
- The Department has introduced a new configuration of the Common Access Card (CAC), the "Gemalto TOP DL GX4 144K," into the issuance infrastructure and began initial deployment in August 2009 of a compliant PIV credential from workstations configured with the latest Real-time Automated Personal Identification System release. Among other things, this configuration supports the following enhancements:
  - DoD CAC PIV endpoint implementation
  - Asserting the common policy object identifier in DoD's PIV Authorization Certificate
  - End Entity certificates with Rivest, Schamir, Adlelmn (RSA) 2048 key lengths algorithms and SHA-1, signed with RSA 2048 keys

## Department of Defense Agency Financial Report for FY 2009

- Deputy Secretary of Defense Memorandum, "Disposition of Unclassified DoD Computer Hard Drives," dated June 4, 2001, is still relevant and effective guidance for ensuring that hard drives of DoD computers being disposed of outside of the Department are properly sanitized or destroyed. A DoD IG audit discovered instances where the guidance was not being followed by DoD organizations.
- The guidance will be updated in upcoming revisions to relevant DoD information assurance issuances and expanded as required to cover other information technology equipment.

### 5. Health Care

#### 5-1A. Cost Containment

#### IG Summary of Challenge

The DoD Military Health System must provide quality care for approximately 9.3 million eligible beneficiaries within fiscal constraints while facing increased user demands, legislative imperatives, and inflation that make cost control difficult in both the public and private sectors. During a hearing with the Senate Appropriations Subcommittee on Defense, the Secretary of Defense stated the escalating cost of health care is a problem that must be addressed. The DoD budget for health care costs was approximately \$45 billion in 2009, a 45 percent increase since FY 2005 (\$31 billion). In addition, the American Recovery and Reinvestment Act of 2009, provides \$0.4 billion for facilities sustainment and \$1.3 billion for construction of hospitals. Another part of the challenge in containing health care costs is combating fraud. Health care fraud is among the top 5 categories of criminal investigations; currently representing approximately 8.7 percent of the 1,825 open cases of DoD IG's Defense Criminal Investigative Service. Increasing health care benefits also provides additional pressure to manage and contain costs.

#### 5-1B. Cost Containment

#### IG Assessment of Progress

The DoD Military Health System has been moving forward on improving health care while attempting to control costs. Three new TRICARE contracts were awarded in July 2009. The contracts provide incentives for customer satisfaction and include the managed care support contractors as partners in support of medical readiness. An internal ASD (HA) review identified areas that assist in managing costs, to include US Family Health Plan, fraud management, and pharmaceuticals. DoD obtained authority to use federal ceiling prices for pharmaceuticals, and issued the final rule effective May 26, 2009. The DoD is also making headway in economizing pharmacy costs by implementing use of generic drugs and promoting use of the TRICARE Mail Order Pharmacy system. Additionally, the Military Health System has adopted an approach to cost control that will simultaneously improve quality and reduce cost by focusing on the elimination of unnecessary care, test and procedures.

#### 5-2A. Medical Readiness

#### IG Summary of Challenge

The ability to support and develop the people in the Military Health System continues to be a challenge. Maintaining medical readiness of the medical staff and units includes ensuring medical staff can perform at all echelons of operation, and the units have the right mix of skills, equipment sets, logistics support, and evacuation and support capabilities. The challenge of keeping members of the Reserves and National Guard medically ready to deploy continues because of the frequency and duration of deployments.

#### 5-2B. Medical Readiness

#### IG Assessment of Progress

The Department published the Military Health System Human Capital Strategic Plan for 2008 to 2013 and established a Military Health System Human Capital Strategic Support Office. Quarterly Force Health Protection Survey results show continued improvement in service members' medical readiness, except for the Reserves and National Guard. The Military Health System has continued to meet all mission requirements despite very high operational tempo. Data from the Joint Theater Trauma Registry reveal unprecedented outcomes, including reduction in died of wounds rates and the lowest ever disease non-battle injury rates.

#### 5-3A. Wounded Warrior Care

#### IG Summary of Challenge

Strengthening comprehensive and integrated health care from accession, through active service, to rehabilitation, and transition to Veterans Affairs (VA) care is a major challenge for the Military Health System. The number of wounded warriors associated with Southwest Asia and other conflicts requires diligent management of health care resources. Another related challenge to force health protection and medical readiness is oversight of post-deployment health needs, including identifying and managing those requiring care. Although a number of objectives have been identified by DoD and the VA, and programs have been initiated, the quality and oversight of

## Department of Defense Agency Financial Report for FY 2009

these programs must be tightly managed. Transitioning wounded, ill, or injured service members to post-deployment care will grow as a challenge while the Global War on Terror, OIF, and OEF continue. The Department needs to improve the medical care and benefits transition program to achieve a streamlined, transparent, and timely process as wounded warriors move from the DoD system to the Department of VA system.

Increased numbers of returning service members with psychological health issues and traumatic brain injuries, along with a shortage of uniformed and civilian mental health workers, will require examination of automated screening tools and improved diagnostics to provide earlier detection and intervention. In addition, addressing the psychological effects of deployment on family members and non-active duty personnel will continue to be a challenge.

### 5-3B. Wounded Warrior Care

#### IG Assessment of Progress

The revised Military Health System strategic plan recognizes continuum of care as a strategic priority. As stated last year, disparities in the transition of health care and benefits were readily identified, yet actionable solutions are difficult to implement and monitor.

The Center for the Intrepid in San Antonio, Texas, and the new Defense Centers of Excellence being constructed on the National Naval Medical Center campus in Bethesda, Maryland, provide promising venues to introduce new therapies for amputees, burn victims, and those with traumatic brain injuries and psychological disorders.

The Department established the Senior Oversight Council (SOC) in FY 2008 to ensure that all aspects of care, rehabilitation, and reintegration for wounded warriors was accomplished. One focus of the SOC is to overhaul the disability processing system and implement improved case management for recovering warriors. The Department is institutionalizing the changes directed by the SOC.

The Armed Forces Health Surveillance Center was established to ensure tracking and ongoing surveillance of the health of service members would be accomplished in a joint manner and coordinated with VA.

### 5-4A. Electronic Health Records

#### IG Summary of Challenge

Providing information to the right people so they can make informed decisions continues to be a challenge in the health care community. Along with the benefits of expanding automation efforts comes the increased risk to security and privacy of information. The transition from paper to electronic patient records increases the exposure of sensitive patient information to inadvertent or intentional compromise, highlighting the need for appropriate information assurance procedures. Maintaining information operations that ensure the protection and privacy of data will continue to grow as a challenge.

### 5-4B. Electronic Health Records

#### IG Assessment of Progress

The organizational goal to deliver information that aids in better decision-making was added to the Military Health System strategic plan. Specific milestones were established to implement a personal health record prototype, and to expand bidirectional sharing of health information between DoD and the Department of Veterans Affairs. In addition, a deadline was established to define the Military Health System strategic plan for implementing a paperless electronic health record. The DoD continues to progress in sharing electronic medical records with the Department of Veterans Affairs. The DoD and VA executive leadership initiated a joint assessment project to determine the best approach for sharing inpatient electronic health records. The final report on the assessment project recommends the Departments pursue a common-services approach, which will allow DoD and VA to build upon their already extensive information sharing capabilities. It also will set the stage for the appropriate level of interoperability with other government and private sector organizations.

### 5-5A. Implementing BRAC

#### IG Summary of Challenge

Implementing recommendations resulting from the 2005 Base Realignment and Closure (BRAC) process will continue to be a challenge. In addition to improving the readiness and cost efficiency associated with realigning base structure, a primary objective of the process was to examine and implement opportunities for greater joint activity among the Military Departments. Recapitalization of the physical infrastructure is a challenge.

### 5-5B. Implementing BRAC

#### IG Assessment of Progress

The BRAC process addresses part of the aging infrastructure, but to fully address the challenge, better

## Department of Defense Agency Financial Report for FY 2009

standardized data on the condition of facilities is needed. The Military Health System has begun the multiyear transition and acquisition process of improving capability and access to care in two major and several minor markets. Groundbreaking for the new Walter Reed National Military Medical Center at Bethesda occurred July 3, 2008.

Additionally, the Military Health System is following a roadmap for changes in governance that should result in increased unity of purpose and functional integration.

By establishing more unite of purpose in each of the major markets, the market leaders should be able to integrate resources across hospitals and clinics within a market to meet the needs of the entire population of eligible beneficiaries. In addition, the increased management oversight will enable improved continuity of care and coordination of safety and quality programs. In the National Capital Region, the Secretary of Defense established the Joint Task Force National Capital Region Medical to clarify command and control, and implemented a single manning document and categorized civilian positions as DoD. Through the establishment of joint governance for the Tri-service Medical Education and Training Campus, the Military Health System should improve the quality and consistency of training for all enlisted, contributing to a culture of jointness and interoperability.

The combination of all medical research and development assets under joint governance should foster better coordination of research activities, eliminate redundant efforts, and focus resources on developing solutions for both the warfighter and the clinician.

Co-locating of the headquarters functions of Health Affairs, the TRICARE Management Activity, the Army Medical Command, the Navy Bureau of Medicine, and the Air Force Medical Service should enhance efforts to achieve unity of purpose for Military Health System policy, strategy, and financial programming, and yield greater consistency across the Services in program execution.

### 5-6A. Humanitarian Assistance

#### IG Summary of Challenge

The Department's role in providing humanitarian assistance and disaster relief to support U.S. strategic objectives and promote human dignity through better health has been identified as a core capability of the Military Health System, but will continue to provide financial and organizational challenges. The Military Health System will collaborate with ASD (GSA) to develop a strategy that complements the overall DoD strategy and interfaces well with other executive agencies, including the Agency for International Development, and the Departments of State, Health and Human Services, and Homeland Security, which have traditionally played the lead role in humanitarian assistance and disaster responses.

### 5-6B. Humanitarian Assistance

#### IG Assessment of Progress

Building a bridge to peace through humanitarian assistance and disaster relief is a goal under the Military Health System strategic plan, in response to Combatant Command goals. The May 2008 Military Health System Strategic Plan recognizes many of these challenges and includes a set of performance metrics to measure mission success.

## 5. Health Care

### Management's Overall Assessment

The Department concurs with the above assessment and offers the following additional comments. The Department agrees with analyses by organizations such as the Institute of Medicine that state a significant portion of health care spending is waste; true health care reform must reduce that waste. Some of the waste consists of overutilization of expensive tests and medical services, which are not only costly, but also dangerous. In addition, key healthcare processes are inefficient. DoD is implementing continuous process improvement across its system to make health care processes safer and more cost effective. In addition, DoD is implementing programs to increase evidence based practices to ensure that the right care is delivered and unnecessary tests and procedures are avoided. This kind of health care reform has the potential to both improve quality and reduce costs.

The Department is working with the Reserves and National Guard to address challenges in force readiness, particularly in the area of dental readiness. The DoD's human capital team is actively addressing the need for additional mental health services in support of the readiness of the force. Over the past two years, we have added over 1900 new mental health professionals to the DoD work force.

In addition to the actions noted above, the acquisition structure and processes within the Office of the Assistant Secretary of Defense (Health Affairs) (OASD(HA)) and the TRICARE Management Activity are being strengthened to ensure that major acquisitions such as the Electronic Health Record (EHR) are accomplished efficiently and effectively. The DoD and Department of Veterans Affairs are working together to implement the Virtual Lifetime Electronic Record (VLER). The VLER vision is that health, benefits, and personnel information of a Service member or Veteran from the time of accession to internment will be available to those who need the data.

## Department of Defense Agency Financial Report for FY 2009

Although the intent was for DoD to incorporate the expanded mission of humanitarian assistance within the normal planning and budgeting framework, that has not yet been accomplished. That will not, however, prevent the Department from continuing to support these activities

### 6. Equipping and Training Iraqi and Afghan Security Forces

#### 6-1A. Iraqi Security Forces

#### IG Summary of Challenge

The Iraqi Security Forces (ISF) are comprised of the military and police. Although the Iraqi government, with the support of the Coalition, has achieved the generation of the core of ISF with respect to the Iraqi Army and Police, it is still committed to developing the necessary enabling forces to expand current capabilities and build the foundation of a credible and enduring Iraq Air Force and Navy for the future, and to modernize the ISF to be able to provide for the protection of the country against external threats. It still needs to address a fundamental leadership shortage in the Army and Police. In addition, building the institutional capacity of the Ministry of Defense (MoD) and Ministry of Interior (MoI) is still a priority. President Obama defined his major goals for Iraq: a sovereign, stable and self-reliant Iraq that contributes to the peace and security of the region, and with whom the U.S. can forge a long-term security partnership. An Iraq capable of providing for internal security with a foundational external defense capability prior to the withdrawal of U.S. Forces from Iraq in December 2011, is essential to achieving these U.S. national objectives."

#### 6-1B. Iraqi Security Forces

#### IG Assessment of Progress

Efforts are ongoing to build the capability of the ISF, MoD, and MoI to sustain themselves, without Coalition logistical support, and for the forces to be able to operate independently without the full range of Coalition combat enablers, such as air and ground transport of troops, equipment, and supplies, tactical air support, fire support; communications, intelligence, surveillance, and reconnaissance capabilities, logistics, sustainment, and health services support.

#### 6-2A. Iraqi National Army

#### IG Summary of Challenge

While the MoD has filled approximately 92 percent of its authorized numbers, it continues to experience shortfalls in generating the officer and noncommissioned officer (NCO) personnel needed to meet requirements. As of November 2008, the Iraqi Army was manned at 57 percent of its authorized officers and 45 percent of its authorized NCOs. The MoD experienced difficulties in developing a sustained funding plan. Its continued practice of centralized decision-making continues to inhibit necessary MoD force capability improvements.

The MoD/Iraqi Army continues to experience numerous challenges in acquisition processes, including the lack of a multi-year acquisition strategy, weak requirements determination, overly centralized decision-making, an inadequately trained and inexperienced acquisition staff, and inefficient use of technology to optimize processes. The Army continues to experience shortfalls in self-sustaining logistics. While the initiatives to develop the Iraqi Army logistics base have been significant, success may be hampered by shortages in the number of formally trained Iraqi logistics personnel, inadequate acquisition and distribution policies and procedures that prevent effective stock replenishment, inadequate maintenance and repair operations, and lack of information connectivity.

#### 6-2B. Iraqi National Army

#### IG Assessment of Progress

The Iraqi Army is taking several steps to mitigate leader shortages, such as actively recruiting prior service officers and NCOs, using mobile recruiting teams, and exploring accelerated promotions of personnel currently in the Army. However, it is unclear whether sufficient candidates can be recruited to offset the increased force requirements to field 14 Army divisions and support forces, a Navy of 2,700 personnel, and an Air Force of 6,000 personnel.

Multi-National Security Transition Command-Iraq and Multi-National Corps-Iraq are making significant strides in assisting the Iraqi Army to develop an Iraqi logistics sustainment base, but much work remains to be done. The MoD continues to develop its national supply and distribution network, including establishment of Location Commands in support of each IA division; however, the Location Commands are still lacking in equipment and manning and will not be fully operational for several more months.



## Department of Defense Agency Financial Report for FY 2009

Through the efforts of the U.S. Forces Iraqi Logistics Development Committee, specific logistics advisory, training, and partnering relationships have been established throughout the MoD, Joint Headquarters Staff, and Iraqi Army to build a logistics system using an Iraqi model that it will be able to sustain.

U.S. Logistics Management Advisory Teams have been assigned to each regional Iraqi logistics Location Command. In addition, U.S. Logistics Training and Assistance Teams, formed from in-country U.S. logistics sustainment brigades, have refocused their efforts to provide more intense mentoring and partnering interaction with Iraqi Army units, including the regional Location Commands supporting line units, division, and below. With U.S. forces downsizing significantly over the next 12 months, there is still a continuing need to ensure the momentum of the training and partnering mission is sustained, and appropriate and sufficient forces will be specifically tasked with the logistics-mentoring mission.

Nevertheless, newly organized and trained U.S. Advisory and Assistance Brigades (AABs) will be deployed to Iraq starting in Fall 2009. AABs are re-missioned brigade combat teams augmented with U.S. military field grade advisors that will focus on stability operations within a given region in Iraq. The mission requirements of the AABs are to conduct stability and civil capacity building operations; to partner with, enable, and advise the ISF; and if required, conduct full spectrum operations

### 6-3A. Iraqi Federal Police

#### IG Summary of Challenge

The capacity of the Mol to plan, coordinate, conduct, and sustain operations continues to improve, though planning efforts remain highly centralized and not thoroughly integrated with MoD plans. The Mol has made some notable improvements in its logistics capability, having executed a \$48 million Foreign Military Sales (FMS) case to create a computer-based supply-chain management system and to enhance its vehicle maintenance training on non-tactical vehicles assigned to the Mol ground transport fleet. A Federal Police Sustainment Brigade is scheduled to be operational by September 2009, capable of line-haul transport, deployable maintenance, supply receipt, storage, and issue for NP divisions.

Additional challenges for the Mol include ensuring ongoing and advanced training for the Iraqi Police Service (IPS), the Iraqi Federal Police (IFP), the Directorate of Border Enforcement (DBE), the Ports of Entry Directorate (PoED), and those security personnel assumed from the Oil Police (OP) and the Facilities Protection Services (FPS).

### 6-3B. Iraqi Federal Police

#### IG Assessment of Progress

The Mol's ability to address basic equipping shortfalls for each of its components – the IPS, the National Police (NP), the DBE, the PoED, the OP, and the FPS – remains a concern. For example, although progress has been made, some NP units lack personnel, individual equipment, and reliable vehicles to conduct operations without Coalition support.

The ongoing professionalization of the basic community-based uniformed police, the IPS, is crucial to develop and maintain a credible police force. But, training challenges remain, particularly for the DBE, the PoED, the OP, and the FPS, which are crucial since these organizations have not previously had the benefit of focused security and ethics training.

### 6-4A. ISF Health Care System

#### IG Summary of Challenge

The ISF continues to develop health systems that parallel the civilian sector, but depend on the supporting capability within the civilian sector for anything other than basic outpatient care. Challenges remain in recruiting medical personnel, particularly specialist physicians, and in building military hospital facilities.

Cooperation and collaborative planning between the Iraqi Ministries of Defense, Interior, Health, and Higher Education are required to achieve comprehensive and sustainable health care delivery, independent of Coalition support. Medical logistics, training and education programs, and transportation of casualties will remain the highest priority challenges.

### 6-4B. ISF Health Care System

#### IG Assessment of Progress

The initial enthusiasm in the Fall of 2008 about refugee physicians returning to Iraq to practice medicine has waned, and major shortages of health care personnel continue in all fields. MoD hospital construction remains an

## Department of Defense Agency Financial Report for FY 2009

unfinanced requirement in the Government of Iraq budget, but it does not appear that the Ministries have developed contingency plans to adjust for the loss of care to ISF members that will occur with the withdraw of U.S. military field hospitals. Logistics capabilities are inadequate, including the maintenance of procured medical equipment, and will likely result in loss of capability unless the problems are addressed.

### 6-5A. Afghan Security Forces

#### IG Summary of Challenge

The Afghan National Security Forces (ANSF) are comprised of the military and police forces. Their effectiveness is being tested by increased Taliban attacks, including in previously safe areas of the country.

Coalition efforts to build the capability of the Afghan Ministries of Defense (MoD) and Interior (Mol) and their respective forces continue to focus on four major areas: developing ministerial capacity; improving the proficiency of military and police forces through the assistance of mentors, embedded advisors, and partnership unit relationships; building the training, logistics, medical, and sustainment capability of the MoD and Mol; and supporting the expansion of the army and police, and their ability to operate on an independent basis.

The Afghan government continues to pursue significant expansion of the ANSF, with the support of the international community. The Afghan National Army (ANA) has an approved authorized end-strength of 134,000 and is expected to reach that level by the end of CY 2011. The authorized end-strength of the Afghan Federal Police (AFP) was increased to 96,800 as of June 2009, and it is planned to reach that level by September 2009. As of May 2009, ANA and AFP assigned strength was 86,558 and 81,509, respectively. Both ANA and AFP will likely require additional increases in end-strength beyond currently approved levels, partnered with international security forces, in order to win, the counter insurgency fight and, ultimately, to develop the capacity to conduct and sustain independent operations on their own.

The Afghan Mol recently initiated a pilot program to augment its police through the development of the Afghan Public Protection Program. This program envisions enhancing security and stability, and strengthening community development by building local forces of community-vetted security personnel to assist the police.

The DoD faces numerous challenges with respect to accomplishing the train and equip mission for ANSF. Foremost among these are a continuing lack of sufficient personnel dedicated to training and mentoring, as well as difficulties in coordinating and synchronizing the training effort with our international partners. To solve the problem of insufficient trainers, DoD decided to augment the one National Guard brigade in Afghanistan with an additional Army Brigade Combat Team with the primary mission of training and mentoring. The North Atlantic Treaty Organization (NATO) recently designated Combined Security Transition Command-Afghanistan (CSTC-A) with the dual-hatted mission as NATO Training Mission-Afghanistan. This shift in command and control will provide CSTC-A with more authority in coordinating NATO International Security Assistance Forces (ISAF) with Coalitional and U.S. forces to accomplish integrated training and mentoring missions in support of the ANSF.

### 6-5B. Afghan Security Forces

#### IG Assessment of Progress

The ANA as an institution is highly regarded by the populace. As of May 2009, approximately 41 percent of fielded ANA organizations have reached Capability Milestone 1 (the unit, agency, staff function, or installation is capable of conducting primary operational mission[s], with the support of Coalition enablers – air support, medical evacuation, logistics, and intelligence enablers). The ANA now takes the lead in approximately 54 percent of Coalition combat operations. However, there are still significant leadership shortcomings that must be addressed within the ANA, especially at the junior officer and NCO levels.

Progress in building the capability of the AFP, which is often viewed with mistrust due to lack of professionalism and corruption issues, lags that of the ANA in development, as much as several years. The DoD has placed significant emphasis in reforming the Afghan Uniformed Police through the Focused District Development program, an intensified reform initiative that trained the police in 52 of Afghanistan's 365 districts from November 2007 through May 2009. CSTC-A estimates that it will take another 3 to 4 years to train all 365 districts. A similar training program has been initiated for the authorized Afghan Border Police, numbering 18,000.

There are insufficient numbers of Embedded Training Teams (ETTs) to mentor the ANA and Police Mentoring Teams (PMTs) to mentor the AFP. As of April 2009, CSTC-A needed approximately 5,724 personnel for ETTs and PMTs when compared to personnel requirements stated in RFF 920 and 937. However, only about 2,175 had been assigned. Additionally, as of June 2009, ISAF and Coalition partners had provided 54 Operational Mentor and Liaison Teams (OMLTs), about 800 personnel, out of the current requirement of 65. Combining the ETT/PMT/OMLT assigned strength of approximately 2,975 against the 5,724 requirement gives about a 52 percent overall fill rate.

