OFFICE OF THE SECRETARY OF DEFENSE
1950 DEFENSE PENTAGON
WASHINGTON, DC 20301-1950

ADMINISTRATION AND
MANAGEMENT

APR 26 2011

MEMORANDUM FOR UNDER SECRETARIES OF DEFENSE
DEPUTY CHIEF MANAGEMENT OFFICER
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
ASSISTANT TO THE SECRETARY OF DEFENSE
(INTELLIGENCE OVERSIGHT)
DIRECTOR, COST ANALYSIS AND PROGRAM
EVALUATION
DIRECTOR, NET ASSESSMENT
DIRECTOR, JOINT IMPROVISED EXPLOSIVE DEVICE
DEFEAT ORGANIZATION

SUBJECT: Guidance for Preparation of the FY 2011 Statement of Assurance

This memorandum conveys the guidance for preparing the FY 2011 Statement of Assurance (SOA). Part I of the attached guidance provides information on how to prepare your FY 2011 SOA, and Part II provides scorecard information on how the Component SOAs will be graded this year. DoD Components are required to submit to the Secretary of Defense an annual SOA signed by the Component Head. This is a standing requirement of DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," dated July 29, 2010, which provides policy and procedures for the MICP to comply with the Federal Managers' Financial Integrity Act of 1982.

The Office of the Director, Administration and Management (ODA&M), compiles the annual SOA for the Office of the Secretary of Defense (OSD) Principal Staff Assistants (PSAs) and the DoD Field Activities. These organizations must provide a FY 2011 SOA signed by the OSD PSA or the Principal Deputy, with an assessment of the internal control systems in place for the OSD staff elements and DoD Field Activities under their cognizance. The OSD PSAs also must address the DoD systemic weaknesses falling within their areas of functional responsibility, as well as any new systemic weaknesses, in their FY 2011 Statements.

Statements from DoD Field Activities, signed by the Director or Deputy Director, shall be submitted through their respective OSD PSAs. Please note that OSD PSAs may set earlier internal due dates for their DoD Field Activities as they deem necessary to complete this requirement on time. Statements from the OSD PSAs are due to the ODA&M, Directorate for Organizational and Management Planning, by Monday, July 11, 2011, in both paper copy and an electronic version (disk or e-mail). No extensions can be given to this suspense.

Defense Agencies have been directed in prior years by the DoD Program Manager to submit their SOAs through their respective OSD PSAs, prior to reporting to the Secretary of

Defense. To expedite this process, Defense Agencies should provide their SOAs to the PSAs' MICP coordinators who will, in turn, assist them in getting the SOAs staffed through the PSA or Principal Deputy. Please note that the Directors or the Deputy Directors of the Defense Agencies are the ones who actually approve their SOAs; the SOAs are submitted through the PSA or Principal Deputy for coordination (line through/signature) and to provide situational awareness. However, it remains the responsibility of the Defense Agencies to meet suspenses and track their SOAs through final submission. This requirement will continue for the FY 2011 reporting requirement.

All OSD PSAs and DoD Field Activities must comply with the attached guidance. In addition, the Under Secretary of Defense (Acquisition, Technology, and Logistics), the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO), the Under Secretary of Defense (Personnel and Readiness), and the DA&M are required to submit SOAs and documentation for their Internal Control Over Financial Reporting (ICOFR) and Internal Control Over Financial Systems (ICOFS) in accordance with separate guidance issued by the USD(C)/CFO.

You are reminded that prompt resolution of previously-reported material or systemic weaknesses is a hallmark of good stewardship. All efforts should be made to correct these weaknesses in accordance with identified milestones and targeted completion dates.

If you have had a turnover in MICP coordinators this past year, please provide the names and contact information to Ms. Paula Rebar at 703-614-4219, e-mail Paula.Rebar@osd.mil.

We appreciate your cooperation and attention to this year's SOA.

Regina F. Meiners
Director for Organizational
and Management Planning

Attachments:
As stated

cc:
Director, Defense Media Activity
Director, Defense Prisoner of War/Missing Personnel Office
Director, Defense Technical Information Center
Director, Defense Technology Security Administration
Director, Department of Defense Education Activity
Director, Department of Defense Human Resources Activity
Director, Test Resource Management Center
Director, TRICARE Management Activity
Director, Washington Headquarters Services

PART I

GUIDANCE

FOR THE PREPARATION OF THE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

ANNUAL STATEMENT OF ASSURANCE

FOR THE

OFFICE OF THE SECRETARY OF DEFENSE (OSD)

AND THE

DOD FIELD ACTIVITIES

FISCAL YEAR 2011

Attachment

PART I

TABLE OF CONTENTS

Requirements, Guidelines, Instructions, and Definitions

Page

Annual Statement of Assurance (SOA) for Federal Managers' Financial Integrity Act (FMFIA) for Office of the Secretary of Defense (OSD) Principal Staff Assistants (PSAs) and Their DoD Field Activities.....4
Guidelines for Internal Control Over Nonfinancial Operations (ICONO) SOA.....9
Guidelines for Managing an Effective Managers' Internal Control Program (MICP).....15
Conceptualizing a Material Weakness for ICONO Reporting Only.....15
Conceptualizing a Material Weakness for Internal Control Over Financial Reporting (ICOFR) Only.....17
Instructions for Tab B Format.....21
Guidelines for ICOFR SOA.....32
Definitions - DoD Internal Management Control Reporting Functional Categories.....45

Tables

Table 1 - OSD PSAs/DoD Field Activities Required to Submit FY 2011 SOAs to OSD Director of Administration and Management (DA&M).....6
Table 1A - DoD Components Required to Submit FY 2011 SOAs to the Secretary of Defense.....7
Table 2 - Defense Agencies Required to Coordinate through OSD PSAs Prior to Reporting to the Secretary of Defense.....8

