



DEPUTY SECRETARY OF DEFENSE
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The leadership of the Department of Defense (the Department) recognizes the importance of establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-127, "Financial Management Systems." The Department continues to focus on strengthening the Managers' Internal Control Program, despite this resource-constrained environment, to exceed the objectives.

During this past fiscal year, the Department performed validations of select internal control programs. The purpose of the validations was to determine if the organization: (1) protected its resources against waste, fraud, and inefficiency; (2) ensured accuracy and reliability in accounting and operating data; and (3) complied with the policies of the organization. An independent assessment team provided the Components with written feedback for improvements.

The Department conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Based on the results of this assessment, the Department can provide qualified assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations achieved the objectives of the FMFIA, as of September 30, 2012. Details of the material weaknesses identified are available in Addendum A, "Other Accompanying Information."

The Department conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, "Internal Control over Financial Reporting." This assessment determined that, while the Department continues to achieve measurable progress, it cannot provide reasonable assurance that internal controls over financial reporting were effective as of June 30, 2012. Related to this financial reporting assessment, as of September 30, 2012, the Department's financial systems are not in compliance with the FFMIA and OMB Circular A-127. Details of the material weaknesses also are available in Addendum A.

Improvements in the Department's financial processes remain the focus of the Department's Financial Improvement and Audit Readiness initiative and systems modernization efforts. The Department remains fully committed to a culture centered on an effective control environment.

A handwritten signature in black ink, appearing to read "Carlisle S. Cat".