## Department of Defense Agency Financial Report for FY 2009

6-6A. Afghan National Army	IG Summary of Challenge
<p>Developing an effective ANA force of sufficient size and effectiveness is a significant challenge in the midst of an ongoing war. A decision was made to increase the ANA to 134,000 by the end of CY 2011, and very conceivably to an even larger number thereafter.</p> <p>The ANA logistics system required to support its combat forces is progressing, but is still in its infancy, and continues to experience shortfalls in providing a self-sustaining logistics capability. While the Coalition and ISAF initiatives to develop the ANA logistics base are significant, success may be hampered by shortages in formally trained Afghan logistics personnel and lack of information connectivity. In addition, one of the problems in establishing logistics sustainment within the ANA has been the lack of an integrated systems approach. The Afghans have been accustomed to working in stovepipes with little cross coordination. The result is that important nodes in the logistics system were lacking visibility of the ANA logistics capability and challenges, and senior leaders were unable to make informed decisions about logistics requirements and necessary performance improvements.</p>	
6-6B. Afghan National Army	IG Assessment of Progress
<p>Progress has been made in developing a more capable ANA, but significant work still needs to be accomplished.</p> <p>A continually improving national logistics infrastructure exists and is already supporting ANA. A series of national and forward-support depots currently provide the bulk of ANA supply needs. Brigade-level logistics structures and systems continue to develop. However, there is a gap in the linkage from the brigade level to the national level. There are insufficient trained logistics personnel and the capacity to produce them, especially in specialist military occupations specialists. Moreover, some MoD, General Staff, and ANA field command senior officers appear to lack an appreciation for the essential importance of having a strong logistical support system and a commitment to building one. A gap has grown between the ANA operational and logistical capabilities that must be closed for the ANA to become a fully independent and sustainable fighting force.</p>	
6-7A. Afghan Federal Police	IG Summary of Challenge
<p>The AFP are the face of the government to most Afghan people. Unfortunately, in the past, this has often been the face of unprofessionalism and corruption. To be effective in the counter insurgency fight through protecting the population and thereby gaining its confidence, AFP and Mol must change their behavior to overcome the people's negative perceptions.</p> <p>At present, there are insufficient police to provide both effective community policing and security for the populace in a counter insurgency environment. The most current Tashkil, an organizational document, authorized 82,000 AFP spread throughout various units to include: Afghan Uniformed Police, Afghan Border Police, Afghan National Civil Order Police, Counternarcotics Police, Customs, and Special Police. Even with the recent increase in size to 96,800, this number may be insufficient to provide the security needed in the Afghan counter insurgency environment.</p> <p>Most external studies would recommend increasing the size of the police to 130,000 to 140,000 to provide a more viable proportion of police to populace. The new Minister of Interior has recommended a police force of 160,000. A doubling of the AFP would more closely align the ratio of police to population in Afghanistan to that found in Iraq.</p> <p>The Afghan Mol and National Police logistics system continues to experience shortfalls in self-sustaining logistics capability. While the initiatives to develop the AFP logistics base have achieved progress, further advances have been hampered by shortages in formally trained Afghan logistics personnel and lack of experience and confidence in the system being put in place. Logistics sustainment for the Mol and AFP significantly lags that of the ANA. Supplying regional, district, and provincial police units, especially those in far-flung locations, is a vastly different problem than providing support for an army corps, brigade, or battalion. The Mol is behind in establishing needed logistics policies and procedures and in obtaining the requisite training for their logistics personnel.</p> <p>The U.S. Police Mentoring Teams have been under-resourced for personnel, requiring CSTC-A to fill the gap by using U.S. military personnel who had previously been assigned to train the Afghan Army. The shortage of qualified logistics trainers for PMTs also remains a continuing problem in advancing the logistics capability of the Afghan Police. The deficiency in the number of police trainers, unless addressed, will only be amplified as the authorized size of the AFP is increased.</p>	

## Department of Defense Agency Financial Report for FY 2009

Although the International Security Assistance Force has not previously been as engaged in the police mentoring mission as the Coalition, they have provided some Police Operational Mentor Liaison Teams. In addition, there are police trainers and mentors provided by the European Union, the Provincial Reconstruction Teams, and through several bi-lateral country agreements with the Government of Afghanistan. Most of these police training efforts have fallen outside the purview of CSTC-A, resulting sometimes in a lack of coordination, duplication of effort, and inefficiently used or wasted police training resources. However, the recent establishment of the North Atlantic Treaty Organization (NATO) Training Mission-Afghanistan under the Commander, CSTC-A, should address these problems.

### 6-7B. Afghan Federal Police

### IG Assessment of Progress

The Focused District Development program is an effective tool in addressing the problem of corruption and unprofessionalism at the district level, but it will take significant effort to run all districts through the Focused District Development process, and to incorporate the provincial police fully into the program. Furthermore, the impact of the Focused District Development program is limited by the lack of effective linkages between the police and the Afghan justice system at the district level. Consequently, there is a very tenuous connection between the important roles of the police and Rule of Law at the community level. Their ability to collectively promote security and stability is diminished.

Anticorruption has become a primary focus of new Minister of Interior, Mohammad Hanif Atmar, but he will need a reinforced capability to accomplish this goal both within the ministry and down the police chain of command. To enhance accountability and transparency throughout the MoI, there should be an increase in the numbers and capability of DoD IG and internal affairs staff, and internal affairs investigators should have a presence in the provincial and district police headquarters.

The international community has approved increasing the size of the AFP from the 82,000 authorized on its latest staffing documents to 96,800, but this increase has been in large part to accommodate security for the August 2009 elections and to strengthen the police capability in the capital region in and around Kabul, which has been subjected to increasing insurgent attacks. The Afghan Public Protection Program is a new approach developed by the MoI and ISAF to supplement police security at the local level. Although in a nascent pilot stage of development, if effective, the Afghan Public Protection Program force could be expanded to significant effect in terms of providing enhanced local security against the Taliban insurgents. At present, there are notable shortfalls in staffing the authorized numbers of police. The Afghan National Civil Order Police is at approximately 50 percent of its authorized strength, and the Border Police are manned at approximately 75 percent.

Regional, provincial, and district level gaps in effective Afghan Police logistics support stem in part from still-developing MoI logistics policies and procedures and lack of logistics officer skills. The MoI is working to close these gaps through logistics officer training, and there has been a renewed emphasis in new MoI directives on the importance of equipment accountability and control.

According to CSTC-A plans, PMTs will ultimately be assigned to every AFP unit (including Afghan Uniformed Police, Afghan National Civil Order Police, and Afghan Border Police). Given current personnel resources, PMTs can be provided to no more than one-fourth of all AFP organizations and units. CSTC-A previously determined that in order to deploy PMTs to one-third of all Afghan Uniformed Police districts they would need an additional 2,375 personnel. As of January 2009, they only had 922. To address the mentor shortage, DoD has decided to assign an additional Brigade Combat Team to CSTC-A; it will be uniquely organized and trained to perform the sole mission of training and mentoring. This should address much of the ETT/PMT training and mentoring shortfall, but there still may be some mentoring gaps.

### 6-8A. Afghan National Security Forces Health Care System

### IG Summary of Challenge

The core U.S. strategy toward developing the capacity of the ANSF health care system is through providing medical mentoring teams at ANA and AFP medical facilities, primarily at definitive treatment centers (e.g., hospitals). Training and managing medical mentors remains the greatest challenge, although medical logistics system development is a major concern. The ANSF leadership has resisted U.S. recommendations to develop a single ANSF healthcare system, and continues to build independent ANA and AFP systems, despite limited fiscal and personnel resources and the remote locations of many AFP posts that preclude access to AFP clinics for many AFP members. The ANSF has not developed a plan to care for dependents of ANA and AFP members within the highly constrained resources available, yet it remains a stated objective of ANSF leadership.

## Department of Defense Agency Financial Report for FY 2009

6-8B. Afghan National Security Forces Health Care System	IG Assessment of Progress
<p>CSTC-A has not developed an operational plan to provide leadership and oversight of medical mentoring teams, nor measurements of performance and effectiveness. There is no strategic plan for the role of the U.S. military and NATO forces in ANSF health system development, resulting in poorly defined command and control relationships among medical trainers, mentors, and advisers at all levels of command. Medical mentors have still not received adequate pre-deployment training before deployment to Afghanistan, and they do not arrive with a sufficient understanding of the knowledge and capabilities of ANSF medical personnel, equipment, and facilities. This has hindered the utility of U.S. mentoring mission and has created a sense of dissatisfaction among their medical mentor staff.</p>	
<b>6. Equipping and Training Iraqi and Afghan Security Forces</b>	<b>Management's Overall Assessment</b>
<p>The U.S.'s four areas of focus to develop the ISF remain unchanged: support force generation and force replenishment; improve the proficiency and professionalism of Iraqi forces; build specific logistic, sustainment, and training capacities; and develop ministerial and institutional capacity. The four near-term areas of emphasis also remain unchanged: ensure Iraqi forces continue to improve in logistics, maintenance, and life support; ensure the size, capability, professionalism, and leadership of the ISF enable increasing assumption of additional security roles from U.S. forces; enhance the capabilities of Iraqi Special Operations Forces and Counter-Terrorism Forces; and ensure Iraqi Air Force and Navy growth stays on track. Following the withdrawal of U.S. combat forces from Iraqi cities on June 30, 2009, the ISF continue to mature in their leadership roles providing security and overall stability for the citizens of Iraq. The citizens of Iraq continue to develop their confidence in the ISF, and it is becoming clear that the growing professionalism of the ISF is a source of national pride.</p> <p>The ANP have made progress over the last year as a result of the implementation of the Focused District Development (FDD) program. We concur with the comments made on the issues being addressed with the MoI. The FDD program has attempted to improve the logistics capabilities of ANP districts by ensuring equipment is properly issued and accounted for. The FDD training program that the district police attend also teaches ANP Officers about logistics and equipment accountability. Logistics officers within police units are provided additional training in these areas. As noted, the creation of the NATO Training Mission – Afghanistan (NTM-A) as part of a combined command including CSTC-A will lead to increased coordination between U.S. and Allied training efforts. CSTC-A has a robust program that is focusing on ministerial level logistics development with the MoI. As previously mentioned, we are currently awaiting the President's decision on additional resources for Afghanistan, which may make additional forces available for mentoring and training the ANSF.</p> <p>The Department agrees with DoD IG's assessment of progress made by the ANSF. The ANA is one of the most trusted and respected institutions within Afghanistan. As of November 2009, the ANA has grown to a force size of approximately 95,500 and is growing towards an end strength of 134,000 in October 2010. The ANP currently lags behind the ANA in development, but much progress has been made. The ANP is at a force level of 93,300 and growing towards 96,800. Sixty-four Districts have completed Focused District Development training as of September 2009. The establishment of the NTM-A/CSTC-A command will improve overall coordination of ANSF development. The total number of Coalition trainers available may increase pending the President's decision on committing further troops.</p> <p>The ANA has made great progress over the past year. As the ANA grows to 134,000, it is increasingly improving in capability and in building logistics capacity. While the Department agrees with the need for a more robust ANA logistics processes, it should be noted that priority has been placed on the development of ANA combat forces first, supported by ISAF enablers. Logistic enablers will be developed by design after combat elements have been fielded. Afghanistan poses unique issues in terms of implementing an integrated nation-wide logistics system. Many areas within Afghanistan lack reliable power and communications capacity and do not allow for a networked logistics system. Additionally, the issue is made even more challenging because of low literacy rates among the populace and the lack of trained personnel with logistics background.</p> <p>The DoD is focused on improving logistics within the ANA. One of the objectives of the CSTC-A Campaign Plan is to develop an efficient logistics system that is capable of acquiring and distributing resources to the ANA. The CSTC-A is developing a unified ANA logistics strategy which will ensure standardized logistics mentoring within the ANA. A robust Ministerial Development program is in place which focuses on building logistics capabilities within the MOD and the General Staff Headquarters.</p>	

## Department of Defense Agency Financial Report for FY 2009

The Department agrees that a coordinated ANSF Health Care system is desirable but DoD cannot accomplish this without support from the Afghan Government. The International Community and other areas of the U.S. Government outside of DoD will need to be involved in this effort as well.

### 7. Nuclear Enterprise

#### 7-1A. Decline of Focus on the Nuclear Enterprise

#### IG Summary of Challenge

The Department faces complex and long-standing nuclear enterprise management challenges that affect the Department's ability to provide public assurance that it can meet its nuclear operational and surety responsibilities. A 2008 Defense Science Board report stated that since the end of the Cold War, there has been a marked but gradual decline in the level and intensity of focus on the nuclear enterprise and the nuclear mission. When comparing the current level of focus to that of 1990, the aggregate change is dramatic. The decline is characterized by:

- Embedding nuclear mission forces in nonnuclear organizations.
- Markedly reducing levels of leadership whose daily focus is on nuclear enterprise.
- Generally devaluing the nuclear mission and those who perform the mission.

Numerous reports and studies issued over the past decade have documented the decline. From 1991 to 2009, the IG identified and reported on aspects of this decline in a series of classified audit reports related to the security of nuclear systems. Although specific report details are classified, the weaknesses identified in each of those reports are a direct result of the decline in emphasis of the nuclear enterprise and mission.

#### 7-1B. Decline of Focus on the Nuclear Enterprise

#### IG Assessment of Progress

The Department has begun to address and reverse the nuclear enterprise decline. By the end of June 2009, DoD issued ten reports related to the enterprise. Four additional reports were due during the summer of 2009. The DoD IG recently completed field work examining DoD actions in response to the recommendations contained in three of the 10 reports and found that DoD is taking actions to address those report recommendations.

It is critical that DoD leadership recognize the consequences of failure to ensure the security of its nuclear forces and provide sustained commitment to continue to implement viable recommendations to stop and reverse the decline focus on the nuclear enterprise.

#### 7-1. Decline of Focus on the Nuclear Enterprise

#### Management's Overall Assessment

The Department has made substantial progress in reversing the decline of the nuclear enterprise. DoD continues to aggressively implement enduring remedies to address recommendations from several DoD reports. For example, the Air Force made an effort to reverse the decline of focus on the nuclear enterprise by activating Air Force Global Strike Command in August 2009. This initiative will place all Intercontinental Ballistic Missile (ICBMs) and nuclear-capable bombers into a single command.

The Air Force also developed a nuclear roadmap last fall which:

- Unified nuclear sustainment into the Nuclear Weapons Center to consolidate authority and responsibility for nuclear weapons related material
- Established an Air Staff directorate to ensure a clear and consistent voice for the nuclear mission
- Established a Nuclear Deterrence Operations Panel to ensure resources advocacy for the nuclear enterprise
- Enhanced our inspection process with improved inspector training, headquarters oversight of command-level Nuclear Surety Inspections, and a centrally managed core team of highly experienced inspectors

Established a Nuclear Oversight Board chaired by the Secretary of the Air Force and the Chief of Staff of the Air Force to provide executive-level supervision of nuclear issues.

#### 7-2A. Incidents Indicate Systemic Problems

#### IG Summary of Challenge

During FY 2008, the Department experienced a series of incidents that indicated significant problems with nuclear enterprise management. Failure to follow prescribed verification procedures resulted in nuclear warheads being inadvertently transferred from Minot Air Force Base (AFB) to Barksdale AFB. Sensitive missile components were

## Department of Defense Agency Financial Report for FY 2009

erroneously shipped to Taiwan. The 2nd Bomb Wing at Barksdale AFB failed a nuclear surety inspection and had to be re-inspected to a satisfactory rating.

### 7-2B. Incidents Indicate Systemic Problems

### IG Assessment of Progress

In response to the Minot incident, the Air Force conducted a Commander Directed Report of Investigation Concerning an Unauthorized Transfer of Nuclear Warheads Between Minot AFB, North Dakota and Barksdale AFB, Louisiana; August 30, 2007; and the Air Force Blue Ribbon Review of Nuclear Weapons Policies and Procedures, February 8, 2008. In response to a February 2008 request from the USD (AT&L) the Defense Science Board Permanent Task Force issued its "Report on the Unauthorized Movement of Nuclear Weapons." These reports contain over 100 recommendations for improving the nuclear enterprise. The DoD IG is preparing a draft report of our recently completed work to examine DoD actions in response to the recommendations contained in these reports, reporting that DoD is taking actions to address those report recommendations.

The Department has continued to analyze and study critical elements of the nuclear enterprise. In addition to the three reports noted above, DoD issued 7 additional reports related to the nuclear enterprise:

- Nuclear Surety Staff Oversight of US Air Force Nuclear Surety Inspections, April 1, 2008
- Investigation into the Shipment of Sensitive Missile Components to Taiwan, May 22, 2008
- Air Force Inventory and Assessment: Nuclear Weapons and Nuclear Weapons-Related Materiel, May 25, 2008
- Air Force Comprehensive Assessment of Nuclear Sustainment, July 26, 2008
- SECDEF Task Force on DoD Nuclear Weapons Management, September 12, 2008
- Air Force Nuclear Task Force (Nuclear Roadmap), October 24, 2009
- Nuclear Weapons Management, January 8, 2009.

Four additional reports were expected to be published during the summer of 2009:

- Nuclear Command and Control System
- Comprehensive Assessment of Nuclear Sustainment - II
- Commission on Strategic Posture
- Defense Science Board Task Force; DoD Nuclear Surety Inspections.

### 7-2. Incidents Indicate Systemic Problems

### Management's Overall Assessment

The Department has taken action to further strengthen nuclear weapons enterprise governance and oversight processes to ensure the highest levels of accountability and control in the stewardship of nuclear weapons. For example, the Secretary of Defense directed nuclear inventories by the U.S. Navy, and Defense Logistics Agency (DLA). There were no discrepancies noted with nuclear weapons and the discrepancies noted with nuclear weapons-related materials were resolved. The Air Force consolidated nuclear weapons management and systems under the Air Force Nuclear Weapons Center and initiated an aggressive and comprehensive program to ensure positive control of nuclear weapons-related materials and components in the Air Force Supply system. Additionally, the Air Force Global Strike Command was charged with providing weapon system oversight and reinvigorating the service's nuclear culture.

The joint DoD/Department of Energy (DOE) Nuclear Weapons Council (NWC) chaired by the USD (AT&L) and the Interagency Nuclear Command and Control System (NCCS) Committee of Principals (CoP) chaired by the Deputy Secretary of Defense, continues to oversee implementation actions to address the findings and recommendations from various reports and studies. Departmental senior leaders are involved in the organizational structure, processes, and procedures to improve every aspect of the nuclear mission area and restore confidence in the safe handling and accountability of the nation's strategic assets.

### 7-3A. Keys to Improvement

### IG Summary of Challenge

To reverse this trend, the Department needs to sustain its focus on the nuclear enterprise. The following elements are key to improvement:

- Create an environment that emphasizes the nuclear mission and that a reliable, safe, secure, and credible nuclear deterrent is essential to national security and is a high DoD priority.

## Department of Defense Agency Financial Report for FY 2009

- Conduct detailed reviews and studies of all critical elements of the nuclear enterprise to identify key deficiencies and methods for improvement.
- Develop corrective action plans that correct the deficiencies and provide adequate funding and leadership to ensure implementation.
- Implement the corrective actions and conduct follow-up reviews to ensure that the action plans are correcting the deficiencies.

As stated in the Defense Science Board report, the series of nuclear related incidents that occurred over the past year “can be a just-in-time rescue if lasting corrective actions are implemented now.”

### 7-3B. Keys to Improvement

### IG Assessment of Progress

The Department has taken significant action to conduct detailed reviews and studies of critical elements of the nuclear enterprise to identify key deficiencies and methods for improvement. Additionally, they are implementing report recommendations and developing corrective action plans that correct the deficiencies.

We fully support these efforts. However, successfully addressing the deficiencies in the nuclear enterprise will require years of sustained effort. Fixing the problems will require commitment, effort, and resources. The IG will monitor the Department’s progress in implementing the various report and study recommendations.

### 7-3. Keys to Improvement

### Management’s Overall Assessment

The Department is fully committed to restoring confidence in the nuclear enterprise and in the safe handling and accountability of the nation’s strategic assets. The Department continues to engage in a robust effort implementing report recommendations and corrective action plans to address stockpile deficiencies.

Processes are under development to address the root and systemic cause of the deficiencies with enduring methods to help ensure a lasting approach. Resources have been committed to high-priority nuclear enterprise items through reprogramming and realignment of funds. The Nuclear Command and Control System Oversight Committee (NOC), NWC and NCCS CoP will continue oversight of the reports, recommendations, and findings to ensure proper level of interagency and departmental oversight and to assure proper resources are allocated for and enduring restoration.

## 8. American Recovery and Reinvestment Act

### 8-1A. American Recovery and Reinvestment Act

### IG Summary of Challenge

In passing the American Recovery and Reinvestment Act of 2009 (Recovery Act), (Public Law 111-5), the Congress provided supplemental appropriations to preserve and create jobs; promote economic recovery; assist those most affected by the recession; provide investments to increase economic efficiency through technological advances in science and health; and invest in transportation, environmental protection, and other infrastructure. Under the Recovery Act, Congress appropriated \$7.4 billion to DoD for the following programs:

- Energy Conservation Investment (\$120 million)
- Facilities Sustainment, Restoration, and Modernization (\$4.26 billion)
- Homeowners Assistance Program(\$555 million)
- Military Construction (\$2.18 billion)
- Near Term Energy-Efficient Technologies (\$300 million).

The USACE received \$4.6 billion in appropriation for its civil works program. The \$4.6 billion provided for the civil works program includes \$2 billion for construction and \$2.075 billion for Operations & Maintenance.

The Recovery Act also provided unprecedented efforts to ensure the responsible distribution of funds for the Act’s purposes and to provide transparency and accountability of expenditures so that the public would know how, when, and where tax dollars were being spent. Further, the Recovery Act stated that the President and the heads of Federal departments and agencies were to manage and expend the funds made available in the Act to achieve its purpose, which included commencing expenditures for activities as quickly as possible, consistent with prudent management.

The DoD is pursuing three broad goals with Recovery Act Funding, preserve and create American jobs, care for U.S. Service members and their families, and improve DoD energy efficiency. The DoD intends to expend DoD



## Department of Defense Agency Financial Report for FY 2009

funds as quickly as possible on facilities sustainment, restoration, and modernization, military construction, energy conservation, near-term energy efficiency technology demonstration and research, and homeowners assistance. Specific investments in military construction will further the goal of providing stimulus to the economy while helping to improve the quality of life for the troops and their families.

By September 4, 2009, DoD planned to start 2,300 construction and facility repair projects (meaning contract award and construction/repair work had commenced) in 49 states, plus Guam and the District of Columbia, using \$1.9 billion of the Recovery Act funds. DoD estimated that about 225 of these projects would be completed by Labor Day. DoD is planning on over 4000 repair projects, totaling \$4.26 billion for installations in all 50 states, two territories and the District of Columbia. An additional \$2.18 billion is available for new construction, including \$1.33 billion for replacement of aging hospitals, \$115 million for family housing construction, \$240 million for 21 Child Development Centers, \$100 million for two Warrior in Transition facilities, and \$555 million to reduce the impact of the down-turn in the housing market on the families of the Department's military and civilian personnel. DoD is using \$120 million in Recovery Act funds for 45 energy efficiency projects and an additional \$300 million for 51 energy programs researching ways to reduce the Department's energy demand via increasing fuel efficiency or advancing new technologies related to alternative energy sources.

The DoD continues to place an emphasis on meaningful and effective competition to get the best deal for the warfighters and the taxpayers. Given the importance of the Recovery Act dollars in stimulating the economy, the Department has taken extra steps, including frequent communications with Senior Procurement Executives (SPEs), regarding the expectations for contract implementation. SPEs in the Department are communicating more frequently with their respective acquisition workforce, including flash notices and reminders of Recovery Act regulations, specifically the importance of competition.

### 8-1B. American Recovery and Reinvestment Act

### IG Assessment of Progress

The OMB specified the initial step for each agency receiving Recovery Act funds to take was to develop formal documented plans identifying how the recovery funds will be applied and managed. OMB required that agencies discuss both Recovery Act goals and how different parts of the agency are coordinating efforts toward successful implementation and monitoring of these goals. Required agencies to submit separate plans for each program funded by the Recovery Act and stipulated 12 minimum requirements that each plan must address. The DoD Agency Plan and four program-specific plans (at the time of our review DoD had not issued the Homeowners Assistance Program plan) met the 12 minimum OMB requirements.

We have noted that further execution of the Recovery Act is not moving as quickly as the Department had planned, and much of the spending and actual work on the projects will not occur until FY 2010. This delay will impact the Recovery Act's goals of commencing expenditures and activities as quickly as possible, consistent with prudent management. Thus, added pressure is likely to be placed on the Department's contracting professionals to award contracts in an expedited manner, potentially impacting the Recovery Act and Department's goal to competitively award a large portion of the contracts.

We believe, as was the case in Hurricane Katrina, Operation Iraqi Freedom, and Operation Enduring Freedom, that identifying, starting, meeting milestones, and accounting for the efforts will be a recurring challenge for DoD. Without adequate planning, contractor oversight, performance measures, and adequate documentary support, DoD may not be able to adequately meet the intent of the Recovery Act and maintain adequate transparency, accountability, and stewardship of taxpayer funds.

## 8. American Recovery and Reinvestment Act

## Management's Overall Assessment

The Department has obligated \$3.3 billion in Recovery Act funds through Sept. 30, 2009, which is over 45 percent of the \$7.4 billion allocated to the Department. This includes \$2.5 billion, or 58 percent, of all Facilities Sustainment, Restoration, and Modernization projects, \$0.1 billion, or 47 percent, of all Near Term Energy-Efficient Technologies projects, and \$0.6 billion or 26 percent of all Military Construction or Energy Conservation Investment projects. Obligations and project completions will continue to increase throughout FY 2010.

The President has established high standards of transparency and accountability for the use of Recovery Act funds. Each project is required to have policies and procedures in place to ensure that recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.