Templates

Template 1 - SOA When No ICOFR is Required.....12
Template 2 - (Tab A) Description of the Concept of Reasonable Assurance and How the Evaluation Was Conducted.....18
Template 3 - (Tab B-1) List of All Uncorrected and Corrected Material Weakness(es).....22
Template 4 - (Tab B-2) Uncorrected Material Weakness(es) Status of Corrective Actions...24
Template 5 - (Tab B-3) Material Weakness(es) Corrected This Period.....29
Template 6 - ICOFR SOA Sample Memorandum.....34
Template 7 - Internal Control Over Financial Systems (ICOFS) Process.....42

PART 1

Table of Contents (Continued)

Examples

Page

Example 1 - SOA When No ICOFR is Required.....14
Example 2 - (Tab B-1) List of All Uncorrected and Corrected Material Weaknesses.....23
Example 3 - (Tab B-2) Uncorrected Material Weakness(es) Identified During Prior Periods.....27
Example 4 - (Tab B-3) Material Weakness(es) Corrected This Period Identified During Prior Periods.....30
Example 5 - ICOFR SOA.....36
Example 6 - (Tab D-1) List of All Uncorrected and Corrected Material Weaknesses.....37
Example 7 - (Tab D-2) Uncorrected Weaknesses Identified During the Period.....38
Example 8 - (Tab D-3) Material Weaknesses Corrected Identified During Prior Periods.....40

REQUIREMENT

ANNUAL STATEMENT OF ASSURANCE (SOA) FOR THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) FOR THE OFFICE OF THE SECRETARY OF DEFENSE (OSD) PRINCIPAL STAFF ASSISTANTS (PSAs) AND THEIR DoD FIELD ACTIVITIES

In accordance with DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," dated July 29, 2010, the Internal Control Over Non-Financial Operations (ICONO) Statement of Assurance (SOA) shall disclose material weaknesses identified through an assessment that tests the effectiveness of the OSD Principal Staff Assistants' (PSAs')/DoD Field Activities' internal management control for all mission essential programs, administrative, and operational activities, except financial reporting and financial systems, and describes the plans and schedules to correct those weaknesses.

Those OSD PSAs that have Internal Control Over Financial Reporting (ICOFR) requirements, as identified in separate guidance provide by the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO), will be required to provide an ICOFR SOA on the effectiveness of the ICOFR and the Internal Control over Financial Systems (ICOFS) SOA on whether financial systems conform to Federal requirements.

This guidance includes an explanation on how to assess ICONO and OCOFS. Guidance is also available on the following web site: http://comptroller.defense.gov/micp.html. A separate document entitled "Fiscal Year 2011 Guidance for Implementing Office of Management and Budget (OMB) Circular A-123, Appendix A: Internal Control over Financial Reporting (ICOFR)," dated October 5, 2010, (posted at the referenced web site) provides information on all reporting requirements for ICOFR for the timeframe July 1, 2010, through June 30, 2011.

The OSD PSA or Principal Deputy must sign the SOA. This signature authority may not be delegated below the Principal Deputy level. **For DoD Field Activities, the Director or the Deputy Director must sign the Statement. All submissions from the DoD Field Activities must be submitted through their respective OSD PSAs.**

Last year, all MICP coordinators were provided with an electronic copy of the FY 2010 OSD and DoD Field Activities SOA, as well as hard copies of the Statement for those who requested it.

Submission Date: The suspense date is not later than Monday, July 11, 2011, with no extensions given. DoD Component Heads (of which OSD is one) must submit their SOAs to the DoD Program Coordinator not later than September 1, 2011. Therefore, the due date for OSD PSAs and their DoD Field Activities is set for July 11, 2011. The DoD Field Activities must have their SOAs submitted to their respective PSAs in sufficient time to allow a PSA review, so due dates may be set earlier by the respective PSAs.

All reporting entities must submit their SOAs following the format and content requirements of this guidance. Each reporting entity must provide both electronic and hard copies of its FY 2011 SOA. The electronic version should be e-mailed to Paula.Rebar@osd.mil. For SOAs exceeding 100 pages in length, please submit them on disk rather than by electronic mail. **The hard and electronic versions of the SOAs must be submitted to the following address:**

Office of the Secretary of Defense
Director, Administration and Management (DA&M)
Room 3A866, The Pentagon
Washington, DC 20301-1950
Attention: Managers' Internal Control Program Coordinator

Defense Agencies must submit their SOAs through their respective OSD PSAs. The OSD PSAs' MICP coordinators will, in turn, assist the Defense Agencies in getting the SOAs coordinated with and approved by the PSA or the Principal Deputy. However, it remains the responsibility of the Defense Agencies to meet suspenses and track their SOAs through final submission. Please note that Defense Agency SOAs, once approved by their OSD PSAs, will be submitted directly to the DoD Program Coordinator.

Since FY 2003, the Department has used a scorecard to grade the performance of the DoD Components' SOAs. The scorecard grades five categories: 1) Timeliness; 2) Format, to include accuracy and completeness of the report; 3) Extent of organization-wide program execution; 4) Extent of organization-wide training conducted; and 5) Weakness reporting, which includes full disclosure and prompt resolution of previously-reported weaknesses. The scorecard criteria for FY 2011 are contained in Part II of this guidance.

Timely reporting is essential. Late statements jeopardize the entire Department's ability to meet the OMB deadlines. PSAs are encouraged to submit their SOAs on or in advance of the suspense date of July 11, 2011.