## Department of Defense Agency Financial Report for FY 2009

**Performance Measures:** The Department has established performance measures consistent with the intent of the Recovery Act, such as:

- Percent of family housing brought up to acceptable Department standards
- Change in facility condition
- Number of families aided by Homeowners Assistance funding
- Estimated annual energy savings.

Program performance measures are supported by standardized definitions, quantifiable outputs, and designated measurement frequencies. The results of the performance measurements will be updated based on the established frequency and will be readily accessible to the public on the website [www.recovery.gov](http://www.recovery.gov).

Additional details on program performance measures are found in the DoD Agency Plan.

**Financial Tracking:** The Department will track financial performance using established procedures and routines. Examples include:

- Percent of total projects awarded,
- Percent of the total dollar value of projects awarded,
- Percent of projects completed on agreed-to contractor schedule,
- Percent of fixed price contracts,
- Percent of competitive contracts.

These metrics that track program execution are secondary to the critical outputs of Recovery Act spending, such as job preservation and creation.

Since the signing of the Recovery Act, the Department has worked very closely with OMB and other White House offices to effectively implement funding. The Secretary of Defense designated the Principal Deputy Under Secretary of Defense Comptroller (PDUSD(C)) as the Department's primary point of contact to the White House. Within the Office of the USD(C) a senior steering committee oversees implementation, establishes policies and procedures, and reviews key metrics as the funds are obligated and executed.

Within the Department, a working group – which includes OMB and DoD IG – has been meeting weekly to coordinate the implementation of Recovery Act funds. Also, the Military Services have established their own working groups to coordinate execution down to the installation level.

In accordance with legal and executive directives, Department staff creates weekly reports for OMB, [Recovery.gov](http://Recovery.gov), and the Office of the Vice President. Daily phone calls occur between OMB and Department staff. Reports with project-level plans, including projected costs and deadlines, are submitted on a scheduled basis.

Review of the progress and performance of major programs, including risk-mitigation and corrective actions, is guided by the Risk Management Plan developed by the Department in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Control, Appendix A. The Department's current Appendix A process has a Senior Assessment Team lead by PDUSD(C), who is also the Responsible Officer for the Department's Recovery Act funding. As part of the Risk Management Plan, each program will be evaluated on a quarterly basis, with a Risk Profile being submitted to the Office of the USD(C) and CFO. This process is further elaborated in the detailed program plans.

Due to the magnitude of normal budgeting for national defense within the Department, the OUSD(C) has established a centralized Business Enterprise Integration System (BEIS) for financial review and internal control. The Department will use BEIS to handle financial tracking, particularly obligation and execution data, at a project-level. This ensures compliance with general financial management policies pertaining to the Recovery Act.

## MANAGEMENT ASSURANCES AND FINANCIAL STATEMENT MATERIAL WEAKNESSES

### DoD Managers' Internal Control Program

The Department's management conducts self-assessments of internal management controls in accordance with the Federal Managers' Financial Integrity Act (FMFIA), formally designated as the Department's Managers' Internal Control Program. Self-assessments are conducted throughout the Department, to include forward deployed units such as the Multi-National Forces - Iraq. These internal management controls are the checks and balances that assist program and financial managers in achieving results and safeguarding the integrity of the programs. As prescribed by OMB Circular No. A-123, the Department's internal management control program assesses the functions and processes of nonfinancial operations, financial reporting, and financial systems.

The Department's leadership is committed to maintaining effective internal management controls for all mission-essential processes to support the reliability of financial statements and to obtain unqualified audit opinions. After more than 2 years of successfully promoting the concept that "what gets checked gets done," the Defense Department's award winning "Check It" campaign ended on December 18, 2008.

In 2008, the Public Relations Society of America awarded the Check It campaign the prestigious Silver Anvil Award for the best internal communications campaign to raise awareness of the importance of effective internal management controls. An example of the effectiveness of the Check It campaign is illustrated by General David Petraeus', Commander of the Multi-National Forces- Iraq, recognition of members of the Multi-National Security Transition Team. As a result of "checking" 950 contracts, the team members defoliated or recommitted \$831 million, which was used for critical items for the ISF. Building on the campaign's success, the Department is planning a new internal communications campaign that will continue to emphasize the importance of demonstrating good stewardship and accountability

The Department continued an aggressive program of identifying, tracking, and resolving weaknesses in internal controls during FY 2009. Since FY 2001, DoD successfully reduced its management-identified internal control weaknesses by 85 percent, from 116 to 17, in FY 2009.

To facilitate better oversight, management, and tracking of Component progress to achieve the USD(C) directed priorities, the Department recently made significant improvements to the FIAR plan framework, mandating its use by the Components for their FIPs. The revised FIAR framework better integrates OMB Circular No. A-123, Appendix A. The framework is designed to strengthen internal controls by requiring the Components to focus on key financial reporting control objectives and capabilities. The framework also requires the identification of accountable organizations, individuals, and resource requirements.

### DoD Managers' Internal Control Program Training

The Department's managers and senior leaders understand that education and training are crucial to the successful execution of the internal management control program. During FY 2009,



*Left to right: Staff Sergeant Hudnall, Lieutenant Commander McAndrew, Major Sadiq, First Lieutenant Beck, Lieutenant Colonel Dunn, Master Sergeant Westerman, Captain Smith, Colonel Cruse, General Petraeus, Captain Nicot, Lieutenant General Dubik*

## Department of Defense Agency Financial Report for FY 2009

training was provided to 14 of the 35 DoD Components. Training was attended by over 1,000 DoD personnel at various locations throughout the Department, including the American Forces in Baghdad, Iraq. Additionally, a Departmentwide training conference presented by DoD senior leadership was attended by over 260 representatives. Training discussion topics included:

- Requirements for an effective internal management control program;
- Review of reporting requirements associated with FMFIA;
- Overview of successful results attributed to the Department's Check-It campaign;
- Management of risk for effective internal controls; and
- Highlights of the FY 2008 DoD Statement of Assurance.

### Revision of DoD Instruction 5010.40

The Department is revising DoDI 5010.40, "Managers' Internal Control Program Procedures." This revision adds the requirement that Component heads must provide an explicit level of assurance over financial system conformance to federal requirements, in addition to assurances over nonfinancial operations and financial reporting.

### The American Recovery and Reinvestment Act of 2009

Under the Recovery Act, Congress appropriated \$7.4 billion to DoD and \$4.6 billion to USACE for its civil works program. The DoD will use the funds for facilities sustainment, restoration, and modernization; military construction; energy conservation; near-term energy efficiency technology demonstration and research; and homeowners assistance. The DoD is pursuing three broad goals with Recovery Act Funding: preserve and create American jobs; care for U.S. Service members and their families; and, improve DoD energy efficiency.

Agencies are required to manage risks that could hinder the ability to fulfill the accountability and transparency objectives of the Act. Review of the progress and performance of major programs is guided by the Risk Management Plan developed by the Department in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Control, Appendix A. The Department's current Appendix A process has a Senior Assessment Team lead by the PDUSD(C), who is also the Responsible Officer for the Department's Recovery Act funding. As part of the Risk Management Plan, each program will be evaluated on a quarterly basis, with a Risk Profile being submitted to the USD(C).

### Most Improved Processes

The cornerstone of the Check It campaign was to raise individual and senior leadership awareness of the importance of effective internal controls throughout the Department. Phase 2 of the campaign focused on process improvements and solicited examples of successful improvements. During the Check It Campaign, 40 improvements were received from 24 Components with savings and cost avoidance totaling \$3 billion. The spirit of the Check It campaign continues. Below are 16 examples of significant improvements.

Most Improved Processes		
Process Improvement	By Whom	Result
Leveraged Space and Naval Warfare Systems Command's Lean Six Sigma and continuous process improvements to identify six strategic and high impact core value streams with highest potential for readiness improvement and cost savings.	Department of Navy	Validated Lean Six Sigma savings of \$17 million, with an additional \$9 million currently in the validation phase.

## Department of Defense Agency Financial Report for FY 2009

Most Improved Processes		
Process Improvement	By Whom	Result
Reduced dormant accounts resulting in deactivations of 25,000 Department of Navy and 25,000 U.S. Marine Corps' unclassified accounts.	Department of Navy	Experienced a cost avoidance of \$900 thousand (Navy) and \$550 thousand Marine Corps (USMC) by using a centrally-funded contract line item number for deactivations.
Conducted a Lean Six Sigma project on better visibility and accountability of containers "A Proof of Principle" was conducted at Victory Base, Iraq in April 2009.	Department of Army	Focus of review was collection of data in critical fields to better manage containers. Identified and recovered \$1.8 million worth of excess material.
Conducted an extensive search throughout DoD for other programs to provide alert and protection systems and identified collective protection project.	North American Aerospace Defense Command	Realized savings of approximately \$6 million through the identification and request for inclusion of a previously funded Collective Protection Program.
Conducted search and reutilization of disregarded assets to negate increases in labor hours due to impacts on mission on-time rates.	U.S. Special Operations Command	Saved approximately \$1.0 million through the identification and repair of equipment categorized as "impaired capability awaiting parts" and avoided 18 additional, by repairing broken parts and returning to supply.
Established a suspense file to track items temporarily signed out, and to follow-up on items not turned in by due date.	U.S. Special Operations Command	Obtained over 1,000 pieces of unserviceable, excess automated data processing equipment valued over \$300 thousand.
Implemented extension of the aircraft (F-15C/D/E) phase inspection interval from 200 hours to 400 hours.	Department of Air Force	Reduced costs estimated at \$7.29 million for the first five months of implementation.
Integrated the functions of the Weapon System Cost Retrieval System into the Air Force Total Ownership Cost System.	Department of Air Force	Reduced operating costs for FY 2008 to FY 2012 from \$2 million to \$1.2 million.
Improved BRAC and Defense Environmental Restoration Account funding reconciliation for unliquidated obligations.	DLA	Reduced BRAC environmental cleanup funding unliquidated obligations by \$267 thousand in the first half of FY 2009.
Improvements in management of invoices for Command Invoices Not Scheduled to Pay Listings specifically for those invoices at 15 days aged.	U.S. Strategic Command	Decreased current interest penalties by 90 percent compared to last year.
Conducted a Management Internal Control Review and identified significant delinquency problems and made related recommendations to the Defense Travel System centrally billed account.	U.S. Joint Forces Command	Identified unpaid invoices valued at \$284 thousand and received a credit of \$73 thousand.

## Department of Defense Agency Financial Report for FY 2009

Most Improved Processes		
Process Improvement	By Whom	Result
Improved Defense Finance Accounting Service-Indianapolis Cash Management Report and Proprietary to Budget Adjustments through joint effort with the Defense Finance Accounting Service - Indianapolis to research and correct disbursements and collections from FY 2006 through FY 2009.	Defense Threat Reduction Agency	Researched and corrected disbursements and collections from FY 2006 through FY 2009. As a result, 735 transactions were corrected in FY 2009 totaling \$22.4 million in absolute value with a \$2.28 million net effect on Fund Balance with Treasury and a reduction in the unsupported undistributed adjustment to the Fund Balance with Treasury. Also, reduced proprietary to budget adjustments by \$38.4 million between the 2nd Quarter, FY 2008 and the 2nd Quarter, FY 2009.
Implemented a continuous process improvement capability, combining Six Sigma and Lean Transformation (Lean6) tools.	DFAS	Exceeded goal and trained 811 Green Belts and 62 Black Belts and certified 398 Green Belts and 27 Black Belts. One reported example is that the team analyzed the current "to be" processes and made changes that resulted in \$88 thousand in savings in one of the major Divisions of the Financial Management Center of Excellence Directorates.
Implemented quality control to identify discrepancies in the incinerator waste removal contract.	Pentagon Force Protection Agency	Identified a 50 percent direct savings per pick-up load, resulting in overall savings of \$10 thousand annually.
Increased recruitment efforts to prepare for future gaps in core acquisition new hires through FY 2015. In recent testimony, Secretary of Defense recognized need to increase DCMA's acquisition workforce.	DCMA	Received authority to recruit and train 2,737 acquisition new hires to assist in growing critical acquisition workforce skills and provide relief in short - and long-term capital requirements. .
Re-engineered payment procedures to reduce aged accounts payable and undelivered orders using expected period of performance to affect final payment.	DeCA	Reduced aged accounts payable and undelivered orders by 50 percent from 10,027 September 2007 to 5,010 records in FY 2009.

### Types of Material Weaknesses

The management-identified weaknesses determined by assessments of internal management controls, required by the FMFIA and OMB Circular No. A-123, fall into three categories:

1. FMFIA Section 2 Financial Reporting Material Weaknesses (See Table 1a).
2. FMFIA Section 2 Non-Financial Operations Material Weaknesses (See Table 1b).
3. FMFIA Section 4 Financial System Nonconformance Weaknesses (see Table 1c).

In FY 2009, the Department began with 17 outstanding weaknesses, resolved one and added one new weakness for an ending total of 17. Tables 1a, b, and c below identify the resulting

## Department of Defense Agency Financial Report for FY 2009

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

**1. FMFIA Section 2 Financial Reporting Material Weaknesses.** Under the oversight of the DoD Senior Assessment Team, the Department's assessment over financial reporting identified the following material weaknesses listed in Table 1a.

Table 1a. Summary of Management Assurances							
Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)							
Statement of Assurance	No Assurance						
Material Weaknesses	Ref Table 2	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
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
8) Operating Materials and Supplies	6	1					1
9) Accounts Payable	1	1					1
10) Personal Property – General Purpose Equipment <i>(Includes reported problems with the cost of DoD property and material in the possession of contractors. Reassessed and moved from Overall Non-financial 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, Accounting Adjustments, and Reconciliation of Net Cost of Operations to Budget)</i>	2, 7, & 8	1					1
12) Financial Reporting of Intergovernmental Eliminations <i>(Includes Anti-Deficiency Act Violations)</i>	5	1					1
<b>Total Financial Reporting Material Weaknesses</b>		<b>12</b>					<b>12</b>

## Department of Defense Agency Financial Report for FY 2009

**2. FMFIA Section 2 Nonfinancial Operations Material Weaknesses.** The Department's 35 Component Heads utilize 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.

Table 1b. Summary of Management Assurances							
Effectiveness of Internal Control Over Nonfinancial Operations (FMFIA Section 2)							
Statement of Assurance	Qualified						
Nonfinancial Material Weaknesses	Ref Table 2	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
1) Management of Information Technology and Assurance		1					1
2) Personnel Security Investigations		1					1
3) Contracting		1					1
4) Certain Audits Do Not Meet Professional Standards		1		1			0
5) Internal Controls Over Contingency Contracting		0	1				1
<b>Total Material Weaknesses Nonfinancial Operations</b>		<b>4</b>	<b>1</b>	<b>1</b>			<b>4</b>

**3. FMFIA Section 4 Financial System Nonconformance Weaknesses:** The Department requires financial system conformance with federal 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	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>17</b>	<b>1</b>	<b>1</b>			<b>17</b>



## Department of Defense Agency Financial Report for FY 2009

### Financial Statement Material Weaknesses

The DoD IG identified 13 material weaknesses in financial statement reporting. The 13 auditor identified material weaknesses are listed in Table 2. For further details, refer to the FY 2009 audit reporting Addendum A.

Table 2. Summary of Financial Statement Audit						
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>

### Federal Financial Management Improvement Act (FFMIA)

The DoD IG and the audit agencies within the Military Services have reported on the Department's non-compliance. The Department's noncompliance is largely due to the legacy financial management systems in use by the Department's Components. These systems, for the most part, do not comply with the wide range of requirements for systems compliance and therefore, do not provide the necessary assurances to rely on information contained either in the core financial system or in the mixed systems that provide source transactional information. Table 3 reflects the Department's compliance with FFMIA.

**Statement of Assurance over Financial Reporting Process:**

The Department prepared the FY 2009 Annual Statement of Assurance using internal control assessments in accordance with OMB Circular No. A-123, "Management's Responsibility for Internal Control." The Statement of Assurance is presented in the Management's Discussion and Analysis section of this report.

<b>Table 3. Compliance with Federal Financial Management Improvement Act</b>		
	<b>Agency</b>	<b>Auditor</b>
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

The Department's 35 Component Heads are required to report their respective Statement of Assurance to the Secretary of Defense. The Component Heads are comprised of the 3 Military Departments, 11 Combatant Commands, Joint Staff, OSD, DoD IG, 17 DoD Agencies, and the DoD Financial Reporting Senior Assessment Team. All Component Heads are required to utilize a robust, programmatic approach to establish and assess internal management controls for all nonfinancial mission essential operations. Component Heads preparing stand-alone financial statements are required to include a financial reporting assurance.

The Department uses the Component Heads' Statements of Assurance as the foundation for the Department's Statement of Assurance. More information concerning the Department's process for developing the Statement of Assurance is available at <http://www.defenselink.mil/comptroller/micp.html>. The Department asserts that all Components, as prescribed by the Department's regulatory guidelines, have reported their individual statements of assurance over internal control to the Secretary of Defense.

The Department is using an incremental approach in implementing Appendix A of OMB Circular No. A-123, and leveraging, to the extent possible, existing initiatives, such as DoD FIAR Plan management tools and audit documentation.

At the beginning of FY 2006, the Deputy Secretary of Defense established a Senior Assessment Team comprised of senior leaders who serve as the governing body for DoD Appendix A implementation. The team issues guidance, defines the scope of the assessments used within the Department, determines DoD financial reporting weaknesses, and monitors the progress of corrective actions.

The annual guidance issued by the Senior Assessment Team provides a framework for assuring proper planning and implementation of OMB Circular No. A-123, Appendix A, and prescribes procedures for conducting flow charts, risk assessments, internal control analyses and creating test plans to help promote consistency and comparability of data throughout the Department. The current guidance defines the materiality used by the Department and provides instructions on preparing corrective action plans.

The Department is leveraging its FIAR Plan for the Appendix A implementation by using the resources and capabilities already established. The FIAR Plan is the Department's path to audit readiness and an unqualified audit opinion. The plan describes major impediments identified by auditors and management and sets milestones for resolving problems affecting the accuracy, reliability, and timeliness of financial information. For process solutions, the plan addresses known major deficiencies and captures work done, or to be done, by large Defense components in assessing their weaknesses and developing necessary plans for overcoming those

weaknesses. The Department will continue to align its focus areas of the Appendix A effort to be congruent with the FIAR Plan in an effort to maximize resources.

**Conclusion**

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 operation processes. The Department remains committed to transformational efforts to continue reducing material weaknesses.

**Completed and Planned Milestones**

The Department’s internal control weaknesses over financial reporting are listed in Table 1a. The completed actions and planned milestones are listed below in Table 4 for each material weakness. The completed milestones continue to demonstrate measured progress and highlight the Department’s commitment to resolving the material weaknesses. The planned milestones are under review to ensure consistency with the Department’s new strategy for audit priorities.

Table 4. Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)	
<b>1.</b>	<b>Valuation of Property, Plant, and Equipment – Military Equipment</b>
<i>Description of Issue:</i> The DoD’s inability to accurately report the value of military equipment increases the probability of material misstatement in financial reporting.	
<b>1a.</b>	<b>Completed Milestones</b>
<p><b>Department of Air Force:</b></p> <ul style="list-style-type: none"> <li>• Validated the accuracy of the military equipment valuations previously reported to OSD, in the Capital Asset Management System – Military Equipment.</li> <li>• Tested the asset data reconciled during the second quarter, to ensure the integrity of the information was consistent at the end of each quarter for the Capital Asset Management System – Military Equipment and the Reliability and Maintainability Information System.</li> <li>• Tested the implementation of the policy to support the reengineered process to collect information at the contract level.</li> <li>• Developed and issued Air Force policy on proper documentation to support the possession and title of assets defined as military equipment.</li> <li>• Ensured proper implementation of the Air Force policy on the documentation to support the possession and title of assets defined as military equipment.</li> </ul> <p><b>Department of Navy:</b></p> <ul style="list-style-type: none"> <li>• Initiated the discovery phase of audit readiness at Naval Air Systems Command Pilot Program Office.</li> <li>• Worked with the Deputy Assistant Secretary of Navy (Air) to select pilot team members including Program Executive Offices, financial management and logistic representatives.</li> <li>• Created a temporary data storage repository in order to capture aggregated military equipment asset data from the legacy item unique identification records at the Marine Corps.</li> <li>• Prepared activities for military equipment valuation, which includes briefing the Financial Management Office and the Assistant Secretary of the Navy for Research, Development and Acquisition on pilot approach; identified organization for gap analysis study support; finalized the “as-is” and “to-be” processes; and developed data collection templates.</li> <li>• Conducted the military equipment valuation gap analysis study, which included: having a kick-off event with a pilot leadership team and subject matter experts; executing preliminary reports in Navy Enterprise Resource Planning; performing data collection; developing metrics; and conducting measurement review with gap analysis of study results held by leadership.</li> <li>• Conducted a leadership review of the implementation strategy, conducted a control milestone review and developed final “pilot” briefing.</li> </ul>	

## Department of Defense Agency Financial Report for FY 2009

	<ul style="list-style-type: none"> <li>• Included in the military equipment valuation gap analysis study the analysis of the “as-is” and “to-be” model differences; conducted milestone review; and developed and conducted the final “pilot” briefing.</li> <li>• Defined the accountability systems of record by transitioning the Non-Aircraft Inventory Readiness and Reporting System and Naval Vessel Register to Defense Property Accounting System and defined the current Department of Navy policy and guidance.</li> </ul>	
<b>1b.</b>	<b>Planned Milestones</b>	<p>Revised Correction Target Date: 2<sup>nd</sup> Quarter, FY 2016</p> <ul style="list-style-type: none"> <li>• (Although some component corrective actions extend to the 2<sup>nd</sup> Quarter, FY 2016, the DoD Senior Assessment Team considers these actions immaterial to the DoD Financial Statement line for military equipment).</li> </ul>
<p><b>Department of Air Force will:</b></p> <ul style="list-style-type: none"> <li>• Test internal controls to ensure that corrective actions have been effectively implemented.</li> </ul>		
<p><b>United States Special Operations Command will:</b></p>		
<ul style="list-style-type: none"> <li>• Join OSD military equipment working group.</li> <li>• Identify problems and solutions related to military equipment.</li> <li>• Decide on a method to capture value from classified assets and implement it.</li> <li>• Determine the baseline amount for military equipment.</li> <li>• Establish, document, and implement processes to properly initiate, record, and report financial events.</li> <li>• Communicate new procedures related to military equipment.</li> <li>• Test to ensure new procedures are followed related to military equipment.</li> <li>• Ensure accurate presentation and disclosure of military equipment values reported on the U.S. Special Operations Command’s financial statements.</li> <li>• Prepare and submit audit readiness package to DoD IG, provide copy to Office of the Under Secretary of Defense (Comptroller); and conduct internal DoD IG assessment of audit readiness.</li> <li>• Review processes annually until audited.</li> <li>• Complete independent audit.</li> </ul>		
<p><b>Department of Navy will:</b></p>		
<ul style="list-style-type: none"> <li>• Complete Military Equipment Valuation pilot to include: preparation of activities for the Military Equipment Valuation pilot, implementation of Military Equipment Valuation pilot, analysis of impact on legacy information systems and finalize implementation strategy.</li> <li>• Evaluate pilot results and the Enterprise Resource Planning functionality for the remaining command functional requirements.</li> <li>• Develop future “to-be” system environment for procurement, accountability and accounting; confirm future system environment; confirm military equipment policy according to the Assistant Secretary of the Navy (Research, Development and Acquisition) and Assistant Secretary of the Navy (Financial Management and Comptroller) in coordination with Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) and Office of the Under Secretary of Defense (Comptroller); and develop strategy and functional requirements for implementing the proper financial accounting treatment for military equipment.</li> <li>• Develop interface with item unique identification registry and Navy Enterprise Resource Planning; identify Accountable Property Offices; develop “to be” process documentation to include risks, controls, and test plans; and re-evaluate military equipment baseline strategy.</li> <li>• Ensure that the Marine Corps implements and sustains the Global Combat Support System – Marine Corps.</li> <li>• Implement “to-be” environment, deploy the new military equipment process and systems and implement the Navy Enterprise Resource Planning at the following commands: Naval Air, Naval Sea and Space and Naval Warfare Systems Command.</li> <li>• Complete military equipment accuracy at all locations by performing a complete assessment of all inventory for military equipment as well as identifying unusable, damaged, and excess or missing items.</li> <li>• Identify and implement a military equipment sampling methodology to sustain data quality.</li> </ul>		

## Department of Defense Agency Financial Report for FY 2009

- Complete testing the design and effectiveness using design tests in accordance with the Office of Management and Budget Circular No. A-123, Appendix A guidance; perform tests; analyze and summarize results; define and report weaknesses, if any identified.
- Ensure that the Marine Corps reviews and revalidates waived programs and makes available the appropriate supporting documentation.
- Verify, validate and provide management assertion.

### Department of Army will:

- Reconcile military equipment data with Army logistical and accountability systems of record.
- Report military equipment in accordance with an auditable process.
- Ensure completion of an internal validation of military equipment conducted by Army Audit Agency.

## 2. Real Property Assets

*Description of Issue:* The DoD does not have adequate internal controls in place to provide assurance that real property assets are identified and properly reported in its financial reports.

### 2a. Completed Milestones

#### Department:

- Published a revision to the DoD Financial Management Regulation (DoDFMR), Volume 4, Chapter 6, "General Property, Plant, and Equipment" that codifies the Statement of Federal Financial Accounting Standards.
- Issued a revised capitalization threshold that capitalizes 99 percent of real property assets.
- Standardized the core real property inventory data elements and issued DoD Instruction 4165.14, "Real Property Inventory and Forecasting."
- Received the Military Services' plans for implementing the real property inventory requirements to streamline the business processes, standardize data elements, and implement the business rules as depicted in the Business Enterprise Architecture.
- Conducted a business process reengineering of the construction-in-progress to identify sustainable business processes and internal management controls that will improve reliability for construction-in-progress cost information.
- Validated the implementation of the Military Services' standardized data reporting for real property assets.
- Revised the guidance on standardized transactions for acceptance and transfer of real property assets.
- Continued to monitor the Military Services' progress toward implementing real property inventory requirements and its sustainable business processes against the Enterprise Transition Plan.
- Achieved full operational capability for the real property unique identifier registry, which contains the information on the Department's owned real property sites and assets.
- Monitored Military Services' progress toward implementing real property inventory requirements and its sustainable business processes. Validated that the Services have achieved real property inventory requirements implementation milestones as of 4<sup>th</sup> Quarter, FY 2008.
- Published revisions to the Unified Facilities Criteria for Transfer and Acceptance of Military Real Property, to incorporate sustainable processes and consistent management controls for transfer and acceptance of real property accountability in a timely and consistent manner throughout DoD.
- Developed standard process and management controls for reconciling the real property asset records between the Military Departments and Defense Agencies to enable validation of existence and completeness of asset records.

## Department of Defense Agency Financial Report for FY 2009

<b>2b.</b>	<b>Planned Milestones</b>	<p>Correction Target Date: 2<sup>nd</sup> Quarter, FY 2013</p> <ul style="list-style-type: none"> <li>(Although some component corrective actions extend to 4<sup>th</sup> Qtr 2015, these actions are immaterial to the DoD financial statement line for Real Property Assets)</li> </ul>
<p><b>Department will:</b></p> <ul style="list-style-type: none"> <li>Validate that the Military Services have implemented the real property inventory requirements for standard data elements, sustainable business processes and consistent management controls.</li> <li>Achieve the prototype of the reconciliation capability that will be used to enhance the completeness and accuracy of the real property records.</li> <li>Ensure that the Components complete the reconciliation of real property records between the Defense Agencies and Military Departments.</li> <li>Develop the standard methodology for establishing the real property valuation baseline that can be sustained by the implementation of the real property inventory requirements processes.</li> <li>Validate that the Components have adopted and sustained the standard methodology to establish the real property valuation baseline.</li> <li>Validate that the Military Services have completed the implementation of real property construction-in-progress requirements for sustainable business processes, standard data elements, and consistent internal management controls.</li> <li>Validate that the Military Services have monitored the real property inventory requirements and real property construction-in-progress requirement processes and the effectiveness of management controls and have examined and compared data periodically with physical assets.</li> <li>Validate that the weakness is corrected.</li> </ul>		
<b>3.</b>	<b>Environmental Liabilities</b>	
<p><i>Description of Issue:</i> The DoD internal controls for reporting environmental liabilities do not provide assurance that cleanup costs for all of its ongoing, closed, and disposal operations are identified, consistently estimated, and appropriately reported.</p>		
<b>3a.</b>	<b>Completed Milestones</b>	
<p><b>Department of Air Force:</b></p> <ul style="list-style-type: none"> <li>Published policy that defines the terms “Regulation”, “Law” and “Technology” for the Defense Environmental Restoration Program, Installation Restoration Program, Building Demolition Debris Removal Program, and Environmental Compliance Assessment.</li> <li>Published policy that covers the reporting and disclosure requirements for the Military Munitions Response Program environmental liabilities.</li> <li>Published policy for reporting environmental liabilities for overseas locations.</li> <li>Determined the other assets retirement obligations that exist (e.g. radon, lead-based paint, mercury, others) and whether an environmental liability should also be recognized.</li> <li>Assured estimate changes are properly reported in the disclosure table for the Installation Restoration Program Building Demolition Debris Removal Program. Signed and distributed a memorandum, which covers all of the reporting requirements for Debris Removal Program and the Installation Restoration and Program Building Demolition Debris Removal Program.</li> <li>Assured liability for overseas locations is correctly disclosed. DoD IG, issued a report reviewing the reporting requirements for overseas environmental liabilities. The Air Force complied with the requirements to correctly disclose overseas environmental liabilities as indicated in the report in the FY 2008 financial statement.</li> <li>Assured liability for the Military Munitions Response is properly reported and disclosed.</li> <li>Assured estimate changes are properly reported in the disclosure table for Environmental Compliance Assessment.</li> <li>Assured that those estimate changes required for assertion, are properly reported in the disclosure table for BRAC.</li> <li>Assured liability for environmental closures was completed and disclosed.</li> <li>Assured asset retirement obligation is properly reported and disclosed.</li> </ul>		

## Department of Defense Agency Financial Report for FY 2009

<b>Department of Army:</b>			
<ul style="list-style-type: none"> <li>Identified the environmental liabilities universe for the environmental liability program.</li> <li>Ensured quality of documentation meets audit standards for environmental liability program.</li> <li>Implemented a sustainable business process to report environmental liability program.</li> <li>Performed site level supervisory review on environmental liability program.</li> <li>Implemented the internal control program to ensure accurate site level environmental liability data.</li> </ul>			
<b>3b.</b>	<b>Planned Milestones</b> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">Correction Target Date: 4<sup>th</sup> Quarter, FY 2012</td> </tr> </table>		Correction Target Date: 4 <sup>th</sup> Quarter, FY 2012
	Correction Target Date: 4 <sup>th</sup> Quarter, FY 2012		
<b>Department of Air Force will:</b>			
<ul style="list-style-type: none"> <li>Test and validate internal controls for active Air Force environmental liabilities financial statement disclosures.</li> </ul>			
<b>Department of Army will:</b>			
<ul style="list-style-type: none"> <li>Identify the environmental liabilities universe for environmental liabilities segment.</li> <li>Ensure quality of documentation meets audit standards for environmental liabilities segment.</li> <li>Implement a sustainable business process to report environmental liabilities segment.</li> <li>Perform site level supervisory review on environmental liabilities segment.</li> <li>Implement internal control program to ensure accurate site level liability data.</li> <li>Provide audit readiness validation plan.</li> </ul>			
<b>4.</b>	<b>Defense Health Care Liabilities</b>		
<i>Description of Issue:</i> The current military health financial processes cannot collect accurate cost and performance information to produce reliable financial reports.			
<b>4a.</b>	<b>Completed Milestones</b>		
<b>Office of the Actuary, DoD:</b>			
<ul style="list-style-type: none"> <li>Received requested data from Centers for Medicare and Medicaid Services during 3<sup>rd</sup> Quarter, FY 2009 and conducted an initial review of the data. Additionally, required data scrubs were identified.</li> </ul>			
<b>4b.</b>	<b>Planned Milestones</b> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">Correction Target Date: 4<sup>th</sup> Quarter, FY 2015</td> </tr> </table>		Correction Target Date: 4 <sup>th</sup> Quarter, FY 2015
	Correction Target Date: 4 <sup>th</sup> Quarter, FY 2015		
<b>Office of the Actuary, DoD will:</b>			
<ul style="list-style-type: none"> <li>Brief the Medicare-Eligible Retiree Health Care Fund Audit Committee regularly on the progress and status of development and application of per-capita rate methodology.</li> </ul>			
<b>Medicare-Eligible Retiree Health Care Fund, will:</b>			
<ul style="list-style-type: none"> <li>Use the per-capita rate methodology to compute FY 2013 Medicare-Eligible Retiree Health Care Fund Health Care Liability and the FY 2014 Distribution Plan to the Military Services.</li> <li>Validate, through annual independent audit process already in place, the Medicare-Eligible Retiree Health Care Fund with objective of achieving an unqualified opinion.</li> </ul>			
<b>Service Medical Activities will:</b>			
<ul style="list-style-type: none"> <li>Map the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services medical systems requirements into the Line Services Information Technology Solutions.</li> <li>Monitor the data from the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services for integrity and data conversion issues.</li> <li>Implement information technology solutions for the core financial systems of line service for the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services; and reconcile the Medical Expense and Performance Reporting Systems Expense Assignment System IV data for the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services.</li> <li>Sustain audit readiness and validate consistency with assertion schedule for Service Medical Activities consolidated balance sheet, per DoD Financial Improvement Business Rules.</li> </ul>			

**5. Fund Balance with Treasury**

*Description of Issue:* DoD is unable to reconcile fund balance with treasury account balances to the Department of the Treasury account balances. Unsupported transactions are one of the Department's most wide-spread auditor-recognized fund balance with treasury deficiencies. The DoD IG has identified seven weaknesses related to fund balance with treasury including: explanation of differences between Treasury and DoD, specific transactions making up differences, traceable lines of accounting and journal voucher numbers, recording reasonable time frames, and auditor access to journal vouchers and general ledgers.

**5a. Completed Milestones**

**Defense Logistics Agency:**

- DFAS provided the accounting alternative recommendations for \$1.2 million of the working capital fund pre-Columbus Cash Accountability System's unsupported, undistributed collection amounts.
- DFAS provided DLA with accounting alternative recommendations to correct working capital fund pre-Columbus Cash Accountability System unsupported, undistributed disbursements totaling a net amount of \$167 million.
- DFAS increased the manpower resources dedicated to the resolution of Columbus Cash Accountability System Tier 3 variances per DLA authorization of the business plan.
- DFAS provided DLA with accounting alternatives for \$198 thousand of Columbus Cash Accountability System Tier 2 amounts to be written off, primarily the aged amounts for which there is insufficient detail to properly reconcile.
- The pilot project with DFAS provided DLA – Accountability Office the population of fund balance with treasury transactions using Columbus Cash Accountability System. The DLA-Accountability Office requested a sample of the population and DFAS and DLA delivered the documents through DLA Central Information Repository.
- DFAS increased resources dedicated to documenting all standard processes for the fund balance with treasury process per DLA authorization.
- DFAS in Indianapolis documented the working capital fund treasury cash allocation process and integrated it into a DFAS and DLA monthly cash reconciliation package.

**Department of Air Force:**

- Compiled and validated a listing of systems that contain fund balance with treasury activity.
- Identified and documented the source of transaction level files, data and timeframes in which the data can be accessed in those systems.
- Identified and documented the type of data available at Treasury to compare against the data recorded in the Air Force accounting records.
- Analyzed supporting documentation, validity and accuracy of journal voucher activity; and documented the underlying nature, cause and potential impacts on the fund balance with treasury reconciliation procedures.
- Developed a plan to implement the proposed fund balance with treasury standard operating procedures and reconciliation template.
- Assessed the capabilities of available systems to facilitate the reconciliation progress.

**Department of Navy:**

- Researched current problem disbursement efforts; collaborated with other DFAS Centers to discuss problem disbursements; determined if adequate resources are assigned to work problem disbursements; and determined the areas of focus for problem disbursements at DFAS Center in Cleveland.
- Reviewed the policies and procedures by system; and identified the universe of DFAS and Navy personnel with the ability to approve accounting adjustments.
- Designed testing for disbursements.
- Performed Phase I testing of accounts receivables key controls and controls for collections.

**Department of Army:**

- Identified requirements to accurately report fund balance with treasury.



## Department of Defense Agency Financial Report for FY 2009

### Defense Intelligence Agency:

- Reconciled 3 fund balance with treasury appropriations for FY 2007.
- In FY 2008, implemented the area review and documented the control weaknesses for the Office of the Under Secretary of Defense (Comptroller) internal controls over financial reporting.
- Developed a detailed corrective action plan and submitted it to the Office of the Director of National Intelligence.
- Researched and resolved abnormal and canceling account balances prior to data conversion.
- Based on data cleansing and conversion, verified that fund balance with treasury balances were accurately converted to Department of Treasury, Financial Management Service Federal Agencies' Centralized Trial-Balance System.
- Established a Defense Intelligence Agency team to coordinate with DFAS to research and resolve differences.
- Reconciled the Data Element Management Accounting Report for FY 2007 and prior year non-payroll and payroll transactions.
- Determined a strategy for the remaining unmatched DFAS "pile-up file" (automatic sequentially filed) transactions.

### National Security Agency:

- Developed the concept of operations for fund balance with treasury audit.
- Obtained approval for the concept of the operations from Office of the Under Secretary of Defense (Comptroller).
- Completed the system requirements approved by Finance and Accounting Services.
- Completed the system designs accomplished by the information technology group.

### Service Medical Activities:

- Reconciled the disbursement and collection date in the pile file in the Cash Management Report at a limit level to the Treasury account for TI97 – 0130, Defense Health Program.
- Reconciled disbursement and collection data by automatically filing sequentially in the Cash Management Report at a limit level to the Treasury account for TI97 – 0500, Military Construction.
- Reconciled the disbursement and collections data in the Cash Management Report U-File to the fund balance with treasury amounts reported in the Defense Department Reporting System.
- Identified suspense amounts reported in the other defense organization's financial statements.

**5b.**

**Planned Milestones**

Revised Correction Target Date:  
3<sup>rd</sup> Quarter, 2014

### Defense Logistics Agency will:

- Implement required corrective actions resulting from DLA- Accountability Office pilot project.
- Conduct recurring sample test. DFAS will provide DLA - Accountability Office the population of fund balance with treasury transactions using Columbus Cash Accountability System. DLA Accountability Office will request a sample of the population and DFAS will deliver the documents with competent evidential matter through DLA Central Information Repository.
- Complete the development of process cycle memoranda and flowcharts for all identified processes.
- Complete the development of the scoping worksheets that identify the fund balance with treasury process from the beginning of the process to the financial statements.
- Rely upon DFAS to reconcile the Columbus Cash Accountability System Tier 3 variances. Tier 3 variances relate to unmatched vouchers.
- Validate that the material weakness correction is complete.

### Department of Air Force will:

- Test and evaluate the impact of the reconciliation standard operating procedures and template on auditability of larger fund symbols.
- Assess and determine the required resources and skill sets.
- Document a monthly process for a fund balance with treasury reconciliation for all Air Force account symbols.

## Department of Defense Agency Financial Report for FY 2009

- Implement an automated solution for Columbus Cash Accountability System – Air Force and create management reports.
- Research and reconcile current and past unreconciled balances to the extent that detailed information is available.
- Complete the testing of the fund balance with treasury reconciliation process to validate corrective actions and develop a management assertion package.
- Pre-validate the testing to ensure Air Force is prepared to submit segment management assertion package.
- Conduct testing of the fund balance with treasury through the Office of Management and Budget Circular No. A-123, Appendix A program year with internal control review, performing various testing procedures to ensure corrective actions have been implemented and are effective.

### Department of Navy will:

- Identify corrective actions for unmatched disbursements roles and responsibilities by appropriation and customer.
- Identify corrective actions for “interfund”, “no obligation” and “military construction” working groups by meeting to research the major issues associated with problem disbursements. Define controls and determine deficiencies in the “to-be” process.
- Obtain definition of accounting adjustments by system. Update and/or revoke the user access through identification of roles and responsibilities for preparing accounting adjustments.
- Draft guidance on accounting adjustments and approval process, and develop and implement web-based training.
- Observe the Business Activity Monitoring demonstration and assess the impact of the outcome of initial and final operational capability on reconciliation.
- Perform Phase II testing.
- Verify and validate the audit substantive testing.
- Complete the assertion package and the management assertion and submit the assertion package to DoD IG, & FIAR Directorate.

### National Security Agency will:

- Conduct the initial operating capability for fund balance with treasury.
- Complete preliminary design review and critical design review.

### Service Medical Activities will:

- Reconcile the disbursement and collection data in the pile files in the Cash Management Report at a limit to the Treasury account for TI97, Operations and Maintenance and Military Construction Appropriations of the Recovery Act.
- Investigate unposted disbursements and collections reported in the suspense limits and post amounts to proper limits.
- Obtain the Statement of Transactions detail from the DFAS in Indianapolis, Fund Balance with Treasury Division from “for self” and “by others” transactions for Army, Navy, Air Force and State Department disbursing offices.
- Reconcile the Statement of Transactions detail to summary Statement of Transaction data used to create the “pile file”.
- Reconcile the Statement of Transactions detail to the Disbursement Offices’ Statement of Accountability.
- Reconcile Statement of Transactions detail to the Other Defense Organization Detail Disbursement Database in DFAS Indianapolis.
- Evaluate data quality for the Other Defense Organization Detail Disbursement Database in DFAS in Indianapolis.
- Sustain audit readiness and validate consistency with the assertion schedule for Service Medical Activities consolidated balance sheet, per DoD Financial Improvement Business Rules.

### Defense Intelligence Agency will:

- Reconcile cash with fund balance with treasury during 1st Quarter, FY 2010.
- Consolidate evidential matter that supports the fund balance with treasury for management's assertion.
- Perform internal review of fund balance with treasury assertion package.
- Develop corrective action plans based on internal review.

## Department of Defense Agency Financial Report for FY 2009

- Focus efforts toward completing all corrective action plans.
- Continue to verify fund balance with treasury transactions are recorded accurately and timely in Department of Treasury, Financial Management Service's Federal Agencies' Centralized Trial-Balance System: (a) Continue to develop formal policies and procedures for resolving undistributed balances; (b) Provide training to Defense Intelligence Agency and DFAS personnel on new policy and procedures; (c) Continue to resolve and record material DFAS differences for 41 appropriations, which consist of eight appropriations ranging from FY 2003 to 2007; (d) Continue to resolve and record Data Element Management Accounting Report differences; (e) Continue to research and resolve State Department discrepancies; (f) Continue to research and resolve all material unmatched Defense Finance and Accounting Agency Pile-up file transactions by document numbers; (g) Based on Office of the Director of National Intelligence guidance and coordination with Treasury and other DoD Intelligence Community agencies adopt and implement a deposit account with Treasury; (h) Research and document business processes to identify root causes of discrepancies and develop additional plans of action; (i) Develop policy and procedures for fund balance with treasury combatant commands reconciliation; (j) Continue with the migration of combatant commands into the Defense Intelligence Agency fund balance with treasury reconciliation; (k) Transition reliance from defense disbursement centers and move toward utilizing the National Security Agency as the Defense Intelligence Agency's primary disbursement center; (l) For activities that are not feasible to move to National Security Agency, consolidate the multiple DFAS disbursing stations into one location for disbursements and collections of Defense Intelligence Agency funds; and (m) Obtain staff to analyze, identify, and reduce fund balance with treasury agency differences.

### Department of Army will:

- Obtain full operational capability of General Fund Enterprise Business System.
- Implement sustainable business process to report fund balance with treasury.
- Report fund balance with treasury in accordance with a sustainable business process.
- Internal validation of fund balance with treasury completed by Army Audit Agency.

## 6. Accounts Receivable

*Description of Issue:* The DoD is unable to accurately record, report, collect, and reconcile intragovernmental accounts receivable, as well as accounts receivable due from the public.

### 6a. Completed Milestones

#### Department of Air Force:

- Evaluated existing pricing strategy for sales to the foreign military sales trust fund, ensuring compliance with DoDFMR Volume 15, Chapter 5.
- Identified and documented Air Force foreign military sales "order to cash" "as-is" processes, controls, systems and policies during discovery site visits.
- Developed the initial corrective actions for improving the Air Force foreign military sales "order to cash" "as-is" processes.
- Identified and documented major audit recommendations related to accounts receivable based on the last 5 years of audit reports.
- Created test plans for the major audit recommendations to determine whether the recommendations have been implemented as scheduled.
- Reported that Air Force Audit Agency began an audit of Air Force Tri-Annual Review over accounts receivable.
- Reviewed the Tri-Annual Review guidance to confirm compliance with DoDFMR Volume 3, Chapter 8.
- Completed the FY 2008 testing of internal controls to include validating the establishment and support for accounts receivable.
- Wrote off unsupported undistributed collections based upon Office of the Under Secretary of Defense (Comptroller) guidance.
- Completed flow charting and narrating the accounts receivable process; performed risk assessments; and developed and executed test plans to test existing controls.
- Analyzed results and developed corrective action plans for reporting in the FIAR Tool.
- Reported that the Office of the Under Secretary of Defense (Comptroller) memorandum for the revised intragovernmental business rules regarding trading partners was incorporated into DoDFMR.

## Department of Defense Agency Financial Report for FY 2009

- Led a team, including DFAS and security assistance personnel, to review and analyze the foreign military sales accounts receivable process.
- Began identifying and incorporating necessary changes to foreign military sales accounts receivable process to ensure compliance with DoDFMR, Volume 15, Chapter 5.
- Analyzed feeder systems to determine where gaps exist against the Office of the Under Secretary of Defense (Comptroller) memorandum.
- Modified the Air Force policy and procedures to reflect the transaction data associated with the acceptance and fulfillment of the reimbursable orders to comply with the Office of the Under Secretary of Defense (Comptroller) memorandum.
- Ensured a dispute resolution was implemented with all trading partners as directed by Office of the Under Secretary of Defense (Comptroller).
- Implemented the open document analysis component of the financial management suite to aid financial analysts in the review and reconciliation of open documented items during the Tri-Annual Review.
- Compiled listings of all Air Force accounts receivable feeder systems.

### Defense Logistics Agency:

- Developed standard operating procedures to review customer orders not posted and reconciled and/or posted missing receipts required by systems to record revenue. Implemented processes to ensure orders and receipts are posted in Business Systems Modernization – Energy.
- Documented processes for recording end-of-month budgetary for Oracle Government Funds for Defense Energy Supply Center in the Business Systems Management – Energy.

### Service Medical Activities Executing Organizations:

- Performed a decomposition of the Treasury report on receivables to determine what accounts receivables data are being reported in Defense Departmental Reporting System on a quarterly basis.
- On May 2, 2008, the Office of the Assistant Secretary of Defense (Health Affairs) issued the Defense Health Program Accounts Receivable Policy.

### 6b. Planned Milestones

Correction Target Date: 3<sup>rd</sup> Quarter, FY 2015

### Department of Air Force will:

- Develop and implement corrective actions recommended by Air Force Audit Agency.
- Complete the Air Force Smart Operations 21 rewrite of the Air Force instructions for completing the Tri-Annual Review to incorporate any necessary changes to existing Tri-Annual review processes to ensure compliance with DoDFMR Volume 3, Chapter 8.
- Review the system requirements and perform gap analysis on accounts receivable process model documents for the Enterprise Resource Planning solutions.
- Identify and test AFB-level controls over acceptance and recording of reimbursable orders in core financial systems.
- Identify and test AFB-level controls over fulfillment of reimbursable orders in core financial systems.
- Assess the accounts receivable systems to determine if the systems are capturing all the detailed transactions associated with an order for the life of an order.
- Assess the Air Force accounts receivables feeder systems ability to capture data attributes necessary for the identification and reconciliation of intragovernmental balances.
- Test and validate internal controls over the acceptance and fulfillment of reimbursable orders.
- Implement corrective actions for pricing strategy for sales to the Foreign Military Sales Trust Fund after discovery is complete.
- Complete the review and reconciliation of the Supply General Support Division account receivable balances.
- Perform internal control reviews to determine effectiveness of corrective actions.
- Test to validate foreign military sales accounts receivable.
- Conduct testing of all closed corrective actions by DFAS that validate the Air Force accounts receivables processes through Office of Management and Budget Circular No. A-123, Appendix A.
- Implement corrective actions and adjustments for the Supply General Support Division accounts receivable balances.