TABLE 1

OSD PSAs/DoD FIELD ACTIVITIES REQUIRED TO SUBMIT FY 2011 SOAs FOR INTERNAL CONTROL OVER NONFINANCIAL OPERATIONS (ICONO) TO OSD DIRECTOR OF ADMINISTRATION AND MANAGEMENT (DA&M)

Reporting Entities Required to Submit Internal Control Over Nonfinancial Operations (ICONO) SOAs (*Note: USD(AT&L), USD(C)/CFO, USD(P&R), and the DA&M to provide Internal Control Over Financial Operations (ICOFR) SOAs; as required, entities to provide Internal Control Over Financial Systems (ICOFS) SOAs
Acquisition, Technology, and Logistics (USD(AT&L)) (Includes Office of Economic Adjustment)* • Defense Technical Information Center (DTIC) • Defense Test Resource Management Center (TRMC)
Policy (USD(P)) • Defense Prisoner of War/Missing Personnel Office (DPMO) • Defense Technology Security Administration (DTSA)
Comptroller (USD(C)/CFO)*
Personnel & Readiness (USD(P&R))* • DoD Education Activity (DoDEA) • Defense Human Resources Activity (DHRA) • Tricare Management Activity (TMA)
Intelligence (USD(I))
Deputy Chief Management Officer (DCMO)
Public Affairs (ASD(PA)) • Defense Media Activity (DMA)
Legislative Affairs (ASD(LA))
Networks and Information Integration (ASD(NII)/DoD CIO)
General Counsel of the Department of Defense (GC, DoD) • Defense Legal Services Agency (DLSA)
Director, Cost Assessment and Program Evaluation (DCAPE)
Director, Operational Test and Evaluation (DOT&E)
Director, Net Assessment (DNA)
Director, Administration and Management (DA&M)* • Washington Headquarters Services (WHS)
Assistant to the Secretary of Defense (Intelligence Oversight) (ATSDIO)
Director, Joint Improvised Explosive Device Defeat Organization (JIEDDO)

TABLE 1A

DoD COMPONENTS REQUIRED TO SUBMIT FY 2011 SOAs TO THE SECRETARY OF DEFENSE

Internal Control Over Financial Reporting (ICOFR) SOAs ONLY
DoD Financial Reporting, under the DoD Senior Assessment Team (As directed by separate guidance issued by the USD(C)/CFO)
Internal Control Over Non-Financial Operations (ICONO) ONLY
Business Transformation Agency
Defense Contract Management Agency
Defense Security Cooperation Agency
Joint Staff
Multi-National Forces – Iraq
National Defense University
North American Aerospace Defense/United States Northern Command
Pentagon Force Protection Agency
United States Africa Command
United States European Command
United States Transportation Command
United States Pacific Command
United States Southern Command
United States Joint Forces Command
United States Central Command
United States Strategic Command
Internal Control Over Non-Financial Operations (ICONO), Internal Control Over Financial Operations (ICOFR), and Internal Control Over Financial Systems (ICOFS) SOAs
Office of the Secretary of Defense (Prepared by Director of Administration and Management)
Department of the Army
Department of the Navy (Includes Marine Corps)
Department of the Air Force
United States Special Operations Command
Defense Advanced Research Projects Agency
Defense Commissary Agency
Defense Contract Audit Agency
Defense Finance and Accounting Service
Defense Information Systems Agency
Defense Intelligence Agency
Defense Logistics Agency
Defense Security Service
Defense Threat Reduction Agency
Office of the Inspector General, Department of Defense
Missile Defense Agency
National Geospatial - Intelligence Agency
National Security Agency/Central Security Service

TABLE 2

DEFENSE AGENCIES REQUIRED TO COORDINATE THROUGH OSD PSAs PRIOR TO REPORTING TO THE SECRETARY OF DEFENSE

Beginning in FY 2008, DoD Agencies were required to submit their SOAs through their respective OSD PSAs prior to reporting to the Secretary of Defense. To help complete the coordination process, the Defense Agency SOAs should be provided to the PSAs' MICP coordinators who will, in turn, assist in getting the SOAs staffed through the PSA or Principal Deputy. However, it remains the responsibility of the Agencies to meet suspenses and track their SOAs through final submission.

PSAs Aligned with Their Defense Agencies
Acquisition, Technology, and Logistics - USD(AT&L) • Defense Advanced Research Projects Agency • Defense Contract Management Agency • Defense Logistics Agency • Defense Threat Reduction Agency • Missile Defense Agency
Policy - USD(P) • Defense Security Cooperation Agency
Comptroller - USD(C)/CFO • Defense Contract Audit Agency • Defense Finance and Accounting Service
Personnel and Readiness - USD(P&R) • Defense Commissary Agency
Intelligence - USD(I) • Defense Intelligence Agency • Defense Security Service • National Geospatial-Intelligence Agency • National Security Agency/Central Security Service
Deputy Chief Management Officer - (DCMO) • Business Transformation Agency (Note: Agency being disestablished but FY 2011 SOA required)
Networks and Information Integration - ASD(NII)/DoD CIO (ASD(NII) being disestablished but FY 2011 SOA required) • Defense Information Systems Agency
Director of Administration and Management - (DA&M) • Pentagon Force Protection Agency

Note: The National Defense University will continue to report directly to the Secretary of Defense without prior coordination as specified by its higher headquarters at the Joint Staff.

GUIDELINES
FOR
INTERNAL CONTROL OVER NONFINANCIAL OPERATIONS (ICONO) SOA

The ICONO SOA will disclose material weaknesses identified through assessments of the effectiveness and efficiency of overall operations and compliance with applicable laws and regulations for all mission-essential programmatic, administrative, and operational activities, except financial reporting and financial systems, which are described in the following sections for ICOFR and ICOFS. This SOA will describe the plans and schedules to correct any material weaknesses reported.