## Department of Defense Agency Financial Report for FY 2009

- Conduct testing of all closed corrective actions by DFAS which affect the Air Force accounts receivables processes. This will be accomplished through OMB Circular A-123, Appendix A, program year with internal control reviews, including various testing procedures, are performed to ensure corrective actions have been implemented and are effectively mitigating risk.
- Complete review and reconciliation of the Supply Material Support Division accounts receivable balances.
- Implement the Expeditionary Combat Support System Increment 1 Retail Material Management.
- Implement corrective actions and adjustments for the Supply Material Support Division account receivable balances.
- Implement the Expeditionary Combat Support System Increment 2 Air Logistics Center Supply.
- Complete review and reconciliation of depot maintenance accounts receivable balances for each of the Air Logistics Centers.
- Implement corrective actions and adjustments for the depot maintenance accounts receivable balances for each of the Air Logistics Centers.
- Implement the Expeditionary Combat Support System Increment 3 for depot maintenance.
- Test and validate internal controls for Air Force working capital fund accounts receivable financial disclosures.
- Analyze the Air Force implementation of the DoD Tri-Annual review requirements.
- Incorporate any necessary changes to existing Tri-Annual review processes to ensure compliance with the DoD Financial Management Regulation Volume 3, Chapter 8.
- Test and validate the Tri-Annual review process to ensure compliance with the DoD Financial Management Regulation Volume 3, Chapter 8.

### Service Medical Activities will:

- Sustain audit readiness and validate consistency with segment assertion schedule for Service Medical Activities consolidated balance sheet, per DoD Financial Improvement Business Rules.
- Based on successfully implemented systems change requests in Third Party Outpatient Collection System and other systems, gather billing data from Medical Service Accounts, Third Party Outpatient Collection System and Medical Affirmative Claims to determine if the outstanding bills are either recorded in the core accounting systems and/or reported on the Monthly Report on Debt and Treasury Report on Receivables.
- Implement subsidiary ledgers that are compliant with the generally accepted accounting principles and support the outstanding medical bills for Third Party Outpatient System, Medical Service Accounts and Medical Affirmative Claims at the Executing Organizations.
- Report whether the TRICARE Management Activity provides a policy for Service Medical Activity Executing Organizations to estimate an allowance for doubtful accounts.

### Department of Army reported will:

- DFAS will identify dollar amounts, number of line items, and types of receivables originating in system and identify corrective actions.

### Defense Logistics Agency will:

- Evaluated procedures used to perform internal reconciliations of the Defense Energy Supply Center revenue and accounts receivable. Developed and implemented standard operating procedures in the Business Systems Modernization – Energy.
- Develop test plans for the Fuels Automated System Enterprise Server and Defense Fuels Automated Management System reject/suspense corrections by Defense Fuel Support Points; conduct tests at Defense Fuel Support Point locations; and validate effective implementation of correction findings.
- Update procedures for generating and correcting errors relating to customer requisitions, passing and redistributing orders, and implemented training, as required. Office of Accountability will perform validation of compliance with procedures for addressing input errors related to order fulfillment.
- Ensure that the Defense Energy Support Center end of month fund balance is reconciled with the Treasury and that the balance is accurately entered in the Columbus Cash Accountability System. Implement standard operating procedures as required.
- Evaluate reconciliations of the Columbus Cash Accountability System and Treasury collections against Defense Fuels Automated Management System and Oracle General Fund billings' records and report of unmatched collections. Develop and implement standard operating procedures as required.
- Document and evaluate transactional and related controls, as well as overall functionality, of the following information systems: Defense Automated Addressing System (specifically for subsistence total orders); Receipt Electronic System; Fresh Fruit and Vegetables Order Receipt System; and Defense Medical

## Department of Defense Agency Financial Report for FY 2009

Logistics Support System. Test the functionality and update the standard operating procedures to include interfaces with related information systems during the evaluation of electronic mail and other processes related to order fulfillments 7096,74, 75, and 78.

- Develop documentation in sufficient detail to address edit checks over signal codes and shipment confirmations for the Order Fulfillment 167 interface. Document the identifier code for the “post – post” transactions into the financial system, test functionality and implement.
- Develop documentation to describe controls for customer setup and processes related to the Order Fulfillment 55 interface; implement controls as appropriate; and test functionality.
- Develop documentation in sufficient detail to address customer funds availability included in partial payment and order processing. Test functionality and implement.
- Conduct agency validation.
- Verify that the transfer of interfund collections to DFAS-Indianapolis is reconciled with Defense Fuels Automated Management System and Oracle General Fund Interfund Collections Report.
- Validate that the Intragovernmental Payment and Collection System is correctly identifying errors in collection data and are corrected by DFAS-Columbus. Develop and implement standard operating procedures as required. This corrective action requires support from DFAS
- Evaluate procedures to verify that the DoD Activity Address Codes are valid. Update procedures as required.
- Ensure journal vouchers are for the correct amounts and approved prior to entry into Oracle General Fund. Implement standard operating procedures as required.
- Evaluate and develop Defense Energy Support Center Inventory Division standard operating procedures for the suspense report error research and customer review.
- Document the Fuel Enterprise Server and the Defense Fuels Automated Management System data validation and format edit checks process on fuels sales and returns from the Fuels Control Center and the Fuels Manager Defense. Validate effective documentation of system data.
- Validate accounts receivable process.

### 7. Inventory Valuation

*Description of Issue:* The DoD is unable to accurately account for, value, and report inventory on DoD’s financial statements in accordance with generally accepted accounting principles.

#### 7a. Completed Milestones

##### Defense Logistics Agency:

- Reconciled financial inventory barrels with supply inventory barrels on a monthly basis in the Business System Modernization – Energy.
- Identified discrepancies and causes for imbalances between supply and financial inventory barrels on a monthly basis in the Business System Modernization – Energy.
- Resolved imbalances noted as appropriate, i.e., system correction, journal voucher, or process change in the Business System Modernization – Energy.
- Reconciled supply inventory quantity in the Oil Energy Downstream and Defense Fuels Automated Management System with the Fuels Automated System Enterprise Resource Planning Server as part of the Business System Modernization – Energy monthly.
- Identified discrepancies and causes for any imbalance between quantities in the Oil Energy Downstream, Defense Fuels Automated Management Systems and Fuels Automated System Enterprise Server and in the Business System Modernization – Energy monthly.
- Resolved imbalances noted as appropriate, i.e., system correction, journal voucher or process change in the Business System Modernization – Energy.
- Demonstrated the audit trail which includes supporting sales to accounts receivable and receipt to accounts payable Business System Modernization – Energy.
- Developed system reports and queries as required in the Business System Modernization – Energy.
- Developed additional business rules, process papers, and job aids for correcting failed information documents.
- Established a systemic prioritization process that included the dollar value of the failed information document.

## Department of Defense Agency Financial Report for FY 2009

- Worked with OSD Inventory Working Group to establish policy and a process for adequate internal controls to value excess inventory in accordance with accounting standards.
- Reported that OSD wrote new Net Realizable Value policy and was coordinating it with the Services and DoD IG.
- Updated policy changing process and DLA processes changed to value excess inventory at net realizable value.
- Reviewed current reconciliation controls and procedures.
- Reviewed and documented the in-transit process.
- Reviewed the current reconciliation controls and procedures between subsidiary ledgers and general ledger balances provided by DFAS – Columbus for DNSC, DAPS, and DESC. Requested that a subsidiary ledger be created that will accomplish the reconciliation between the subsidiary ledgers and the general ledger to Enterprise Business System.
- Using DLA Research and Resource Analysis quarterly data for all Non-Distribution Standard System inventory on hand balances, cost of goods sold and sales data for FY 2008, concluded that an accurate comparison could not be made due to differences in individual valuation methodologies, reporting frequencies, etc.
- Obtained current individual balances from Enterprise Business System to identify the major vendor managed inventory and other Non-Distribution Standard System sites. Selected candidate sites for accomplishing walkthroughs to determine individual systems, processes and frequencies used to report transactions to Enterprise Business System and ascertain any existing reconciliation processes.
- Finalized the inputs for a system change request for the required data elements for an in-transit report.
- System change requests submitted for detail posting and aging of in-transits.

### Department of Air Force:

- Completed the OMB, Circular No. A-123, Appendix A, implementation requirements. The process involved flowcharting and narrating the inventory process, performing risk assessments and developing and executing test plans to test existing controls.
- Held an inventory in-transit workshop at Air Force Material Command headquarters.
- Implemented system change requests which will record all issues and receipts to history. Used this history to help identify problems in the in-transits between the Standard Base Supply System and the Stock Control System.
- Identified all systems that report inventory to the financial systems.
- Established a joint inventory in-transit working group of functional experts to develop a roadmap for corrective actions.
- Researched and mapped inventory in-transit process segments from “procurement to disposal” of an asset.
- Identified which logistical and financial systems should be responsible for reporting in-transit quantities and values.

### Department of the Army:

- Published implementation guidance.

<b>7b.</b>	<b>Planned Milestones</b>	Revised Correction Target Date: 3 <sup>rd</sup> Quarter, FY 2016
------------	---------------------------	---

### Defense Logistics Agency will:

- Perform walkthroughs of selected Vendor-Managed Inventory and other non-Distribution Standard System sites.
- Complete reconciliation steps for in-transit inventory.
- Develop standard operating procedures to document reconciliation steps noted above.
- Ensure cumulative trial balance inventory value is fully supported.
- Provide necessary training to all resolution specialists.
- Establish standard operating procedures that implement an auditable process to value excess material at Net Realizable Value in coordination with OSD.
- Compile the universe of systems outside of Distribution Standard System that interface with Enterprise Business System at the Inventory Control points and reconcile results of walkthroughs at non-Defense Security Service sites to Enterprise Business System inventory.

## Department of Defense Agency Financial Report for FY 2009

---

- Establish standard operating procedures that implement an auditable and sustainable process to reconcile subsidiary ledgers for material Vendor-Managed Inventory and other Non-Distribution Standard System sites having material balances with the general ledger summary.
- Completed the programming for system change requests.
- Validate the internal controls in the Business System Modernization – Energy System.
- Develop, implement and document the automated controls for interfaces.
- Reinforce oversight procedures that currently exist or establish oversight procedures where a supervisor reviews the work of a resolution specialist to ensure failed information documents are corrected accurately and timely.
- Commence generation of in-transit reports.
- Validate procedures to ensure an auditable in-transit inventory process with adequate controls.
- Validate reconciliation procedures to ensure that accurate and supportable values are reported on financial statements.
- Test functionality of existing and newly developed automated controls, business rules, process papers and job aids.
- Validate to ensure automated and manual controls are working as designed.

### Department of Air Force will:

- Conduct joint inventory in-transit working group to research and analyze transactions for in-transits.
- Analyze and test internal controls within the in-transit process segments in legacy systems.
- Complete necessary corrective actions in legacy environment as determined by OMB Circular No. A-123 testing and corrective action plans.
- Conduct internal control reviews to ensure corrective actions taken to date are effective.
- Develop internal controls and improve audit trails over in-transit inventory.
- Implement the Expeditionary Combat Support System.
- Test and validate internal controls for Air Force Working Capital Fund Accounts Payable financial disclosures.

### Department of Navy will:

- Issue clarification guidance for definition of inventory, procedures for special operational situations, and Work-in-Progress; and identify inventory of built for service assets and the proper costing and accounting treatment.
- Deploy Enterprise Resource Planning for Naval Expeditionary Combat Support System – Phases I and 2; and the Deployment of Navy Enterprise Resource Planning release 1.1.
- Complete review, correction or modification and documentation of business and financial processes.
- Cleanse and migrate data to Navy Enterprise Resource Planning, correct inventory accuracy at Aviation Materials, inventory existence at Sea Materials, and inventory valuation.
- Implement the direct method of valuing Depot Level Repairable and proper U.S. Standard General Ledger (USSGL) accounting for inventory.
- Require Naval Surface Warfare Center, Naval Undersea Warfare Center, and Commander of Fleet and Industrial Supply Center to maintain source documentation to permit the tracing of transactions in a manner that provides clear and precise audit trails to support the financial information reported on the financial statement.
- Develop auditable opening balances with appropriate supporting documentation readily available for auditors.
- Complete test of design and test of effectiveness; design tests using the OMB Circular No. A-123, Appendix A, guidance; perform tests; analyze and summarize results; and define and report weaknesses, if any were identified by tests.
- Complete verification and validation and complete the Department of the Navy's management assertion of audit readiness.

### Department of Army will:

- Perform physical inventory counts in accordance with the Army Regulation 740-26 and other applicable guidance.
- Ensure adherence to governance requirements for field level physical inventory process.
- Achieve full operational capability of the Logistics Modernization Program.



## Department of Defense Agency Financial Report for FY 2009

- Achieve full operational capability of General Fund Enterprise Business System.
- Report inventory and related property in accordance with a sustainable business process.
- Achieve full operational capability of Global Combat Support System – Army for General Fund and Working Capital Fund.
- Complete the internal validation of inventory and related property performed by Army Audit Agency.

### 8. Operating Materials and Supplies

*Description of Issue:* The DoD cannot accurately account for the value of operating material and supplies, which causes the potential for a misstatement in financial reporting.

#### 8a. Completed Milestones

##### Department of Air Force:

- Implemented the “Spares – The Moving Average Cost” unit cost correction process within the Stock Control System, Financial Inventory Accounting and Billing System and the Standard Base Supply System to retroactively correct unit cost values.
- Established baseline values for uninstalled intercontinental ballistic missile motors tracked in the accountability system integrated missile database.
- Researched the acquisition cost reporting policy for drones, cruise missiles, engines, and missile motors.
- Developed new policy regarding drones, cruise missiles, engines, and missile motors acquisition cost reporting and implemented applicable Air Force instructions. This includes the tracking of cost information subsequent to the establishment of baseline values and capturing accurate cost data for assets in the systems that were acquired during the interim period.

##### Department of Army:

- Provided guidance for establishing the value of operating materials and supplies using a historical cost method.
- Provided policy for valuation of operating expenses associated with consumption of operating materials and supplies in normal operations.
- Provided guidance for reporting excess, obsolete and beyond repair of operating material and supplies.
- Incorporated the revised historical cost valuation policy using the consumption method for operating material and supplies according to DoDFMR 7000.14-R.
- Provided guidance for establishing the inventory baseline, i.e., an acceptable value for on-hand operating material and supplies at the time systems are converted to a historical cost method.

##### Department of Navy:

- Identified plans for the Ordnance Information System to fully comply with applicable laws and regulations.
- Correctly reported and disclosed FY 2005 prior period adjustment of \$106 million.
- Maintained readily available audit trails and documentation to support all Navy submissions for the Department of Navy Financial Statements.
- Established requirements for desktop procedures and documented supervisory reviews for all financial data.
- Developed comprehensive memoranda of agreement in sufficient detail to ensure that mission-critical support functions are agreed to by activities providing those services.
- Required that segregation of duties be implemented in the Ordnance Information Systems development effort.
- Analyzed the deposition of legacy information system.

##### United States Special Operations Command:

- Conducted site visits to Components and confirmed operating materials and supplies.
- Developed procedures to request operating materials and supplies information to be included in financial statements.

## Department of Defense Agency Financial Report for FY 2009

<b>8b.</b>	<b>Planned Milestones</b>	Revised Correction Target Date: 2 <sup>nd</sup> Quarter, FY 2015 <ul style="list-style-type: none"><li>(Although some components corrective actions extend to the 2<sup>nd</sup> Quarter, FY 2019, the Senior Assessment Team considers these actions immaterial to DoD Financial Statement line for operating materials and supplies).</li></ul>
<b>Department of Air Force will:</b>		
<ul style="list-style-type: none"><li>Test internal controls for District Contingency Engineering Manager to ensure that corrective actions have been effectively implemented.</li><li>Establish baseline values for spares within Standard Base Supply System and Supply Control System.</li><li>Test internal controls for spares to ensure that corrective actions have been effectively implemented.</li><li>Establish auditable baseline values for munitions assets.</li><li>Implement the Expeditionary Combat Support System for munitions.</li><li>Test internal controls to ensure that corrective actions have been effectively implemented within the Expeditionary Combat Support System for munitions.</li></ul>		
<b>Department of Navy will:</b>		
<ul style="list-style-type: none"><li>Analyze and confirm which operating material and supply systems will be replaced by Enterprise Resource Planning and which will remain as legacy systems.</li><li>Complete deficiency correction actions identified in 2007 by Naval Audit Service in Department of Navy legacy operating material and supply systems.</li><li>Identify legacy information systems which are candidates for conversion and or migration into Navy Enterprise Resource Planning.</li><li>Perform data mapping from legacy environment to Navy Enterprise Resource Planning.</li><li>Deploy the Enterprise Resource Planning for Naval Supply Phases – 1 and 2.</li><li>Issue clarification guidance for the definition of inventory, procedures for special operations situations, work-in-progress, and identify inventory of built for service assets and the proper costing and accounting treatment.</li><li>Determine Enterprise Resource Planning strategy and solution to address appropriation purchase account material, property in the possession of contractors, and residual material; issue clarification guidance for definition of operating material and supplies; and deploy Navy Enterprise Resource Planning Release.</li><li>Complete the preparation activities for the Material Management Pilot.</li><li>Analyze the impact on legacy information systems and finalize implementation strategy of material management pilot.</li><li>Deploy of the Navy Enterprise Resource Planning Release 1.1.</li><li>Complete review, correction or modification, and documentation of the business and financial processes.</li><li>Implement the “to-be” process in accordance with implementation strategy.</li><li>Cleanse and migrate data to the Navy Enterprise Resource Planning to correct identified deficiencies related to inventory, such as accuracy for aviations materials, inventory existence of inventory at sea materials, and valuation.</li><li>Require Naval Surface Warfare Center, Naval Undersea Center, and Commander of Fleet and Industrial Supply Center to maintain source documentation to permit the tracing of transactions in a manner that provides clear and precise audit trails to support the financial information reported on the financial statement.</li><li>Implement the direct method of valuing depot level repairable and proper USSGL accounting for inventory.</li><li>Develop auditable opening balances with appropriate supporting documentation readily available for auditors.</li><li>Complete the test of design and test of effectiveness, design tests using OMB Circular No. A-123, Appendix A, guidance, perform tests, analyze and summarize results, define, and report weaknesses, if any identified by tests.</li><li>Complete management assertion for operating material and supplies.</li></ul>		

## Department of Defense Agency Financial Report for FY 2009

- Interface legacy systems with Enterprise Resource Planning and design and implement interfaces between legacy systems and Enterprise Resource Planning; and confirm the “to-be” processes in Navy Enterprise Resource Planning.
- Evaluate pilot results and Enterprise Resource Planning functionality to remaining command functional requirements.
- Implement “to-be” environment and deploy operating material and supplies process for the following commands: Naval Air, Naval Sea, and Space and Naval Warfare Systems Command.
- Complete test of design and test of effectiveness, design tests using OMB Circular No. A-123, Appendix A guidance, perform tests, analyze and summarize results to define and report weaknesses (if any were identified by tests).
- Complete verification and validation for operating material and supplies
- Complete management assertion for operating material and supplies of general fund.
- Identify operating materials and supplies holders throughout Navy and implement sample methodology to sustain data quality.

### United States Special Forces Command will:

- Study new Special Operations Tactical Asset Visibility System to see if it captures all values for operating material and supplies.
- If Special Operations Tactical Asset Visibility System does not meet the need, ask Special Operations Command management to require a quarterly operating material and supplies data call from Components.
- Discover the capabilities of the Enterprise Resource Planning that the services implemented and developed relating to the policies and processes in gathering and compiling required component information.
- Implement procedures for components to report amounts for operating material and supplies.
- Prepare and submit audit readiness package to DoD IG and OUSD(C).
- Conduct internal DoD IG assessment of audit readiness.
- Complete independent audit.

### Department of Army will:

- Perform physical inventory counts in accordance with the Army Regulation 740-26 and other applicable guidance.
- Ensure adherence to governance requirements for field-level physical inventory process.
- Achieve full operational capability of Logistics Modernization Program.
- Obtain full operational capability of General Fund Enterprise Business System, and Global Combat Support System.
- Complete internal validation of inventory and related property conducted by Army Audit Agency.

## 9. Accounts Payable

*Description of Issue:* The DoD does not have adequate internal controls in place to provide assurance that accounts payable are identified and properly reported in its financial reports.

### 9a. Completed Milestones

#### Defense Intelligence Agency:

- Documented the current “as-is” processes for training, travel, government purchase cards, civilian pay, acquisitions, and manual payables.
- Documented the “to-be” processes for training, travel, government purchase cards, civilian pay, acquisition under the new National Security Agency’s Financial Accounting and Corporate Tracking System.
- Developed a methodology to detect abnormal balances in the current environment.
- Implemented the Financial Accounting and Corporate Tracking System.
- Reviewed the documentation of the process for manual payables under Financial Accounting and Corporate Tracking System.

## Department of Defense Agency Financial Report for FY 2009

### National Security Agency:

- Evaluated service of accrual options.
- Selected accrual methodology to document expense transactions.
- Received senior management approval for accrual methodology.
- Developed remediation plan related to goods and services.
- Developed the “to-be” process and internal controls.

### Defense Security Service:

- Improved current accounts payable process to include documentation and internal communication for the obligation of funds.
- Documented the Defense Security Service accounts payable policies and procedures for the commitment and obligation process.
- As part of Defense Security Service Tri-Annual Review process, reviewed outstanding intragovernmental obligations.
- Identified accountability and oversight features in the Tri-Annual Review as related to intragovernmental accounts payable.
- Assigned responsibility for daily review of the open document listing.
- Decomposed the procure-to-pay process business cycle for the confirm receipt and acceptance process to the second level.
- Determined types of obligations and contracting vehicles.
- Determined types of services and goods.

### Department of Air Force:

- Completed flow chats, narratives of the accounts payable process, risk assessments, and developed and executed test plans.
- Analyzed results and developed corrective action plans for reporting in the FIAR Tool.
- Requested DFAS initiate system change requests to the UNISYS Revalidation Module to prevent hanging and invalid accrued expenditures that are unpaid.
- Reviewed Tri-Annual Review Guidance and confirmed compliance with DoDFMR, Volume 3, Chapter 8.
- Coordinated with Defense Finance Accounting Service to ensure system change request to the UNISYS Revalidation Module was complete. Performed the validation testing by testing accounts payable transactions to ensure payable was liquidated during the recording of expenditures.
- Performed testing of internal controls of accounts payables, including the validation of accruals and the existence of supporting documentation.
- Tested to ensure that dormant buyer obligation and payable balances were monitored and follow-up action accomplished, as prescribed in the Office of Budget and Management Memorandum 07-03 Intragovernmental Business Rules.
- Tested the Mechanization of Contract Administration Service accounts payable accrual process, as implemented by DFAS to ensure accuracy and validity of Air Force financial reporting.
- Implemented the open document analysis component of the financial management suite to aid financial analysts in the review and reconciliation of open document items during the Tri-Annual Review.
- Reviewed and analyzed the results of Air Force Audit Agency audit on the overall health of the accounts payable process.
- Analyzed feeder systems against the OUSD(C) memorandum to determine where gaps existed for the identification and use of required order data for the core accounting system.
- Modified Air Force policy and procedures to reflect the transaction data in compliance with OUSD(C) memorandum of revised intragovernmental business rules regarding trading partners.
- Ensured a dispute resolution process was implemented with trading partners as directed by OUSD (C).
- Analyzed the Air Force implementation of DoD Tri-Annual Review requirements. Incorporated necessary changes to existing the Tri-Annual review processes to ensure compliance with DoDFMR Volume 3, Chapter 8.
- Tested the Mechanization of Contract Administration Service accounts payable accrual process as implemented by DFAS to ensure accuracy and validity of Air Force financial reporting.

## Department of Defense Agency Financial Report for FY 2009

### Department of Navy:

- Documented and implemented revised guidance to clarify accrual policies and procedures.
- Supporting documentation for allocated amounts not readily identifiable.
- Corrected auditor reported deficiencies in problem disbursements, unmatched collections, lack of standardized processes, and lack of supporting documentation.
- **Designed tests using OMB Circular No. A-123, Appendix A guidance.**

**9b.**

### Planned Milestones

Correction Target Date: 3<sup>rd</sup> Quarter, FY 2015

- (Although some component corrective actions extend to 2<sup>nd</sup> Quarter, FY 2019, the DoD Senior Assessment Team considers these actions immaterial to DoD Financial Statement line for accounts payable).