The SOA is effective ***as of the date the statement is signed.*** If a material weakness is expected to be corrected within the 4th Quarter of FY 2011 but all actions are not completed as of the date the SOA is signed, the OSD PSA or Principal Deputy (Director or Deputy Director of DoD Field Activities) should report the material weakness as still ongoing and reschedule the completion in the 1st, 2nd, 3rd or 4th Quarter, FY 2012. In order to meet projected milestones, reporting entities should use caution in projecting the 4th Quarter as the completion date if the entity routinely concludes the SOA process in the 3rd Quarter.

The list of OSD PSAs (and their respective DoD Field Activities) required to submit ICONO SOAs is shown on Table 1 on page 6 of this guidance. Each ICONO SOA submission shall consist of the following:

1. A memorandum **addressed to the OSD Director of Administration and Management, and signed by the PSA or the Principal Deputy**, providing the assessment by the reporting entity's senior leader on whether there is reasonable assurance that the reporting entity's internal management control is in place, operating effectively, and being used for all mission-essential nonfinancial programs, administrative, and operational activities, which includes the effectiveness and efficiency of operations and compliance with applicable laws and regulations. DoD Field Activity SOAs must be signed by the Director or Deputy Director and submitted to their respective OSD PSAs. If the reporting entity is identified as having ICOFR or ICOFS requirements, it must also follow the instructions for the ICOFR SOA contained in this guidance (and the applicable October 5, 2010, USD(C) /CFO guidance). The ICONO SOA must take one of the following three forms: (See Template 1 and Example 1 of this guidance.)

a. An unqualified SOA (reasonable assurance with no material weaknesses reported). Each unqualified SOA shall provide a firm basis for that position, which the PSA or Principal Deputy (the Director or Deputy Director for DoD Field Activities) will summarize in the cover memorandum. Tab A will contain a more extensive explanation of how the assessment helped justify the reporting entity's assertion of an unqualified statement.

b. A qualified SOA (reasonable assurance with the exception of one or more material weakness(es) noted). The cover memorandum must cite the material weaknesses in internal management control that preclude an unqualified statement. Tab B will fully describe

all weaknesses, the corrective actions being taken, and by whom, and the projected dates of correction for each action.

c. A statement of no assurance (no reasonable assurance because no assessments were conducted or the noted material weaknesses are extensive and/or pervasive). The reporting entity shall provide a detailed rationale for this position.

2. Tab A: A description of how the reporting entity conducted its assurance evaluation and, based on that evaluation, a description of how the reporting entity achieved this level of reasonable assurance. See Template 2 in this guidance. In addition, Tab A should include a brief summary of the most significant actions taken by the reporting entity during FY 2011 to strengthen specific internal management control, MICP execution, internal control training, and other improvements. Examples of other improvements are the protection of government assets, efficiency of operations, conservation of resources, and improvements to customer needs.

3. Tab B-1: A list of the titles of all uncorrected and corrected material weaknesses. See Template 3 and Example 2 in this guidance.

4. Tab B-2: Detailed narrative descriptions of all uncorrected material weaknesses including the plans and schedules for the corrective action(s). Include those weaknesses identified during the current year and those disclosed in prior years with updated information. Narratives for updating material weaknesses identified in prior years will explain the rationale for any changes to previously-reported corrective milestone dates. See Template 4 and Example 3 in this guidance.

5. Tab B-3: A brief narrative describing the material weaknesses corrected in the current year, including the most significant actions taken to correct the weakness. This section will include all material weaknesses corrected in FY 2011 that were identified in either current or prior year(s). For each corrected material weakness, the last milestone will describe the method used to validate the corrective action to include a certification that the corrective action has effectively resolved the weakness. See Template 5 and Example 4 in this guidance.

6. Tab C: **Used only by the OSD PSAs/Director of Administration and Management in reporting Internal Control Over Nonfinancial Operations (ICONO) Systemic Weaknesses for the OSD SOA**. Nonfinancial systemic weaknesses are defined as those weaknesses that materially affect internal management control, usually affecting multiple DoD Components and reported by more than one DoD Component or by the OSD PSA as pervasive problems across the Department of Defense. There were four ongoing systemic weaknesses reported in the FY 2010 DoD SOA as shown below. The OSD PSAs must identify and/or report to the OSD DA&M the status of any systemic weakness that falls within their areas of functional responsibility. **In their FY 2011 SOAs, the OSD PSAs must use the identical title and, if possible, the same description as listed below.** In the event that the description needs modification, first provide the new description, followed by the words "formerly described as" and include the old description. This provides sufficient

crosswalk to the previously-reported weakness to prevent confusion in reporting. The DA&M will then consolidate and report these systemic weaknesses in the OSD SOA using the weakness status format as described in the Tab B format in this guidance. The four ongoing systemic weaknesses reported in the FY 2010 SOA are:

a. **Management of Information Technology and Assurance** – 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. (Office of the Assistant Secretary of Defense (Networks and Information Integration))/DoD Chief Information Officer)

b. **Personnel Security Investigations Program** – Security clearances and personnel security investigations are key elements in protection National security by determining whether an individual should be granted access to classified information, accessed or retained in the military, or employed. Department of Defense hiring is adversely affected because personnel security investigations are backlogged. (Office of the Under Secretary of Defense (Intelligence))

c. **Internal Control Over Contingency Contracting** – The GAO reported in audit reports from 2003 to 2008 three major weaknesses associated with contingency contracting at the Army to include: 1) Failure to follow long-standing planning guidance and to adequately factor use and role of contractors into planning; 2) failure to systematically collect and distributed "lessons learned"; and 3) lack of comprehensive training for contract oversight personnel and military commanders. (Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics))

d. **DoD Financial Management Systems and Processes** – DoD financial systems and business management systems and processes are costly to maintain and operate, not fully integrated, and do not provide information that is reliable, timely, and accurate. In addition, the Department has reported this issue as noncompliance with the Federal Financial Management Improvement Act of 1996. (Office of the Under Secretary of Defense (Comptroller))/Chief Financial Officer)

TEMPLATE 1

SOA WHEN NO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICOFR) IS REQUIRED

SAMPLE MEMORANDUM

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT

(PSAs and DoD Field Activities must address the cover memorandum to the OSD DA&M and follow the format for the memorandum as prescribed. The memorandum may be returned for revision if addressed to other than the OSD DA&M, which could adversely affect the accuracy and timeliness of the SOA.)

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

As **(title of PSA/Principal Deputy or Director/Deputy Director of DoD Field Activity)** of **(name of reporting entity)**, I recognize that the **(name of reporting entity's)** management is responsible for establishing and maintaining effective internal management control to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide **[the statement must take one of three forms:** an unqualified statement of reasonable assurance **(no material weaknesses being reported);** a qualified statement of reasonable assurance **(one or more material weaknesses being reported); or** no assurance **(no processes in place to assess the internal management control or pervasive material weaknesses that cannot be assessed)]** that the **(name of reporting entity)** internal management control meets the objectives of FMFIA overall programs, administrative, and operations **(if qualified)** with the exception of **(number)** material weakness(es) described in Tab B. These material weaknesses were found in internal management control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in Tab B, internal management control was operating effectively and no other material weaknesses were found in the design or operation of internal management control.

The PSA's/DoD Field Activity's statement will include the following paragraph only if the reporting entity identified material weaknesses, either in the current fiscal year or past fiscal years:

The **(name of reporting entity's)** FMFIA evaluation did identify material weaknesses. Tab B-1 is a list of material weaknesses that still require corrective action and those corrected during the period.

Tab B-2 is an individual narrative for each uncorrected material weakness listed in Tab B-1. **(Include the previous two sentences if your reporting entity has any uncorrected material weaknesses.)**

Tab B-3 is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your reporting entity corrected any material weaknesses during the past fiscal year.)**

(The statement must include the following :) Tab A provides additional information on how the **(name of reporting entity)** conducted the assessment of internal management control for the FMFIA overall nonfinancial operations, which was conducted according to OMB Circular A-123, "Management's Responsibility for Internal Control." In addition, Tab A provides a summary of the significant accomplishments and actions taken to improve **(name of reporting entity's)** internal management control during the past year.

(Signature of OSD PSA or Principal Deputy)
(Signature of Director or Deputy Director for DoD Field Activities)

EXAMPLE 1

SOA WHEN NO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICOFR) IS REQUIRED

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT

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

As Director of the Defense Aircraft Agency, I recognize that the Defense Aircraft Agency's management is responsible for establishing and maintaining effective internal management control to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide a qualified statement of reasonable assurance that the Defense Aircraft Agency internal management control meets the objectives of FMFIA overall programs, administrative, and operations with the exception of three unresolved material weaknesses described in Tab B. These material weaknesses were found in the internal management control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in Tab B, the internal management control was operating effectively and no other material weaknesses were found in the design or operation of the internal management control.

The Defense Aircraft Agency's FMFIA evaluation did identify material weaknesses. Tab B-1 is a list of material weaknesses that still require corrective action and those corrected during the period. Tab B-2 is an individual narrative for each uncorrected material weakness listed in Tab B-1. Tab B-3 is an individual narrative for each material weakness corrected during the period.

Tab A provides information on how the Defense Aircraft Agency conducted the assessment of internal management control for the FMFIA over nonfinancial operations, which was conducted according to OMB Circular No. A-123, "Management's Responsibility for Internal Control". In addition, Tab A provides a summary of the significant accomplishments taken to improve the Defense Aircraft Agency's internal management control during the past year.

Jane Deer
Director, Defense Aircraft Agency

GUIDELINES
FOR
MANAGING AN EFFECTIVE MANAGERS' INTERNAL CONTROL PROGRAM (MICP)

The MICP is mandatory for all sub-organizations within the reporting entity's chain of command, which are known as "assessable units". Failure of any assessable unit manager, who is the head of the assessable unit, to comply with the requirements of the DoD Instruction (DODI) 5010.40, "Managers' Internal Control Program (MICP) Procedures," dated July 29, 2010, and this annual guidance is the responsibility of the OSD PSA or the Director of the DoD Field Activity.

Assessable unit managers must assign an adequately trained coordinator to help effectively run their MICP, respond to higher headquarter requirements, and communicate and help educate the members of the assessable unit using various techniques. The assessable unit managers should ensure that the coordinators receive adequate training on their responsibilities.

CONCEPTUALIZING A MATERIAL WEAKNESS FOR ICONO REPORTING ONLY

Each manager is responsible for establishing internal management control in his or her area of responsibility and continuously assessing the effectiveness of the internal control to meet intended mission objectives. Reporting entities are expected to conduct, as a minimum, annual independent "self assessments" (internal control reviews) of high risk assessable units that may identify internal management control weaknesses. Management should avoid duplication of ongoing reviews or inspections of internal management control. **Continuous monitoring, supplemented by periodic assessments, must be documented and maintained in enough detail to support management's assertion as to the effectiveness of internal management control.** In addition, management is required to keep, and be able to provide, a documented audit trail of assessments.

Managers will identify, track, and resolve deficiencies and reportable conditions, which are also known as significant deficiencies. Managers will only report material weaknesses deemed serious enough in nature to warrant reporting to the next higher level. When determining a material weakness, leadership should consider the following as indicators that can be used in deciding whether a weakness is considered material.

1) Actual or potential loss of resources.
2) Sensitivity of the resources involved.
3) Magnitude of funds, property, or other resources involved.
4) Current or probable media interest or adverse publicity.
5) Current or probable Congressional interest.
6) Unreliable information causing unsound management decisions.
7) Diminished credibility or reputation of management.
8) Impaired fulfillment of essential mission or operations.
9) Violation of statutory or regulatory requirements.