### National Security Agency will:

- Determine effectiveness of process testing.
- Develop policies and procedures for accounts payable.
- Implement revised business processes.

### Defense Intelligence Agency will:

- Review documentation of the processes for training, travel, government purchase cards, civilian pay, and acquisitions under the Federal Agencies' Centralized Trial-Balance System.
- Resolve abnormal balances.
- Implement business process improvements.

### Defense Logistics Agency will:

- Identify existing control documentation and evaluate the extent of the controls that have been documented to ensure that: unauthorized users can not access Bulk Ports without proper authorization; a sufficient level of detail is embedded in the available documentation to address the Fuels Automated System Enterprise Server edit checks; a sufficient level of detail is in the available documentation to address the Defense Fuels Automated Management System edit checks, when Constellar receives the daily purchase order data from Bulk Ports; a sufficient level of detail is available in the documentation to address the Constellar edit checks, when Constellar receives electronically signed receipt data from Bulk Ports; and a sufficient level of detail is available in the documentation to address the Bulk Ports edit checks for the Business System Modernization – Energy.
- Identify existing control documentation and evaluate the extent of the controls that have been documented to ensure unauthorized users cannot access bulk ports without proper authorization and that there is a sufficient level of detail in the available documentation to address the required management edit checks for the Business System Modernization – Non Energy.
- Identify where control gaps exist in the control process; develop, implement and document the controls; and test the functionality of existing and newly developed controls for the Business System Modernization – Energy and Non Energy.
- Identify existing control documentation and evaluate the extent of the controls that have been documented to ensure that: there is a sufficient level of detail in the available documentation to address the Defense Funds Automated System edit checks, when the daily purchase order file is received from Bulk Ports; there is a sufficient level of detail in the available documentation to address the Defense Funds Automated System edit checks, when Defense Funds Automated System receives electronically signed receipt data from Bulk Ports Business System Modernization – Energy.
- Identify where control gaps exist in the control process; develop, implement and document the controls; and test the functionality of existing and newly developed controls for the Business System Modernization – Energy.
- Identify existing control documentation and evaluate the extent of the controls that have been documented to ensure a sufficient level of detail in the available documentation for: the Vendor Maintenance File; the generation of document numbers; and the two and three way match for the Business System Modernization – Energy and Non Energy.
- Identify existing control documentation and evaluate the extent of the controls that have been documented to ensure there is a sufficient level of detail in the available documentation in the Vendor Maintenance File and to address: electronic mail, substance total order and receipt electronic system, fresh fruit and

## Department of Defense Agency Financial Report for FY 2009

vegetables ordering system, and Defense Medical Logistics Standard Support edit checks for the Business System Modernization – Non Energy.

- Identify where controls are not documented and develop documentation that describes controls to appropriate levels. Where control gaps exist in the control process, develop, implement, and document the controls; test the functionality of existing and newly developed controls for the Business System Modernization – Energy and Non Energy.
- Validate the Defense Agency Business System Modernization – Non Energy.
- Evaluate and develop the Defense Energy Support Center - Financial standard operating procedures for suspense error research and customer review for the Business Systems Modernization – Energy.
- Document the data validation of the Fuels Automated System Enterprise Server and Defense Fuels Automated Management System; conduct format edit checks on fuel purchases from Fuels Control Center – Fuels Manager Defense; and validate the effective documentation of the Fuels Automated System Enterprise Server and Defense Fuels Automated Management System data validation process.

### Department of Navy will:

- Submit completed validation of packages to Financial Management Office.
- Perform Phase I testing on key controls.
- Complete corrective actions for process definition, system configuration and change management.
- Complete data cleansing and correct any material deficiencies of the pre-Enterprise Resource Planning implementation.
- Implement the Navy Enterprise Resource Planning at Navy inventory control point.
- Test the design and effectiveness of internal controls.
- Verify and validate through audit of substantive testing.
- Discover and document the procure-to-pay process.
- Correct material deficiencies of the Post-Enterprise Resource Planning implementation.
- Complete the systems assessment.
- Complete the internal validation of systems and validation of financial statements.
- Submit completed validation of packages to Financial Management Office.
- Assert audit readiness for accounts payable.

### Department of Air Force will:

- Develop and implement corrective actions recommended by Air Force Audit Agency.
- Rewrite the Air Force instructions on how to complete the Tri-Annual Review, incorporating any necessary changes to the existing Tri-Annual review processes that may occur when implementing the Open Document Analysis Tool and complying with DoDFMR Volume 3, Chapter 8.
- Create a test plan for the Mechanization of Contract Administration Service accounts payable accrual process. The test will ensure the accuracy and validity of Air Force financial reporting.
- Perform internal control reviews to determine the effectiveness of corrective actions.
- Complete testing the validity of general funds, public accounts payable that support the documentation.
- Test and validate the internal controls for intragovernmental trading partner eliminations and the reconciliation of the open document listing to ensure accuracy and completeness.
- Complete the journal voucher review process and test for intragovernmental supporting documentation.
- Complete the review and reconciliation of the Supply General Support Division accounts payable balances.
- Implement corrective actions and adjustments for the Supply General Support Division accounts payable balances.
- Complete the review and reconciliation of the Supply Material Support Division accounts payable balances.
- Conduct testing of all closed corrective actions by DFAS which affect the Air Force accounts payable processes.
- Implement the Expeditionary Combat Support System for retail material management.
- Implement corrective actions and adjustments for the Supply Material Support Division accounts payable balances.
- Implement the Expeditionary Combat Support System for Air Logistics Center Supply.
- Complete review and reconciliation of depot maintenance accounts payable balances for each of the Air Logistics Centers.

## Department of Defense Agency Financial Report for FY 2009

- Implement corrective actions and adjustments for the depot maintenance accounts payable balances for each of the Air Logistics Centers.
- Implement the Expeditionary Combat Support System Increment 3 Depot Maintenance.
- Test and validate internal controls for Air Force Working Capital Fund accounts payable financial disclosures.

### Defense Security Service will:

- Review and reconcile trading partner data to validate the elimination data for accounts payable, which is a joint effort with DFAS.
- Establish a schedule for actions related to the review of trading partner balances that support the quarterly audited financial statements as of the cut-off date.
- Add responsibility for capturing and maintaining intragovernmental transaction history.
- Document the “procure-to-pay” business cycle.

### Defense Finance and Accounting Service will:

- Perform data cleansing in the Mechanization of Contract Administration Service for periods 1 and 2.
- Perform a complete Mechanization of Contract Administration Service clean-up at transaction level.
- Maintain and modify standard procedures for reconciling accounts payable; perform a thorough data analysis; and evaluate Wide Area Work Flow process to ensure timely receipt and posting of the accrual in the accounting records for the Department of the Army.

### Department of Army will:

- Achieve full operational capability of Logistics Modernization Program and General Fund Enterprise Resource Planning Business System.
- Determine if the entitlement system has the ability to appropriately age accounts payable; and determine changes needed to bring non-aging systems into aging status for the Department of the Army.
- Conduct internal validation of accounts payable.

### Service Medical Activities will:

- Ensure that each Service Medical Activities Component gathers transactional data for their top five trading partners and seek reconciliation with trading partner records.
- Sustain audit readiness and validate consistency with assertion schedule for Service Medical Activities Consolidated Balance Sheet, in accordance with DoD Financial Improvement Business Rules.

### National Security Agency will:

- Evaluate the accounts payable process.

### United States Special Operations Command will:

- Discover processes used to report accurate accounts payable information.
- Implement procedures to identify component level accounts payable balances and test procedures used to identify accounts payable balances.
- Correct deficiencies found in procedures for accounts payable balances.
- Prepare and submit audit readiness package.
- Conduct internal DoD IG assessment of audit readiness.
- Review processes annually until audited.
- Complete independent audit.

### Defense Intelligence Agency will:

- Implement full accrual accounting.
- Reconcile the documents, accounting system, and accounts payable database.
- Establish and document processes for ensuring sufficient audit trails, and issue requirements for supporting documentation.
- Conduct training for accounts payable staff on all written procedures and process flows.
- Complete internal control self-assessment to validate adherence to written procedures.
- Ensure continued monitoring and reconciliation of detailed transactions to corresponding general ledger account balances.

**10. Valuation of General Personal Property - General Purpose Equipment**

*Description of Issue:* The Department does not currently meet Federal Accounting Standards for the financial reporting of general personal property, specifically general equipment. The Department is not able to accurately report the financial value of general equipment, which is a factor in the Department's inability to obtain an unqualified audit opinion on its annual financial statements.

**10a. Completed Milestones**

**Defense Intelligence Agency:**

- Developed a corrective action plan that includes required steps to attain accountability and auditability, target dates for actions, and performance metrics that address real property, personal property, software, systems and government furnished property.
- Developed supporting documentation requirements. Trained property book officers to maintain complete personal property capital asset folders.
- Developed real property baseline data as of September 30, 2006. Identified documentation support requirements and established real property capital assets folders that include construction-in-progress data.
- Developed and tested a system and software checklist to ease identification of accountable items that should be replaced under record control.
- Modified the Property Accountability Support System to accept data from the Systems Asset Property.
- Developed and issued Defense Intelligence Agency Instruction 4000.001, "Property Accountability and Management".
- Developed an item unique identification implementation strategy.
- Completed the standard operating procedure for reporting real property financial data in September 2007 providing procedures for both real property financial reporting and property management.
- Documented 95 percent of Defense Intelligence Agency's baseline personal property assets.
- Completed 66 percent of DoD IG findings and recommendations related to Chief Financial Office compliance for property plant and equipment.
- Developed and coordinated an alternative valuation methodology for capital assets.
- Completed all requirements for heritage asset reporting for Defense Intelligence Agency financial statements.
- Completed a study and developed and implemented written standard operating procedures for reporting deferred maintenance on real and personal property.
- Achieved approximately 90 percent preponderant use reconciliation with the military services.
- Reported deferred maintenance on personal property in the FY 2008 financial statements.
- Initiated implementation of item unique identification strategy for property in the possession of contractors, formally referred to as government furnished equipment.
- Issued acquisition policy memorandum requiring the inclusion of item unique identification clauses in applicable Defense Intelligence Agency contracts.
- Posted the real property subsidiary ledger to the general ledger.
- Developed a revised training program for all employees for property accountability.
- Drafted management instructions and procedures for capital personal property.
- Initiated quarterly reviews of the property accountability support system to ensure a minimum of 75 percent accuracy of all capital assets associated inventory and cost date.
- Documented and reported leasehold improvements to real property placed-in-service in FY 2008.
- Drafted procedures to identify and report internal use software.

**National Security Agency:**

- Worked with personnel to audit property accountability; conducted a physical inventory; initiated the use of Defense Property Accountability System to manage property; and ensured compliance with all applicable regulations.
- Obtained corporate funding support and hired contractors to work on remediation activities to ensure sustainment of auditable activities.



## Department of Defense Agency Financial Report for FY 2009

- Developed and implemented standard operating procedures covering all property plant and equipment activities with the exception of Government Furnished Equipment.
- Developed and instituted a compressed schedule for property plant and equipment inventory activities.
- Determined the scope of real property, which established the correct association of real property assets with agency elements.

### National Geospatial-Intelligence Agency:

- Finalized business process narratives and corresponding flow charts.
- Performed risk assessment and internal control testing for property, plant, and equipment and personal property, including funds execution and financial reporting.
- Implemented an action plan to place reporting requirements on Military Interdepartmental Purchase Requests.
- Revised existing property, plant and equipment policies.
- Developed request for change for issuance to all National Geospatial-Intelligence Agency contractors to obtain estimated impact and cost to implement property, plant, and equipment financial reporting on existing contracts.

### Defense Logistics Agency:

- Completed standard operating procedures for capital-funded contractor-developed Internal Use Software.

### Department of Navy:

- Defined audit-ready financial environment for the Integrated Financial Management System by communicating and distributing “acquire to retire” audit readiness.
- Identified known weaknesses.
- Documented effective controls and prioritized control weaknesses.
- Conduct a gap analysis for the following Commands: Bureau of Medicine and Surgery; Bureau of Naval Personnel; Commander, Navy Installations Command; U.S. Fleet Forces Command; U.S. Pacific Fleet; Navy Sea Systems Command; Office of Naval Research; Space and Naval Warfare Systems Command; and Special Warfare Command.

### Department of Army:

- At USACE, provided training to all Chief Financial Office leaders and Finance and Accounting Officers for the implementation of corrective action plans.
- Executive Senior Assessment Team met to oversee and provided guidance in implementation of corrective action plan.

<b>10b. Planned Milestones</b>	<p>Revised Correction Target Date: 4<sup>th</sup> Quarter, FY 2013</p> <ul style="list-style-type: none"> <li>• (Although the Senior Assessment Team reports the projected correction date as 4<sup>th</sup> Quarter, FY 2013, some Components have actions extending out to 2<sup>nd</sup> Quarter, FY 2019, but the Senior Assessment Team considers these actions immaterial.)</li> </ul>
--------------------------------	--

### Defense Security Service will:

- Align processes and standardize roles and responsibilities across Defense Security Service.
- Perform a walkthrough of each property, plant and equipment cycle process.
- Perform a risk analysis of the key control points identified.

### Department of Navy will:

- Implement system changes for Wide Area Work Flow and Defense Property Accountability System interface, create DoD Activity Address Code table, and update receipt and acceptance policy and procedures.
- Monitor and disseminate Navy Enterprise Resource Planning impact on general equipment process and controls.
- Update physical inventory policy and procedures.

## Department of Defense Agency Financial Report for FY 2009

- Train responsible parties for the receipt and acceptance process and controls, complete receipt and acceptance manual and systemic controls, implement the general equipment key controls; and complete the transfer of equipment using Wide Area Work Flow and Defense Property Accountability System interface.
- Execute receipt and acceptance corrective actions and implement receipt and acceptance manual controls utilizing the Wide Area Work Flow and Defense Property Accountability System interface.
- Execute proper financial accounting treatment for assets corrective actions. Measure proper financial accounting treatment for assets performance and monitor and disseminate performance metrics on period.
- Train responsible parties for valuing equipment; complete valuation manual controls; implement general equipment key controls and financial reporting key controls.
- Train responsible parties for the physical inventory process and control; identify baseline inventory performance; create Defense Property Accountability System service records for found equipment; and complete annual cyclical inventory performance.
- Measure receipt and acceptance performance and monitor and disseminate performance metrics.
- Execute valuation corrective actions by implementing valuation controls.
- Measure the physical inventory performance and monitor and disseminate performance metrics.
- Test the receipt and acceptance performance by developing methodology, testing samples, and control effectiveness.
- Test proper financial accounting treatment for assets performance by developing methodology and testing samples and the effectiveness of controls.
- Measure validation control effectiveness, monitor, and disseminate performance metrics on period.
- Complete receipt and acceptance corrective action by identifying control test failures, determining cause of failure, retraining, and retesting.
- Test "valuation" performance by developing methodology and testing samples, and control effectiveness.
- Complete proper financial accounting treatment for assets corrective action by identifying control test failures, determining cause of failure, retraining, and retesting.
- Test a physical inventory performance by developing methodology, and testing samples and control effectiveness.
- Complete valuation corrective action by identifying control test failures, determining cause of failure, retraining, and retesting.
- Complete physical inventory corrective action by identifying control test failures, determining cause of failure, retraining, and retesting.
- Execute physical inventory corrective actions, perform annual and cyclical inventories.
- Complete mock audit and/or final testing for corrective actions to perform an end-to-end test process to include procurement and contracting. Perform a property accountability testing to include the following: receipt and acceptance, physical inventories, transfers, loans, disposals, and property accountability testing and correct and retest, as necessary.
- Complete test of design and test of effectiveness. Design tests using OMB Circular No. A-123, Appendix A, guidance; perform tests; analyze and summarize results; and define and report weaknesses, if any were identified by tests.
- Complete the verification and validation and management assertion.

### Department of Army will :

- Identify requirements to accurately report general equipment.
- Conduct follow-up audit of implemented corrective actions for Property Book Unit Supply Enhanced.
- Obtain Army Audit Agency certification that Property Book Unit Supply Enhanced complies with all identified requirements based on the current versions of the DFAS Blue Book and the Federal Financial Systems Integration Office.
- Implement sustainable business processes to report general equipment.
- Report general equipment in accordance with a sustainable business processes.
- Validate auditability of general equipment.
- Formally request for Federal Financial Management Improvement Act compliance re-audit on Property Book Unit Supply Enhanced from Army Audit Agency.
- Ensure the USACE Internal Review Office performs monthly testing.
- Ensure that an independent public accountant performs year-end testing of the USACE.

## Department of Defense Agency Financial Report for FY 2009

- Continue monitoring and testing by Internal Review Office of the USACE.

### Defense Intelligence Agency will:

- Issue management instructions and procedures for personal property.
- Complete the item unique identification strategy for marking legacy items.
- Implement revised training program for property accountability.
- Identify, inventory, and record property in the possession of contractors.
- Initiate implementation of asset management system.
- Initiate implementation of Supply Chain Management System.
- Initiate internal assessment and validation of real property.
- Complete Real Property and Internal Use Software and Systems remediation.
- Complete the full implementation of Asset Management and Supply Chain Management Systems. Complete personal property remediation.
- Obtain clean audit opinion on property plant and equipment.

### National Security Agency will:

- Research the acquisition and government furnished property and document a process to account for all agency-owned assets not currently collected in Defense Property Accountability System.
- Will issue assertion that the property plant and equipment process is ready to be audited.
- Coordinate with personnel at selected sites to audit property accountability; conduct a physical inventory, initiate use of the Defense Property Accountability System to manage property; and ensure compliance with all applicable regulations.
- Develop and implement a comprehensive, automated, portable computing device solution designed to ensure 100 percent accountability of all Agency-owned portable computing devices.

### National Geospatial-Intelligence Agency will:

- Develop new control activities to satisfy control objectives based on internal control objectives.
- Create standard operating procedures and desk guide for general personal property.
- Validate the general property plant and equipment internal controls.

### United States Special Operations Command will:

- Determine a method to identify and record new purchases of general property plant and equipment assets; determine a method to discover and record disposals of general property plant and equipment assets; and correct past incorrect entries.
- Discover the Enterprise Resource Planning the services are utilizing to track general property plant and equipment.
- Implement procedures to accurately record property plant and equipment in the financial statements.
- Test procedures to verify accurate recording of values in financial statements and correct, if necessary.
- Correct any deficiencies found in the procedures to identify values recorded in the financial statements.
- Prepare and submit audit readiness package.
- Complete internal DoD IG, assessment of audit readiness.
- Review processes annually until audited.
- Complete independent audit.

### Defense Logistics Agency:

- Initiate training of headquarters and field activity property management, information operations, and financial operations personnel responsible for capital funded contractor developed Internal Use Software on revised processes, procedures, and internal controls.
- Complete development of additional standard operating procedures addressing the five remaining categories of Internal Use Software developed or purchased by DLA. Complete Internal Use Software internal control design memoranda.
- Initiate training of headquarters and field activity property management, information operations, and financial operations personnel responsible for the five remaining categories of Internal Use Software developed or purchased by DLA on revised processes, procedures and internal controls.
- Complete initial compliance reviews designed to monitor implementation of revised processes procedures and internal controls.

## Department of Defense Agency Financial Report for FY 2009

<b>11.</b>	<b>Financial Reporting Compilation - Includes Statement of Net Costs, Statement of Budgetary Resources, Statement of Net Position, and Accounting Adjustments</b>	
<p><i>Description of Issue:</i> Due to inadequate internal management controls, the Department is unable to produce accurate Statements of Net Cost, Budgetary Resources, and Net Position, or adequately document accounting adjustments as required by the Chief Financial Officers Act of 1990.</p>		
<b>11a.</b>	<b>Completed Milestones</b>	
<p><b>Defense Security Service:</b></p> <ul style="list-style-type: none"> <li>• Determined proper classification of personnel security investigation costs based on DoD regulatory criteria.</li> <li>• Worked with DFAS and the Office of Personnel Management to properly account for payments made to the Office of Personnel Management for personnel security investigation costs.</li> <li>• Incorporated into the Tri-Annual Review of classifications and the validity of line items on financial statements.</li> </ul>		
<b>11b.</b>	<b>Planned Milestones</b>	Correction Target Date: 1 <sup>st</sup> Quarter, FY 2012
<p><b>Defense Security Service will:</b></p> <ul style="list-style-type: none"> <li>• Establish that the Office of Personnel Management advances are properly classified on prior period financial statements.</li> </ul> <p><b>Department of Army will:</b></p> <ul style="list-style-type: none"> <li>• Correct system issues causing abnormal accounts payable balances and reconciliation problems with delivered orders.</li> <li>• Achieve full operational capability of Logistics Modernization Program.</li> <li>• Report indirect costs included in the full cost of outputs.</li> <li>• Report general management and administrative support costs as a cost not assigned to programs if they cannot be identified by segment.</li> <li>• Report other post employment benefits as an expense for the period during which the future outflow or other sacrifice is probable and measurable on the basis of events occurring on or before the accounting date.</li> <li>• Achieve full operational capability of General Fund Enterprise Business System.</li> <li>• Report the full cost of outputs in the general fund financial statements.</li> <li>• Report, as an expense, the benefits paid during the reporting period, plus any increase or less any decrease, in liabilities from the end of the prior period to the end of the current period.</li> <li>• Report inter-entity costs for goods and services received without reimbursement.</li> <li>• Correct identified deficiencies resulting in abnormal account balances.</li> </ul>		
<b>12.</b>	<b>Financial Reporting of Intragovernmental Eliminations – Includes Anti-Deficiency Act Violations</b>	
<p><i>Description of Issue:</i> The Department is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified.</p>		
<b>12a.</b>	<b>Completed Milestones</b>	
<p><b>Department:</b></p> <ul style="list-style-type: none"> <li>• Conducted a review of 30 DoD accounting and information systems to determine data capturing capabilities.</li> <li>• Identified payables and advances from others and eliminated with major level-one trading partner activities.</li> <li>• Defined the end-to-end standard process, business rules and requirements for intragovernmental transactions.</li> <li>• Determined the feasibility of completing the intragovernmental transaction system and received permission to reevaluate completion of date and methodology.</li> <li>• Fully decomposed and defined the end-to-end standard process, business rules and requirements for reimbursable orders of intragovernmental transactions beginning with reimbursable orders. Reorganized efforts into three distinct working integrated product teams beginning with reimbursable orders as follows:</li> </ul>		

## Department of Defense Agency Financial Report for FY 2009

	<p>order creation, performance and fulfillment and disbursements, and collections.</p> <ul style="list-style-type: none"> <li>• Conducted and completed the analysis of alternatives to determine the best way to provide an Enterprise Resource Planning-wide capability for processing reimbursable orders.</li> <li>• Determined milestones and the final implementation date based on the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) alternative selected.</li> <li>• Developed the intragovernmental transactions pilot plan, which focuses on selected DoD service buyer-seller customers that have the capability to produce and track intragovernmental orders through the order creation process.</li> <li>• Drafted a concept of the operations for the intragovernmental transactions pilot automated system as a concept demonstration system.</li> <li>• Requested the investment review board approval for the intragovernmental transactions pilot plan which is being sought in two phases: Phase 1 briefing and overview, and Phase 2 is for technical documentation and funding approval.</li> <li>• Conducted acquisition and vendor selection process for developing of the Intragovernmental Value Added Network, finalized pilot participants, and established metrics.</li> <li>• Assessed results of Intragovernmental Value Added Network proof of concept for Level 2 DoD to DoD transactions.</li> <li>• Established an intragovernmental transactions working group to develop an Intragovernmental Value Added Network implementation strategy and plan.</li> <li>• Completed Intragovernmental Value Added Network proof of concept for Level 1 DoD to Non-DoD transactions.</li> <li>• Obtained concurrence from Military Services financial managers that Intragovernmental Value Added Network is the enterprise solution for levels 1 and 2 of the intragovernmental orders.</li> <li>• Established limited production in a commercial hosting environment.</li> </ul>	
<b>12b.</b>	<b>Planned Milestones</b>	Correction Target Date: 4 <sup>th</sup> Quarter, FY 2013
<b>Department will:</b>		
<ul style="list-style-type: none"> <li>• Establish full production capability in Defense Information Systems Agency hosting environment.</li> <li>• Deploy the Intragovernmental Value Added Network at the U.S. Marine Corps.</li> <li>• Deploy the Intragovernmental Value Added Network at Army Materiel Command.</li> <li>• Finalize Intragovernmental Value Added Network deployment plan and obtain funding.</li> <li>• Develop standard interface specification for financial Enterprise Resource Planning systems.</li> <li>• Complete the deployment and conduct final assessment and closure actions; evaluate result of operational effectiveness of the solution.</li> </ul>		

The Department's internal control weaknesses over nonfinancial operations are listed in Table 1b. The completed actions and planned milestones are listed below in Table 5 for each material weakness. The completed milestones continue to demonstrate measured progress and highlight the Department's commitment to resolving the material weaknesses.