10) Impacts on information security.
11) Instances where the public is deprived of needed Government services.

The designation of a material weakness is a management judgment that should be based on relative risk. Although the appearance of a weakness in an audit report does not necessarily warrant reporting it as a material weakness, OMB Circular No. A-123 states that the designation of a control weakness as material should be given to serious deficiencies reported in audit reports.

Only documented material weaknesses that follow the Tab B format will be recognized by the Department as reported material weaknesses. Any issues classified otherwise; e.g., "areas of concern," will not be deemed as material weaknesses, but rather for managerial information purposes only.

Once a material weakness is reported by a reporting entity, there must be status reports provided annually. The final status report must indicate that the material weakness was corrected and include a description of the validation technique. The validation may either be a documented independent audit review or the accomplishment of a pre-established, reported metric. When a function has been officially transferred to another reporting entity, the losing organization can report the material weakness as "closed," provided that the reporting entity has no remaining actions to fulfill in resolving the material weakness. The gaining organization should seriously consider reporting any material weakness that existed prior to the transfer of the function.

Once reported, material weaknesses should never reappear as a new, re-titled weakness even when a subsequent audit report has revealed new instances of the same problem. Instead, the original weakness should reflect that it was completed. The new instance should retain the same name as the original weakness but show a new date identified. For example, consider a material or systemic weakness that a reporting entity originally identified in FY 2008 and corrected in FY 2009. Then in FY 2011, audit reports identify related problems, and the reporting entity wants to report it as a new material weakness in FY 2010. The material weakness should retain the same title as the original, but the "Year Identified" date would now appear as FY 2011, not FY 2008.

Reporting entities should be careful in defining and setting the scope of the material weakness problem. For example, if the deficiency is due to inadequate control for effectively implementing the equal employment opportunity (EEO) requirements, the reported weakness and milestones should address that problem. It is incorrect to define the problem in a broad category such as the civilian hiring practices, and then include corrective actions that narrowly address the deficiency in the EEO requirements. In this case, the definition and specification of the weakness scope are too broad.

Sometimes it is preferable to address several related problems in one weakness statement. However, reporting entities should be cautious when defining a weakness. For example, in addition to the hypothetical weakness stated above, a reporting entity might have concluded that there are other control problems related to civilian hiring practices. Combining several problems and reporting one weakness under a broad statement that the

reporting entity will correct deficiencies in civilian hiring practices may overstate the dimensions of the weakness. Confine the weakness statement to the scope of the specific problem(s) originally addressed. Consolidation of like weaknesses into a single comprehensive weakness is encouraged only when appropriate conditions apply. Avoid bundling a number of related weaknesses or newly-identified problems for the principal purpose of reducing the number of material weaknesses reported. Weaknesses defined too broadly are very difficult to resolve and usually result in repeatedly missed targeted correction dates.

Reporting the same material weakness; i.e., same title, same description, as "corrected" and "ongoing" or "new" in the same year is not acceptable. Doing so gives the appearance of resolving more material weaknesses than is accurate.

CONCEPUTUALIZING A MATERIAL WEAKNESSES FOR ICOFR REPORTING ONLY

For determining material weaknesses for the FMFIA ICOFR SOA, managers must strictly adhere to the OUSD(C) /CFO guidelines in "Fiscal Year 2011 Guidance for Implementing Office of Management and Budget (OMB) Circular A-123, Appendix A: Internal Control Over Financial Reporting (ICOFR)," dated October 5, 2010.

TEMPLATE 2

TAB A

DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

This section describes the concept of reasonable assurance and the evaluation process used. In Tab A, use the following template to help describe the concept of reasonable assurance:

The **(name of reporting entity)** senior management evaluated the system of internal accounting and administrative control, in effect during the fiscal year as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982". Included is an evaluation of whether the system of internal accounting and administrative control for the **(name of reporting entity)** is in compliance with standards prescribed by the Comptroller General. **NOTE: If a self-evaluation of the system of internal accounting and administrative control was not conducted, or the evaluation was insufficient when compared to the guidelines, indicate that fact and provide an explanation.**

The objectives of the system of internal accounting and administrative control of the **(name of reporting entity)** are to provide reasonable assurance that:

The obligations and costs are in compliance with applicable law;

Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and

Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports and to maintain accountability over the assets.

The evaluation of internal management control extends to every responsibility and activity undertaken by **(name of reporting entity)** and applies to program, administrative, and operational control. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal management control should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

The **(name of reporting entity)** evaluated the system of internal management control in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the **(name of reporting entity)** in effect during Fiscal Year **(year, i.e., 2011)** as of the date of this memorandum, taken as a whole, **(complies/does not comply)** with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Using the following process for conducting the evaluation, the **(name of reporting entity)** evaluated its system of internal accounting and administrative control and maintains sufficient documentation to support its evaluation and level of assurance. Additionally, the **(name of reporting entity)** maintains an audit trail of the evaluation process. **(Below is a list of items that the OSD PSA or DoD Field Activity should consider for explaining how the organization conducted the evaluation.)**

1. The progress achieved in institutionalizing internal management control (i.e., a brief description of how the MICP is applied or reviewed for compliance also could be used here if it has already been fully implemented);

2. Any improvements to MICP coverage (address the expected benefits and related costs of control procedures using estimates and managerial judgment);

3. A description of the problems encountered in implementing the MICP;

4. Other considerations (e.g., resource constraints, technological bottlenecks, and operational or mission considerations) affecting the MICP;

5. Any deviations from the process as outlined in the OMB Circular No. A-123;

6. Any special concerns addressed in reports by the Inspector General of the Department of Defense (IG DoD) or Component audit, investigation, inspection and/or internal review organizations regarding MICP progress, needs, and/or problems;