Table 5. Effectiveness of Internal Control Over Nonfinancial Operations (FMFIA Section 2)	
<b>1.</b>	<b>Management of Information Technology and Assurance</b>
<p>Description of Issue: The DoD information systems are potentially vulnerable to an information warfare attack. In addition, the Department has reported this issue as a significant deficiency under the reporting requirements of the Federal Information Security Management Act. The Department has uncovered numerous attempts to breach systems and networks supporting finance, logistics, medical, procurement, personnel, and research and development activities.</p>	
<b>1a.</b>	<b>Completed Milestones</b>
<b>Department:</b>	
<ul style="list-style-type: none"> <li>• Revised the Department's security certification and accreditation policy and instructions for the Defense Information Assurance Certification and Accreditation Process to improve compliance and provide an</li> </ul>	

## Department of Defense Agency Financial Report for FY 2009

	<p>enterprise management capability. Incorporated the Department's policy guidance to manage and help correct identified security performance weaknesses and direct components to appropriately report all security weaknesses identified in annual reviews of the General Accountability Office and DoD IG, audits.</p> <ul style="list-style-type: none"> <li>• Began issuing public key infrastructure certificates to network domain Controllers in support of smart card login to DoD networks.</li> <li>• Initiated the second phase of the public key infrastructure operational implementation, which will enable digital signature for electronic-mail with attachments and encryption of sensitive data.</li> <li>• Completed the certification and accreditation of all 23 Department computer network Defense service providers.</li> <li>• Certified 10 percent of the Department's information assurance workforce.</li> <li>• Aligned 52 components with a certified DoD network service provider, of which 15 require improvements to the computer network defense program.</li> <li>• Developed the initial phase of the Departments' non-classified internet protocol router network de-militarized zone engineering plan.</li> <li>• Demonstrated the prototype capability of the security content automation protocol that provided enterprise-level situational awareness and mitigation of vulnerabilities, intrusions, and misconfigurations for DoD's information technology assets.</li> <li>• Achieved 95 percent of certification and accreditation of the Department's systems.</li> <li>• Initiated the second phase of non-classified internet protocol router network de-militarized zone engineering plan, established the de-militarized configuration control board, and developed the application control board.</li> <li>• Implemented the enterprise-wide passive vulnerability monitoring of information technology assets. Installed 85 passive monitoring sensors on secret internet protocol router network and 123 intrusion detection sensors acquired for non-classified internet protocol router network and secret internet protocol router network.</li> <li>• Developed the Department's external application migration strategy and roadmap.</li> <li>• Certified 30 percent of DoD information assurance workforce.</li> <li>• Fielded the prototype capability of the Security Content Automation Protocol and Computer Network Defense Data Standards and provided a model for the enterprise level situational awareness. Mitigated vulnerabilities, intrusions, and misconfigurations across selected global information grid organization information technology assets.</li> <li>• Conducted the initial implementation of five non-classified internet protocol router network de-militarized zones at the Defense Information Systems Agency's Defense Enterprise Computing Center with three located within and two located outside the Continental U.S..</li> </ul>	
<p><b>1b. Planned Milestones</b></p>		<p>Revised Correction Target Date: 4<sup>th</sup> Quarter, FY 2010</p> <ul style="list-style-type: none"> <li>• (Although management reported the completion date as 4<sup>th</sup> Qtr, FY2010, actions to correct the weakness extend to 2<sup>nd</sup> Qtr, FY 2011.)</li> </ul>
<p><b>Department will:</b></p> <ul style="list-style-type: none"> <li>• Begin deploying the public key infrastructure hardware credentials on a secret internet protocol router network.</li> <li>• Implement globally the initial phase of the de-militarized zone plans and implement the whitelisting of inbound file transfer protocol, electronic-mail, and web, in order to reduce the accessible attack surface of DoD by 90 percent.</li> <li>• Complete an extensive host-based security solution for the engineering design and implementation coordination requirements of the enterprise fielding.</li> <li>• Achieve greater than 90 percent certification and accreditation of DoD systems.</li> <li>• Report when the U.S. Cyber Command achieves initial operating capability. The Command is a sub-unified command established by the Secretary of Defense to focus on cyberspace operations and associated cyber threats and vulnerabilities.</li> <li>• Complete acquisition requirements for approximately 50 intrusion detection sensors that support the non-classified internet protocol router network and secret internet protocol router network.</li> <li>• Certified 55 percent of the Department's information assurance workforce.</li> </ul>		

## Department of Defense Agency Financial Report for FY 2009

- Begin operational deployment of the hardware token on the secret internet protocol router network.
- Achieve greater than 90 percent certification and accreditation of DoD information technology systems for Financial Information Security Act reporting.
- Complete garrison level host based security solution implementation at the component locations in accordance with the Joint Task Force Global Network Operations Requirements.
- Validate the corrective action plan.

### 2. Personnel Security Investigations

*Description of Issue:* Security clearances and personal security investigations are key elements in protecting national security by determining whether an individual should be granted access to classified information, accessed or retained in the military, or employed in a sensitive position. In January 2005, GAO issued its high-risk series and listed the DoD Personnel Security Program as a high-risk program. The GAO indicated that problems such as timeliness and quality in the personal security clearance process directly affects the Department's operations and is a matter of national security. Other factors contributed to the high-risk designation included: inadequate program oversight and monitoring and the lack of a comprehensive, integrated management plan to address various obstacles.

#### 2a. Completed Milestones

##### Department:

- Transferred the function of personnel security investigations to the Office of Personnel Management. Made improvements and progress in the timeliness of investigations as a result of the initiatives generated by the Office of the Management and Budget, the Office of Personnel Management, and DoD.
- Implemented the December 2005 OMB policy on the reciprocal recognition of existing personnel security clearances.
- Implemented the OMB's additional guidelines to improve reciprocity within the Federal Government with respect to special access programs.
- Implemented the new adjudication guidelines approved by the President to determine eligibility for access to classified information.
- Increased the FY 2008 funding for industry investigations in the President's Budget to cover all anticipated future requirements.
- Increased by 72 percent the use of electronic questionnaires for investigations processing resulting in fewer requests for investigations because of incomplete or erroneous information.
- Reiterated the guidance on the requirement for full submissions on the electronic questionnaires for processing investigations when used for National Security Investigations.
- Reduced the total number of DoD's pending investigations of all types from 444,000 to 293,650.
- Completed the program of instruction for DoD Adjudicator Certification Program.
- Mandated a study to review the Department's Central Adjudication Facilities, which maximized efficiencies in the adjudication process and related information technology infrastructure.
- Revised the Performance Assessment Rating Tool that identified measures to assess the cost, timeliness, and quality of the security clearance program for all three phases of the process.
- Completed a virtual test of electronic adjudication for non-issue investigations in support of secret security clearances.
- Increased to 89 percent the Department's use of electronic questionnaire investigations.
- Adjudicated 80 percent of all completed investigations received within 25 days and met the Intelligence Reform and Terrorism Production Act's metrics goal for timeliness.
- Maintained an average of 90 percent for adjudication timeliness of Intelligence Reform and Terrorism Production Act security clearance requests in 39 days. The end-to-end time for the entire process was completed in an average of 135 days, which include approximately 15 days of processing and mailing time.
- Established business rules for the Adjudicator Certification Program.
- Funded and published several successful demonstrations of the feasibility and effectiveness of greater reliance on automated records checks in lieu of field activities.

## Department of Defense Agency Financial Report for FY 2009

- Signed on June 30, 2008, Executive Order 13467, which established the Performance Accountability Council with oversight for security clearance processing and performance goals.
- Conducted a successful pilot test of the investigation quality assessment tool called the rapid assessment of incomplete security evaluations and the adjudication quality assessment of the tool called the review of adjudication documentation and rationales.
- Concluded and published findings that summarized the successful demonstration of the end-to-end investigative process as recommended by the joint reform team.
- Began the electronic adjudication of non-issue investigations in support of secret security clearances.
- Established program baseline measures in support of the Program Assessment Rating Tool, for cost and timeliness and established short and long-range performance goals.
- Achieved 95 percent usage of electronic questionnaires for processing of national security investigations.
- Began implementation of financial disclosure requirements.
- Directed the implementation of electronic questionnaires for investigations processing for all investigative submissions by October 2009.
- Instituted a weekly monitoring system at the Defense Security Service to track industry investigations against available funding to recognize the depletion of funds far enough in advance to avoid any stop-work actions.
- Submitted a \$25 million reprogramming request to the Congress to fund the Defense Security Service's requirements.
- Established working groups to address improving essential elements in the Personnel Security Program.
- Developed initiatives to improve financial management and to meet the requirements of accurate budget estimates and budget execution for the Defense Security Service.
- Maintained only a 2 percent variance of workload projections and actual submissions for the personnel security investigations.
- Assessed sensitive activities of the mission in support of the stakeholders for the Defense Security Service mission areas.
- Established a formal team jointly with the Office of the Director of National Intelligence to develop recommendations for a reformed clearance system to address current and future program needs.
- At the Personnel Security Research Center, received the predictive model established by the Air Force for independent validation as a forecasting tool for all the Department's requirements for personnel security investigations.
- Provided an initial report to the Office of the Management and Budget for submission to the President designed to improve the cost, timeliness and quality of the Security Clearance Program. This report was provided by the Joint Security and Suitability Reform Team.
- Began receiving investigations electronically from the Office of Personnel Management for the Army Central Adjudication Facilities.
- Designated the Army Case Adjudication Tracking System as the DoD Case Management and Adjudication System for the non-intelligence community.
- Completed a virtual test of the On-Line Rapid Assessment of Incomplete Security Evaluations to assess the quality of investigations completed by Office of Personnel Management.

<b>2b.</b>	<b>Planned Milestones</b>	Revised Correction Target Date: 4 <sup>th</sup> Quarter, FY 2010
------------	---------------------------	---

**Department will:**

- Produce 90 percent of the requested files and information in 30 days or less.
- Achieve initial operating capability for the use of automated record checks in initial investigations.
- Implement the adjudicator certification program.
- Implement the use of the Rapid Assessment of Incomplete Security Evaluations to assess investigative quality.
- Ensure that the Defense Industrial Security Clearance Office is able to receive completed investigations electronically.
- Meet or exceed the Intelligence Reform and Terrorism Protection Act goals that require 90 percent of all applications for a personnel security clearance to be adjudicated in an average of 20 days.



## Department of Defense Agency Financial Report for FY 2009

- Establish the Department's program baseline measures for the quality of the security clearance process, and provide initial trend data for timeliness and cost in support of the Performance Assessment Rating Tool.
- Implement the use of the Review of Adjudication Documentation and Accuracy Rationales to assess investigative and adjudicative quality.
- Achieve initial operating capability for use of the automated record checks for continuous evaluation.
- Ensure that the Navy, Air Force, and Washington Headquarters Service are able to receive completed investigations electronically.
- Develop a strategic plan for the DoD Personnel Security Program.
- Deploy DoD-wide the Case Adjudication Tracking System.
- Begin electronic adjudication of non-issue investigations in support of clearance types other than the national agency check with local agency and credit check.
- Complete assessment of Personnel Security Research Center's predictive model to accurately project military and civilian investigative requirements for Department-wide implementation.
- Validate that the weakness is corrected.
- Ensure that processing electronic questionnaire investigative requests do not extend beyond 14 days from the date of request to the date Office of Personnel Management receives all required information.
- Measure five areas for annual performance report to the OMB: (1) use of the electronic questionnaire investigations processing; (2) workload projections; (3) investigation and adjudication timeliness; (4) investigative quality; and (5) cost of the security clearance process.
- Submission of less than 5 percent of all investigators to the Office of Personnel Management will be deficient or returned for corrections.

### 3. Contracting for Services

*Description of Issue:* The DoD IG and the GAO issued numerous reports which identify various deficiencies in DoD's acquisition of services.

#### 3a. Completed Milestones

##### Department:

- Revised DoD October 2004 policy on proper use of other agency contracts to include guidance on conducting surveillance of services procured from other agency contracts.
- Established working groups identified in the DoD improvement plan and initiated the implementation of the plan, conducted periodic status briefs on the DoD improvement plan for systemic weaknesses for senior OSD leadership.
- Issued DoD policy memo on Performance Based Services Acquisition. The memo contained the requirement for progress reports on training for individuals participating in preparation of performance-based work statements.
- Developed metrics goals and thresholds for the strategic sourcing program.
- Developed a concept of operation for DoD strategic sourcing.
- Reported that DoD updated the plan for improvements in GAO High Risk Area of contract management, and implemented Section 812, "Management Structure for the Procurement of Contract Services," Public Law 109-163.
- Published the guidance and procedures for the use of, waivers to competitive requirements.
- Reviewed and updated the policy on quality assurance surveillance and written oversight plans.
- Published policy implementing section 812, "Management Structure for the Procurement of Contract Services," National Defense Authorization Act for FY 2006, Public Law 109-163.
- Required designated senior officials to ensure that their service contract review processes and associated data collection requirements supported adequate contract surveillance.
- Reviewed DoD Component data for the top 20 acquisitions of services.
- Required personnel to have Performance Based Services Acquisition training that develop Performance Based Services Acquisition statements of work.
- Completed self-assessments. Military Departments and Defense Agencies completed self-assessments on the use of pricing techniques, performance-based services acquisition, and quality assurance surveillance or written oversight plans.

## Department of Defense Agency Financial Report for FY 2009

	<ul style="list-style-type: none"> <li>Required that the Contracting Functional Integrated Process Team address GAO High Risk Areas in training requirements and/or policy, based on results of working group self-assessments.</li> <li>Reviewed OSD guidance for use of task orders, competition, price reasonableness determinations, and quality assurance surveillance or written oversight plans in response to related weaknesses identified in DoD improvement plan self-assessment results.</li> <li>Implemented the new DoD Architecture for Acquisition of Services. Issued policy memorandum entitled, "Review Criteria for the Acquisition of Services" on February 18, 2009. The policy memorandum articulates the 12 tenets of the DoD architecture for the acquisition of services applicable in the Pre-Award phase, and the eight tenets applicable in the Post-Award phase.</li> <li>Resolved overpayment issues identified in DoD IG Report No. 2004-057 at the Defense Contracting Command in Washington.</li> <li>Published DoD updated policy for appointment and training of Contracting Officer Representatives. The Defense Acquisition University updated training with a mission focus on Contracting Officer Representatives.</li> <li>At the Defense Acquisition University, published the Acquisition Technology &amp; Logistics Workforce Human Capital Strategic Plan.</li> <li>At the Army, reviewed all Logistics Civil Augmentation Plan orders for Army to ensure they were within scope and eliminated backlog of "undefinitized" orders. Developed new procedures to ensure timely "definitization."</li> </ul>	
<b>3b.</b>	<b>Planned Milestones</b>	Revised Correction Target Date: 1 <sup>st</sup> Quarter, FY 2010
<b>Department will:</b>		
<ul style="list-style-type: none"> <li>Submit a total of 75 percent of DoD invoices electronically via an authorized electronic invoicing system.</li> </ul>		
<b>4. Certain Audits Do Not Meet Professional Standards</b>		
<p><i>Description of Issue:</i> As a result of hotline complaints, GAO Report 08-857 was issued on July 22, 2008, and concluded that certain DCAA audits at three locations did not comply with Generally Accepted Government Auditing Standards and did not meet professional standards.</p>		
<b>4a.</b>	<b>Completed Milestones</b>	Corrected <ul style="list-style-type: none"> <li>(Although some corrective actions are still necessary, DCAA has materially corrected this weakness.)</li> </ul>
<b>Defense Contract Audit Agency:</b>		
<ul style="list-style-type: none"> <li>Prepared Western Region action plan for each of the reported issues.</li> <li>Reported that the DCAA Director visited the Western Region to meet with the Regional Director and discuss the plan.</li> <li>Assembled a team of individuals who were not involved with the GAO audit to assess whether the reported issues exist throughout the Agency.</li> <li>Issued guidance on how to deal with disagreements over potential audit findings.</li> <li>Issued an audit alert reiterating existing guidance on "workpaper" documentation.</li> <li>Issued guidance discontinuing DCAA participation in Integrated Product Teams. This action represents a significant change in policy and addresses the issue of contractors controlling DCAA audits.</li> <li>Reviewed a sample of assignments across the Agency to assess whether the issues as reported in the GAO report exist elsewhere and issued a report on the findings.</li> <li>Received completed review from DoD IG of issues disclosed in the GAO report.</li> <li>Developed an action plan for revising Agency policy as needed in light of the GAO findings. The plan included recommendations from the independent DCAA assessment team as well as DoD IG team.</li> <li>Designated August 2008 as DCAA's stand-down month dedicated to audit quality. Each Field Audit Office set aside 4-8 hours during the month to conduct a staff conference with its entire staff focusing on audit quality. Regional Directors or Deputy Regional Directors participated in these conferences, sharing the Agency's and the region's expectations on audit quality.</li> <li>Performed an assessment of Agency staffing to ensure adequate staffing to perform quality audits.</li> </ul>		

## Department of Defense Agency Financial Report for FY 2009

- Performed an assessment of Agency metrics and benchmarks to ensure that metrics are not driving decisions and behavior that negatively impact audit quality.
- Distributed a climate survey to the workforce.
- Compiled and assessed results of the climate survey.
- Continued to assess the need for revisions to Agency guidance using the results from the internal review.
- Assessed improvements in DCAA Quality Assurance program and coordinated revisions with DoD IG.
- Implemented improvements in DCAA Quality Assurance program.
- Reassessed the Agency performance measures, metrics and benchmarks, to ensure measures are working as intended.
- Validated that the weakness was corrected through a follow-up review performed by DoD IG.

### 5. Internal Controls Over Contingency Contracting (Newly reported 2009)

*Description of Issue:* Department needs to improve internal controls over contingency contracting.

#### 5a. Completed Milestones

##### Department of the Army:

- Formed the Army Contracting Task Force with participants from a wide range of Army staff elements and contracting operations.
- Assigned new leadership and staff.
- Established a reach-back capability to manage active contracts.
- Developed internal controls for optimal contract management and surveillance.
- Established increased engagement of DCMA to perform contract management and oversight support through the Kuwait Logistics Support Office.
- Established and commenced contracting officer's representative training program.
- Disbanded the Army Contracting Task Force and formed the Army Contracting Campaign Plan Task Force to help resolve Army Contracting Task Force findings.
- Implemented internal controls for optimal contract surveillance.
- Conducted an independent verification of compliance with the internal control procedures and reported results.
- Developed and distributed an internal control evaluation checklist in accordance with the Army Federal Acquisition Regulation Supplement, Appendix BB.

##### Defense Contract Management Agency:

- Received the Office of the Joint Chiefs of Staff validation of the contracting officer representatives' shortfalls initially identified by the Military Services.
- Received Office of the Joint Chiefs of Staff validation of subject matter expert shortfalls initially identified by the Military Services
- Engaged with the Military Services to rectify the contracting officer representatives' shortfall.

#### 5b. Planned Milestones

Correction Target Date: 2<sup>nd</sup> Quarter, FY 2011

##### Department of Army will:

- Initiate discussions with the U.S. Army Audit Agency for the conduct of a validation audit.
- Conduct a unit self-inspection utilizing the internal control evaluation checklist.
- Conduct independent reviews by the procurement management reviews for compliance.
- Review procurement management review team reports internal control review results.
- Implement revised contracting operations.
- Obtain review results of the U.S. Army Audit Agency's validation of revised contracting operations.

##### Defense Contract Management Agency will:

- Continue monthly reporting and engagement with the Military Services to include risk analysis of contract oversight in theater.
- Verify effectiveness of Military Service's strategies to meet the requirements for subject matter experts and contracting officer representatives. When position requirements support the use of civilian resources

## Department of Defense Agency Financial Report for FY 2009

in lieu of military-only resources, expand the current joint manning document request to include the OSD Civilian Expeditionary Work Force, thus expanding the population of eligible candidates able to fill these critical billets.

- Initially obtain 50 percent fill rate of the joint manning document's subject matter expert requirements and Military Service-provided contract officer's representatives. Subsequently, improve fill rate to 75 percent.
- Certify that the validation factors have been met.

The Department's internal control weakness for conformance with financial management system requirements is listed in Table 1c. The completed actions and planned milestones are listed below in Table 6 for the material weakness. The completed milestones continue to demonstrate measured progress and highlight the Department's commitment to resolving the material weakness.

<b>Table 6. Conformance with Financial Management System Requirements (FMFIA Section 4)</b>	
<b>1.</b>	<b>DoD Financial Management Systems and Processes</b>
<i>Description of Issue:</i> DoD financial and business management systems and processes are costly to maintain and operate, are not fully integrated, and do not provide information that is reliable, timely, or accurate. In addition, the Department has reported this issue as noncompliant with the Federal Financial Management Improvement Act of 1996 and as non-conforming to Section 4 of the FMFIA of 1982.	
<b>1a.</b>	<b>Completed Milestones</b>
<b>Department:</b>	
<ul style="list-style-type: none"> <li>• Formally established the Core Business Mission Area Investment Review Boards to enhance DoD's ability to meet the Ronald W. Reagan National Defense Authorization Act of FY 2005 for control and recommendations for investments in financial management and other business systems.</li> <li>• Refined the Defense Business System Acquisition Executive to make it the effective component acquisition executive and milestone decision authority for DoD enterprise financial management and other business systems.</li> <li>• Made a concerted effort to coordinate business enterprise initiatives with its warfighter customer through the establishment and operation of the Iraq Task Force. Focused on effective and efficient use and accountability of in-theater financial resources, deploying the Common Contingency Contracting System for Iraq at eleven regional contracting centers.</li> <li>• Published Version 4.1 of the Business Enterprise Architecture. The September 2005 release was designated the baseline version for guiding business transformation.</li> <li>• Published an updated version of the DoD Enterprise Transition Plan for congressional reporting in FY 2007, including enterprise and Component system milestones and accomplishments.</li> <li>• Published an updated Financial Improvement Audit Readiness Plan to describe and report the progress of specific corrective actions for achieving more reliable, accurate, and complete financial data.</li> <li>• Refined and extended the scope and depth of standard financial information structure for integration into the Business Enterprise Information Services, other enterprise and component Enterprise Resource Planning Systems, and other business mission area systems to continue evolution of a shared business intelligence environment and common financial transaction structure.</li> <li>• Developed, coordinated, and published an updated version of the Enterprise Transition Plan in September 2007 to include system and program milestones and progress measures, final identification of Defense Business System Acquisition Executive enterprise financial and other business programs and initiatives, and responsibilities with implementation milestones.</li> <li>• Gathered, validated, and integrated the business mission area information for the March 2008 version of the Business Enterprise Architecture, focusing efforts on systems information exchanges, business capability improvement, and enhancement of quality and consistency of information throughout architecture artifacts and assessments.</li> <li>• Drafted, coordinated, and began implementing the Enterprise Risk Assessment Methodology and Business Capability Lifecycle for risk and program management associated with business mission area systems and initiatives.</li> </ul>	

## Department of Defense Agency Financial Report for FY 2009

- Developed and validated meaningful metrics to track progress, manage, and measure the results of the business mission area transformations.
- Extended the capabilities of the Common Contingency Contracting Systems and extended the membership, coordination of actions, and economic results of Iraq In-Theater Business Transformation Conferences.
- Tested the concepts of service-oriented and federated architectures in the DoD business mission area to enhance business agility and enterprise information definition and exchange.
- Implemented a DoD “Center of Excellence” to provide lessons learned, provide feedback, and accelerate the assistance to component Enterprise Resource Planning Systems programs and initiatives.
- Implemented the Enterprise Risk Assessment Methodology and Business Capability Lifecycle for risk and program management associated with business mission area systems and initiatives.
- Published initial version of business mission area transformation metrics with which to report progress.
- Updated the Business Enterprise Architecture, integrating it with an updated version of the Enterprise Transition Plan to include system and program milestones and progress measures.
- Published update of the Financial Improvement Audit Readiness Plan to include progress metrics.
- Published an update of the Business Mission Area Transformation Metrics with which to report progress.
- Published the Business Mission Area Federation Strategy and Roadmap Version 2.4 which provides an updated vision for business transformation.
- Published an update of the Enterprise Transition Plan to include component and enterprise systems, and program milestones and accomplishments.
- Published an update of the Financial Improvement Audit Readiness Plan to include progress metrics.
- Moved initial service-oriented and federated architecture concepts from test to operational capability with the DoD business mission area.

**1b.**

**Planned Milestones**

Correction Target Date: 4<sup>th</sup> Quarter, FY 2015

**Department will:**

- Publish an additional update of the Enterprise Transition Plan to include component and enterprise systems, and program milestones and accomplishments.
- Publish an update of the Financial Improvement Audit Readiness Plan to include progress metrics.
- Publish an update of the business mission area transformation metrics with which to report progress.
- Release of updated Business Enterprise Architecture to standardize financial and business processes, systems, and information.
- Semiannually release the Enterprise Transition Plan system and program milestones and progress measures.
- Semiannually update the FIAR Plan to include progress metrics.
- Release the Business Transformation Progress Metrics to report progress quarterly.
- Validate the completion of corrective action plans.

## Improper Payments Information Act Reporting

The Improper Payments Information Act (IPIA) of 2002, as implemented by OMB Circular No. A-123, Appendix C, "[Requirements for Effective Measurement and Remediation of Improper Payments](#)," requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments. The Department's FY 2009 review did not identify any programs or activities at risk of significant erroneous payments in accordance with OMB criteria (programs with erroneous payments exceeding both \$10 million and 2.5 percent of program payments). However, based on the large volume of transactions and high dollar amounts, OMB required DoD to report on all its programs beginning in FY 2006.

The five programs reportable under IPIA for FY 2009 are: (1) Military Health Benefits, (2) Military Pay, (3) Civilian Pay, (4) Military Retirement, and (5) Travel Pay. Improper payment estimates for these programs, as well as out-year reduction targets, are presented in the table contained in Section IV. Commercial Pay information is included in Section V, Recovery Auditing.

### I. RISK ASSESSMENT

The Department's risk assessments for each of the programs identified above addressed the effectiveness of internal controls in place to prevent improper payments (such as prepayment reviews), as well as system weaknesses identified internally or by outside audit activities. While the Department's improper payment percentages are extremely low, numerous pre- and post-payment controls further minimize and eliminate improper payments. The Defense Finance and Accounting Service (DFAS) is developing a comprehensive Enterprise Risk Management Program (ERMP) to identify and assess risks and controls for each program that DFAS manages through a process known as Risk and Control, Identification and Assessment (RCIA). The RCIA is used to validate that controls are established and tested to mitigate risks. The RCIA will also provide DFAS with a better understanding of its risk profile and can assist in effectively targeting risk management resources.

A software tool called Business Activity Monitoring (BAM) was deployed at DFAS in August 2008. This tool uses logic and algorithms to identify potential improper payments before they are made. BAM is now used as an additional tool by DFAS to prevent overpayments for 89 percent of all DoD commercial payments.

### II. STATISTICAL SAMPLING PROCESS

The DoD uses random sampling methods designed to meet or exceed OMB's requirement of annual estimates of improper payments with a 90 percent confidence interval, plus or minus 2.5 percent. See below for detailed sampling plans.

#### *Sampling Plans*

**Military Health Benefits.** TRICARE is a triple option health benefit plan available for Active Duty family members, retirees and their family members, and family members of deceased service members. To determine an estimate of the annual amount of improper payments, DoD uses a statistically valid sampling method at 90 percent probability plus or minus one percentage point sampling precision for the managed care support services contracts and the Medicare dual eligibility contractor (TRICARE Dual Eligibility Fiscal Intermediary Contract). This process takes place quarterly.

The Department samples data records for review for claims processed by the managed care support contractors and the Medicare dual eligible contractor. There are two kinds of payment

## Department of Defense Agency Financial Report for FY 2009

---

samples, one for non-denied claims and one for denied claims. For the managed care support services contracts, the non-denied payment sample will be drawn from all records with government payments of \$100 to \$100,000. In addition, all records with a government payment of \$100,000 and over will be audited. The denied payment sample will be drawn from all records with a billed amount of \$100 to \$100,000. In addition, all records with billed amounts of \$100,000 and over will be audited. The non-denied and denied payment samples will be stratified at multiple levels within the \$100 to \$100,000 range.

For the Medicare dual eligible contract, the non-denied payment sample will be drawn from all records with government payments of \$1 to \$25,000. All records with a government payment of \$25,000 and over will be audited. The denied payment sample will be drawn from all records with a billed amount of \$1 to \$500,000. In addition, all records with billed amounts of \$500,000 and over will be audited. The non-denied payment sample will be stratified at multiple levels within the \$1 to \$25,000 range and the denied payment sample will be stratified at multiple levels within the \$1 to \$500,000 range.

**Military Pay.** The Department uses simple random sampling methods to select military pay accounts for each Component to review to produce annual estimates of improper payments. These methods provide a 95 percent probability, plus or minus 2.5 percent sampling precision. Monthly samples are reviewed for each of the Active Duty (Army, Navy, Air Force, and Marine Corps) and Reserve Components (Army Reserve, Army National Guard, Navy Reserve, Air Force Reserve, Air National Guard, and Marine Corps Reserve).

**Civilian Pay.** The Department uses simple random sampling methods to review civilian pay accounts for each Component and the sum of Defense Agencies to produce annual estimates of improper payments. These methods provide a 95 percent probability, plus or minus 2.5 percent sampling precision. Monthly samples are reviewed for each of the Components (Army, Air Force, Navy/Marine Corps, Overseas and Defense Agencies).

DFAS processes the largest portion of the Department's civilian payments. However, both the Navy and Army process civilian payments independently for civilian mariners and local national payrolls in foreign countries.

**Military Retirement.** The Department conducts monthly random reviews of both the confirmed deceased retiree accounts and the overall population of retired and annuitant pay accounts. All sampling plans are designed to produce annual estimates of improper payments with 95 percent probability, plus or minus 2.5 percent sampling precision.

**Travel Pay.** DFAS reports the largest portion of the Department's travel payments made by Defense Travel System (DTS) and Windows Integrated Automated Travel System (WinIATS) is for the Department of the Army. The Department's total travel payment population includes travel payments computed, paid, and reported independently by the Departments of the Military Services and other Defense agencies. The AFR Improper Payment Reduction Outlook table represents the combined results for Travel Pay.

The Department uses simple random sampling methods to review trip records settled and paid through DTS for each Service Component and the Defense Agencies and for WinIATS Temporary Duty (TDY) and Permanent Change of Station (PCS) vouchers computed and paid by DFAS for the Army. These sampling plans are designed to produce quarterly estimates of improper payments at the Component level with 95 percent probability, plus or minus 2.5 percent sampling precision.

### III. ROOT CAUSES OF ERRORS AND CORRECTIVE ACTION PLANS

**Military Health.** The TRICARE Management Activity (TMA) has had contract performance standards in place for several years to ensure accurate health claims processing and payment. Overpayments identified during the annual audit process are projected to the audit universe, and subsequently, the managed care support contract becomes liable for the total amount. The contract performance accuracy is no more than 2 percent errors, but the actual error rate (reported 12 months in arrears) normally falls below 1 percent. This unique contractual design, coupled with numerous pre- and post-payment controls, effectively minimize the Government's risk for improper payments in this program.

The primary causes of errors:

- **Incorrect Pricing:** 46.3 percent of improper payments.
- **Cost Share/Deductible Error:** 17.9 percent of improper payments.
- **Incorrect Benefit Determination:** 9.5 percent of improper payments.
- **Government Payment Amount Miscalculated:** 9.3 percent of improper payments.
- **Other:** 17 percent of improper payments.

The corrective action for all categories is that TMA has made the contractor accept the risk for making any improper payments. Consequently, the historical error rates have been below 1%.

**Military Pay.** Improper payments in military pay are projected at \$406.5 million, or .48 percent, of total net pay based on review, estimates, and forecasts for October 2008 through September 2009. Over 53 percent (\$217million) of the total military pay improper payments occurred within the reserve/guard components. Army Reserve and Army National Guard accounted for 84 percent (\$181M) of the reserve/guard component total improper payments.

Underpayments accounted for 57.2 percent (\$232.6million) of the total improper payments. Most of these underpayments occurred within the Army Reserve and Army National Guard (\$135 million) and represent unpaid leave that did not occur before a member was discharged or de-activated back to reserve from active duty. Primary reasons for the under payments were:

- **Leave Accountability/Lump Sum Leave:** Estimated \$179 million, or 77 percent. Underpayments to reservists/guardsmen resulting from un-reconciled/unpaid leave balances.
- **Basic Pay:** Estimated \$16 million, or 7 percent. Entitlement not reported correctly resulting in an underpayment.
- **Basic Allowance for Housing:** Estimated \$4.7 million, or 2 percent. Entitlement not reported correctly resulting in an underpayment.
- **Other:** 14 percent.

In-service collections for overpayments, among select entitlement categories, accounted for 36 percent (\$145.6 million) of total military pay improper payments. Virtually all, 99.99 percent, of the total reported improper overpayments for military pay have been recovered or have an action in place to recover the initial overpayment. In addition, out of service debt collections account for the remaining \$28.2 million, or 7 percent, of the total reported improper payments.

Most improper payments identified from random reviews, as well as in-service collections, are attributed to untimely or inaccurate input to the pay systems by the service components. In order to rectify the causes of payment errors, the Department, primarily through DFAS, continues to work with the Military Services to advise them of these results and associated reasons for errors that result in improper payments to service members. Of specific interest, DFAS collaborates with each of the service components on best business practices for proper leave accountability and reporting to prevent improper payments.



## Department of Defense Agency Financial Report for FY 2009

---

**Civilian Pay.** Total improper payments in civilian pay are projected at \$94.6 million, or 0.32 percent, of total net pay. Overpayments were projected at \$81.9 million and underpayments were projected at \$12.8 million. Eighty-five percent, or \$80.2 million, of the overpayments were collected through In-service civilian pay collections. Payment errors attributed to time and attendance accounted for \$43.9 million of the total civilian pay in-service collections and overseas-related civilian pay errors were projected at \$20 million. The remaining 5 percent of overpayments and 100 percent of underpayments were detected through random post pay reviews and were primarily due to time and attendance and personnel action input errors.

The primary causes of improper payments identified from random reviews as well as in-service collections are untimely or inaccurate input to the pay systems by the Components. Because most government payroll systems base time and attendance submissions on anticipated versus actual work hours, over and underpayments occur that must be corrected in a subsequent pay period. Collections among the overseas civilian accounts are often attributed to repayment of overseas pay allowances that erroneously continued after the individual returned to the contiguous United States (CONUS). DFAS works diligently on corrective actions with the components to advise them of results of monthly civilian pay random reviews and the associated reasons for errors that result in improper payments.

DFAS has also developed a civilian pay improvement plan that highlights key areas where opportunities for improvement exist. This corrective action plan includes heightening the awareness of risk control and error prevention, training, and development and testing of system changes.

In addition, new Pre-Pay Audit reports are in development and prototypes were delivered to DFAS Payroll Offices in late August 2009. These reports are for validating the accuracy of all selected pay accounts and to insert reasonable assurance that all pay categories and employees pay are accurate. The reports are being analyzed by the payroll offices and their feedback will be used to refine the data and place report generation into routine production. These new tools will help both components process fewer payment errors.

**Military Retirement.** Payments to deceased retirees continue to be the highest risk for improper payments in this program. Based on FY 2009 reviews, the Department projected approximately \$49.5 million in improper payments for this program, with almost the entire amount paid to deceased retirees. This represents an overpayment rate of .13 percent of the estimated \$38.9 billion in annual military retirement payments. In many instances, payments to deceased retirees is unavoidable due to payment cycle dates and the fact that notifying a payroll activity is not likely to be the first action for next-of-kin at the time of a retiree's passing. A review of payments to confirmed deceased retirees in FY 2009 indicated that the Department recovered 92 percent of the overpayment amounts within 60 days, demonstrating the effectiveness of controls within the retired pay system once a retiree's death confirmation is received and processed for final disposition.

The Department's control processes to prevent, identify, and reduce overpayments to deceased retirees include a series of periodic eligibility notifications, early detection data mining efforts, and partnerships with other Federal and state entities. The Department takes a proactive approach, routinely comparing retired and annuity payroll master file databases to Social Security Administration "deceased" records and periodically comparing records with the Office of Personnel Management deceased files. The file comparisons are also conducted with the Department of Veterans Affairs' cemetery database and with individual states with sizable retiree and annuitant populations (e.g., Texas, California, and Florida). Retirees identified as deceased in these comparisons must validate their continued eligibility, or the accounts are suspended.

## Department of Defense Agency Financial Report for FY 2009

---

**Travel Pay** The FY 2009 projected improper payment rates for both DTS (.92 percent) and WinIATS (5.35 percent) have decreased from FY 2008 estimates. The FY 2009 improper payment estimates include random reviews of DTS trip records for the service components (\$32 million, .92 percent) as well as monthly random reviews of WinIATS TDY and military PCS vouchers computed and disbursed by DFAS (\$26.4 million, 5.35 percent). Results are based on random reviews of settled vouchers from October 2008 through June 2009.

The primary Reasons for DTS improper payments include:

- **Lodging:** 53 percent of total improper payments. Traveler is reimbursed the full lodging rate, when the daily rate should be reduced to reflect actual cost, including when there is no cost incurred for lodging. Also, traveler claims lodging under "lodging" and also as a reimbursable expense, causing a duplicate reimbursement.
- **Rental Car:** 15 percent of total improper payments. Traveler did not revise the original cost estimate of the rental car to reflect the actual cost. Also, traveler claims rental car expense under both transportation and the reimbursable categories, causing a duplicate reimbursement.
- **Per Diem:** 6 percent of total improper payments. Traveler fails to correct the meal breakdown when meals are provided at conferences/training. Also, traveler claims the per diem rate for the location of the hotel instead of the TDY location.
- **Other:** 26 percent of total improper payments.

DFAS provides monthly and quarterly error trend reports to the Defense Travel Management Office (DTMO) for review and dissemination to DoD Components, given that nearly all of the monetary errors detected during the random reviews are attributed to traveler input and Approving Official (AO) oversight. The DTMO uses these post pay review statistics and illustrations of input errors in their regular training sessions for Defense Travel Administrators.

Primary Reasons for WinIATS improper payments:

- **Per Diem:** 23 percent of total improper payments. Per Diem/Meals & Incidental Expenses (M&IE) paid at the wrong rate, while the traveler is in a leave status, and/or the traveler is paid advance per diem when not authorized.
- **Lodging:** 14 percent of total improper payments. Traveler reimbursed without required lodging documentation, i.e., invalid lodging receipts, missing statement of non-availability, incorrect rates paid, and lodging taxes paid incorrectly.
- **Missing Signature:** 14 percent of total improper payments. Claims are paid without required signatures, i.e., traveler, AO, reviewing official.
- **Missing/Invalid Orders:** 10 percent of total improper payments. Traveler reimbursed without (or invalid) TDY and PCS orders attached to the claim.
- **Other:** 39 percent of total improper payments.

The majority of errors are attributed to processing inaccuracies at the time of settlement and travel technician input errors. DFAS established an extensive set of preventative and monitoring actions to include:

- Post pay reviewers meet monthly with travel pay operations personnel to discuss findings and preventative measures
- Pre payment accuracy rates are reported by travel pay operations and monitored daily
- Implementation of travel pay examiner training programs based on post pay review findings and recommendation
- Linked pre-payment to post-payment checklists to identify and prevent improper payments.

**IV. PROGRAM IMPROPER PAYMENT REPORTING**

The following table summarizes the Department’s improper payment reduction outlook and total program outlays (payments) from FY 2008 through FY 2012.

**Improper Payment Reduction Outlook<sup>5</sup>**

Program	FY 2008 <sup>4</sup>			FY 2009			FY 2010 Estimate			FY 2011 Estimate			FY 2012 Estimate		
	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)
<b>Military Health Benefits</b> <i>(Note 1)</i>	\$10.4	0.44	\$45.8	\$12.0	2.00	\$240	\$12.7	2.00	\$254	\$14.0	2.00	\$280.0	\$15.2	2.00	\$304
<b>Military Pay</b>	\$72.1	0.60	\$434.6	\$84.6	0.48	\$406.5	\$69.7	0.45	\$313.7	\$71	0.45	\$319.5	\$71.3	.44	313.7
<b>Civilian Pay</b>	\$26.4	0.28	\$73.8	\$29.4	0.32	\$94.6	\$31.3	0.30	\$93.9	\$32.3	0.29	93.7	\$32.3	0.28	90.4
<b>Military Retirement</b> <i>(Note 2)</i>	\$35.6	0.12	\$44.0	\$38.9	0.13	\$49.5	\$42.9	0.12	\$54.2	\$44.5	0.12	\$52.3	\$44.5	0.12	\$52.3
<b>Travel Pay</b> <i>(Notes 3 and 4)</i>	\$5.2	2.00	\$103.0	6.6	0.95	59.9	6.8	0.90	61.2	\$6.8	0.88	\$59.8	\$6.8	0.87	\$59.2

*Note 1 Military Health Benefits. The actual payment error rate for FY 2008 was 0.44 percent, substantially less than the estimate error rate of 2.00 percent reported in the FY 2007 AFR. The current and out-year projections for this program are conservatively set at 2.00 percent which is the contract performance standard.*

*Note 2 Military Retirement. A review of payments to confirmed deceased retirees in FY 2009 showed that DoD recovered 92 percent of these amounts within 60 days.*

*Note 3 Travel Pay. FY 2009 figures include both DTS and Win IATS payments, and are based on reviews through June 2009.*

*Note 4 Military Pay, Civilian Pay, and Military Retirement include data through August 2008. Travel Pay includes data through April 2008 for DTS and May 2008 for WinIATS.*

*Note 5 All improper payment amounts are absolute values; the figure represents the combined total of over- and under-payments for each program.*

**V. RECOVERY AUDITING REPORTING**

The Department utilizes a number of different mechanisms to prevent, identify, and collect improper payments, to include recovery and contract auditing.

Regulatory requirements for a recovery auditing program state the importance of maintaining internal controls to prevent, detect, and recover overpayments to contractors. Similar guidance regarding the prevention and reporting of improper payments in OMB Circular No. A-123, Appendix C, states that an internal control program may include policies and activities such as:

- Prepayment reviews;
- A requirement that all relevant documents be made available before making payment (e.g. invoice, packing list, receiving report, inspection report);
- Payment of only original invoices (as opposed to photocopies); and
- Performance of contract audits.

The Department currently has all of these internal controls in place.

## Department of Defense Agency Financial Report for FY 2009

For prepayment reviews, the Department conducts manual reviews of payment documentation at various steps in the payment process. For example, DoD ensures all Certifying Officer Legislation requirements are met prior to payment certification to include receipt of proper documentation (invoice, receiving report and contract). In addition, the Department performs various pre-validation checks of vouchers certified for payment prior to payment based on payment amount, payment type, and so forth. BAM is currently being used to identify and prevent improper payments in DoD's four largest commercial payment systems (MOCAS, Caps-W, IAPS, and OnePay), accounting for 89 percent of all Defense commercial payments. As BAM matures and reviewers gain additional analytical expertise, more and more improper payments will be prevented before the "check goes out the door." These types of preventative (vs. detective) program integrity activities consistently prove to be the most cost-effective.

DFAS also identifies improper commercial payments based on overpayments made from previous invoices detected in the current pay cycle, overpayments discovered during the contract reconciliation process, and when payments are made to the incorrect vendor. Further, these improper payments are then captured in the Improper Payment On-line Database (IPOD) to identify and correct the cause(s) of the improper payment. This analysis allows management to determine if there is a systemic, training, or other type of challenge that needs to be resolved.

To further ensure proper identification and recovery of improper commercial payments, the Department also uses various post payment initiatives including periodic duplicate payment reviews performed by DFAS Internal Review for the four major commercial payment systems. DFAS Internal Review (IR) auditors analyze monthly extracts of invoice and disbursing data from payments made through these systems. They perform various quality control checks to ensure the data is consistent and reasonable as to volume and frequency. The DFAS IR auditors identify groups they believe to be duplicates and refer them to DFAS Accounts Payable staff for final determination. DFAS Accounts Payable staff then update IPOD with the agreed-upon determination and follow up to ensure all outstanding duplicate payments are recouped.

The DLA has an external contractor conducting post-payment recovery audits that began in April 2009. No results are yet available from this effort. In addition, the U.S. Army Corps of Engineers is developing recovery auditing algorithms using its Oracle financial systems data-mining tool. They are targeting implementation in early FY 2010.

Recovery Audit Activity	
Amount Subject to Review for Current Year (CY) 2009 Reporting	\$351,896,635,802
Actual Amount Reviewed and Reported (CY 2009)	\$351,896,635,802
Amounts Identified for Recovery (CY 2009)	\$94,172,157
Amounts Recovered (CY 2009)	\$41,051,023
Amounts Identified for Recovery (Prior Years)	\$119,293,207
Amounts Recovered (Prior Years)	\$101,676,003
Cumulative Amounts Identified for Recovery (CY 2009 and Prior)	\$213,465,364
<b>Cumulative Amounts Recovered (CY 2009 and Prior)</b>	<b>\$142,727,026</b>
<i>Note: The DoD IG issued Report No. D-2009-072, "Monitoring Powertrack Payments on DoD Freight," April 9, 2009. Because these payments are for transportation, the General Services Administration has legal purview over post-payment reviews and recoveries of improper payments. Therefore, the DCFO agreed with DoD IG recommendation to identify this payment area as high risk, and is working with the OUSD for Acquisitions, Technology, and Logistics to implement a stringent pre-payment system to prevent improper payments in the Powertrack system.</i>	

## **VI. ACCOUNTABILITY**

Certifying officer legislation holds certifying and disbursing officers accountable for government funds. In accordance with section 2773a of title 10, United States Code, pecuniary liability attaches automatically when there is a fiscal irregularity, i.e., (1) a physical loss of cash, vouchers, negotiable instruments, or supporting documents, or (2) an improper payment. Efforts to recover from a recipient must be undertaken in accordance with the debt collection procedures in Volume V, Chapters 29 and 30, of DoDFMR.

## **VII. INFRASTRUCTURE**

The Department has the information and infrastructure needed to reduce improper payments in each of the improper payment program areas. As stated in previous sections, DoD has implemented the BAM tool, which employs the latest technology to increase the efficiency and effectiveness of improper payment prevention efforts for commercial pay.

## **VIII. BARRIERS**

Military retirement is the only program area facing statutory or regulatory barriers limiting corrective actions. The barriers include: (1) the Retired and Annuitant Pay service contract and (2) the Federal Acquisition Regulation.

In January 2002, DFAS awarded the Retired and Annuitant Pay service operations to a contractor. Although most functions remained unchanged from when the Government performed these functions, there are now contractual limits to the Government's involvement in the day-to-day operations of Retired and Annuitant Pay. The Continuing Government Activity Office was formed to oversee this contract; however, the Government can no longer direct how the work is accomplished. To bring about an operational change, both the Government and the contractor must agree on how to effect and fund the change. The Federal Acquisition Regulation requires a contract modification for any scope change to the current contract.

In an effort to overcome many of these barriers, DFAS, under the authority of SEC 324, NDAA 2008 is migrating the management and operation of Retired and Annuitant Pay back to the federal sector. This is expected to generate, more flexibility, equal or better customer service, and \$20-23 million in savings over 10 years. Conversion is scheduled for February 1, 2010.

# **WELCOME TO THE DEPARTMENT OF DEFENSE**

**We are interested in your feedback  
regarding the content of this report.**

**Please feel free to send your comments  
or requests for copies of this report to**

**DoDAFR@osd.mil**

**or**

**United States Department of Defense  
Office of the Under Secretary of Defense (Comptroller)  
1100 Defense Pentagon  
Washington, DC 20301-1100**

**You may also view this document at:  
[www.defenselink.mil/comptroller/afr](http://www.defenselink.mil/comptroller/afr)**