7. Methods, mechanisms, or techniques employed in the discovery or execution phases of the program. The following are examples of methods, mechanisms, or techniques:

    a. MICP weakness tracking system (number of weaknesses and milestones);

    b. Component Inspector General or Audit Service findings;

    c. Reports of reporting entity's internal reviews and inspections;

    d. IG DoD reports and reviews;

    e. Most significant MICP accomplishments achieved during FY 2011;

    f. MICP training;

g. MICP performance standards (e.g., such as those found in the GAO Internal Control Management and Evaluation Tool, available at web site address: www.gao.gov/govaud/ybk01.htm);

h. GAO reports and reviews;

i. Review of OSD Functional Proponent Proposals (e.g., systemic weaknesses);

j. Information Technology initiatives;

k. MICP references in directives, regulations, and other guidance;

l. Congressional reviews and hearings;

m. Command or other subordinate organization "Certification Statements";

n. Productivity statistics;

o. Defense Regional Interservice Support studies;

p. Management reviews in other functional areas (e.g., procurement, communications, intelligence, financial, or environmental);

q. Quality Assurance reviews;

r. "Hot Line" reports;

s. Evidence that assessments have been conducted by including examples of deficiencies found that do not warrant reporting as material weaknesses and the actions taken or planned to resolve these deficiencies. Whenever possible, provide quantitative accomplishments; e.g., "reduced from 12 days to 4 days". Use the following format:

Description of Issue: Reconciliation of Government Purchase Card Accounts.

Accomplishments:

- By standardizing processes, limiting the number of purchase cardholders, and using automated tools, the elapsed time from billing period closing to forwarding the account reconciliation to the Defense Finance and Accounting Service (DFAS) has been reduced from 12 days to 4 days.

- FY 2011 1st Quarter rebates totaled $124,000 compared to FY 2010 1st Quarter of $65,000.

INSTRUCTIONS FOR TAB B FORMAT

MATERIAL WEAKNESS/CORRECTIVE ACTIONS

ALSO FOR TABS C, D, E, F, ETC., FOR SYSTEMIC WEAKNESS(ES) FORMAT AS WELL AS FOR ICOFR MATERIAL WEAKNESS(ES)

This section presents internal management control weakness information in three subset tabs:

1. A listing of the titles of all uncorrected and corrected material weaknesses as of the conclusion of the current period along with actual and projected correction dates. (Tab B-1)

2. Narratives for the uncorrected material weaknesses identified in the summary listing. (Tab B-2)

3. Narratives for all material weaknesses corrected during the current period. (Tab B-3)

The three subset tabs are illustrated on the following pages.

TEMPLATE 3

TAB B-1 FORMAT

LIST OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESS(ES)

ALSO FOR TABS C-1, D-1, E-1, F-1, ETC., FOR SYSTEMIC WEAKNESS(ES) FORMAT AS WELL AS FOR FMFIA ICOFR MATERIAL WEAKNESS(ES)

Reporting entities should prepare this section after completing both Tabs B-2 and B-3 since Tab B-1 is a summary listing of Tabs B-2 and B-3 weakness titles and correction dates. Divide the material weakness titles into three groupings: Uncorrected Weaknesses Identified During the Period (the current fiscal year of FY 2011); Uncorrected Weaknesses Identified During Prior Periods; and Corrected Weaknesses Identified During All Periods.

Uncorrected Weaknesses Identified During the Period:

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

Uncorrected Weaknesses Identified During Prior Periods:

		Correction QTR & FY Date		
Title	**Year First Reported**	**Per Last Annual Statement**	**Per This Annual Statement**	**Page #**
(1)	(2)	(3)	(4)	(5)

Corrected Weaknesses Identified During All Periods:

Title	**Year First Reported**	**Page #**
(1)	(2)	(5)

NOTES:

(1) Titles should be identical to those found on the material weakness narratives provided in Tabs B-2 or B-3.

(2) Use the fiscal year in which this weakness was first reported.

(3) This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the reporting entity's FY 2010 SOA.

(4) This is the **quarter and fiscal year** noted as the targeted date for correction of the material weakness in the reporting entity's FY 2011 SOA.

(5) The page number is that of the first page of the material weakness narrative as found in Tabs B-2 or B-3.

EXAMPLE 2

TAB B-1

LIST OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
Category: Communications and/or Intelligence and/or Security		
Lack of Security Policy	2nd Qtr, FY 2012	Tab B-2-1

Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Correction Qtr & FY Date Per Last Annual Statement	Per This Annual Statement	Page #
Category: Contract Administration				
Contract Administration of Service Contracts	FY 2008	2nd Qtr, FY 2011	3rd Qtr, FY 2012	Tab B-2-6
Category: Information Technology				
Combating Computer Software Piracy	FY 2009	1st Qtr, FY 2011	1st Qtr, FY 2012	Tab B-2-8

Corrected Weaknesses Identified During All Periods:

Title	Year First Reported	Page #
Category: Supply Operations		
Independent Logistics Assessment (ILA) Process	FY 2007	Tab B-3-1
Category: Force Readiness		
Inadequate Procedures for Projecting Training Requirements	FY 2008	Tab B-3-5

TEMPLATE 4

TAB B-2

UNCORRECTED MATERIAL WEAKNESS(ES)
STATUS OF CORRECTIVE ACTIONS

ALSO FOR TABS C-2, D-2, E-2, F-2, ETC., FOR SYSTEMIC WEAKNESS(ES)
FORMAT AS WELL AS FOR FMFIA ICOFR MATERIAL WEAKNESS(ES)

This attachment should provide a narrative for each uncorrected material weakness identified by the reporting entity for which corrective actions have NOT been completed, regardless of the year of first reporting. Begin each weakness at the top of a new page. Group the narratives contained in Tab B-2 into two subsections: "Uncorrected Weaknesses Identified During the Period" and "Uncorrected Weaknesses Identified During Prior Periods".

The numbers and letters used below are provided only to assist in your comprehension of this annual guidance and should not appear in either your ICONO or ICOFR SOA. Only the headings should appear.

Spell out acronyms the first time they are used in each individual material weakness narrative. Deviation from this guidance may result in your reporting entity having to revise and resubmit the SOA. A delay due to a required revision has the potential to adversely affect the timeliness and accuracy of the DoD SOA.

Simplify your material weakness status reports to the greatest extent possible. **Avoid use of the passive voice, minimize the use of acronyms, and use "bullets" to describe both the actions taken and planned. Narratives should be succinct, void of technical jargon, and easy for the general public to interpret.**

The narratives shall follow the format below. **USE THE HEADINGS AS INDICATED BELOW IN BOLD TYPE IN THE EXACT SEQUENCE.** Do not exclude sections; if they are not applicable, simply note "N/A" following the heading. Do not include the numbers that appear before the headings below; they are included only to assist in your comprehension of this annual guidance. An example of Tab B-2 is shown in this guidance.

1. **Title and Description of Issue:** Provide title and confine the weakness description to three sentences, if possible.

2. **Functional Category:** Indicate one of the 17 functional categories provided in this guidance; e.g., "Force Readiness," "Financial Reporting," or "Financial System Conformance".

3. **Component:** Indicate which OSD PSA or DoD Field Activity is reporting the weakness for the ICONO. For an ICOFR weakness, indicate the organizational entity/Component and the name of the Financial Reporting Entity; e.g., Army Working Capital Fund; Component name is "Army;" Financial Reporting Entity is "Working Capital Fund".

4. **Senior Official In Charge:** Identify the name and title of the senior official in charge of ensuring this weakness is resolved according to targeted milestone projections. A senior official is a member of the highest level of management or leadership of the agency/PSA/DoD Field Activity who has ultimate responsibility for the resolution of the weakness. The OSD PSAs or Directors of the DoD Field Activities will require the addition of a critical element to the performance appraisal plan of the senior official that indicates that he/she is responsible for the effective and timely resolution of the material or systemic weakness.

5. **Pace of Corrective Action:** (For all targeted correction dates, the reporting entity must show both the Quarter and Fiscal Year, e.g., 1st Qtr, FY 2011, 2nd Qtr, FY 2012, etc.)

Year Identified: Fiscal year of the annual SOA in which the weakness was first reported.

Original Targeted Correction Date: Quarter and fiscal year of the targeted correction date when reporting entity first reported it.

Targeted Correction Date in Last Year's Report: Quarter and fiscal year of the targeted correction date as it was reported in the reporting entity's FY 2010 SOA.

Current Target Date: Quarter and fiscal year of targeted correction date per this SOA. This date must agree with the final date listed in the milestones.

6. **Reason For Change in Date:** Reason for change in quarter and fiscal year of **Current Target Date** from the **Target Correction Date in Last Year's Report** as indicated in item No. 5 above. If applicable, the reason for change should include a brief description of the impact; e.g., cost of delaying weakness.

7. **Validation Indicator:** Briefly indicate the methodology that the reporting entity will use to certify the effectiveness of the corrective action(s) and the projected date that the certification will take place. In addition, indicate the role that the IG DoD or the Component Audit Service will play in verification of the corrective action. Note: All weaknesses must list, as the last projected milestone, the validation technique to be used.

8. **Results Indicator:** Describe key results that have been or will be achieved in terms of performance measures. Performance measures are quantitative and/or qualitative measures that determine the benefits derived or that will be derived from the corrective action and the overall impact of the correction on operations. If monetary benefits are determinable, state that information here. NOTE: Specifically identify one or two defined performance measures or defined results that will be used to determine successful completion of the proposed remedial effort.

9. **Source(s) Identifying Weakness:** Use the following other applicable sources: (a) MICP evaluation; (b) IG DoD; (c) Component Audit Service; (d) GAO; (e) Component internal review organization; (f) Component IG; or (g) Integrated Financial System Assessment; or (h) Other. When audit findings are the source of weakness identification, identify the title, number, and date of the document in which the weakness was identified. If

the weakness was identified by more than one source, list all identifying sources in order of significance.

10. **Major Milestone to Include Progress to Date**: Use a milestone chart indicating actions taken and actions planned for the future. Separate milestones into three categories: (a) Completed Milestones; (b) Planned Milestones for Fiscal Year 2012; and (c) Planned Milestones Beyond Fiscal Year 2012. List only major milestones in chronological order by milestone completion date with the terminal milestone listed last. Begin each milestone action with an action verb. Provide the quarter and fiscal year that each major milestone is projected to be accomplished. **The terminal milestone is the final corrective action, and should either be, or include, the validation used to correct the weakness.**

EXAMPLE 3

TAB B-2

UNCORRECTED MATERIAL WEAKNESS(ES) IDENTIFIED DURING PRIOR PERIODS

Title and Description of Issue: Contract Administration of Service Contracts. There is a significant weakness in administering service contracts which includes ineffective planning for quality assurance requirements and inadequate training. A lack of surveillance plans has resulted in no systematic inspection system or effective documentation of contract performance. Procedures for validating and approving contractor invoices sometimes were inadequate and responsibilities and processes for approving invoices were not properly defined.

Functional Category: Contract Administration

Component: Army

Senior Official In Charge: Mr. Robert Taylor, Principal Deputy, Assistant Secretary of the Army (Acquisition, Logistics, and Technology)

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 2nd Qtr, FY 2010

Target Correction Date in Last Year's Report: 2nd Qtr, FY 2011

Current Target Date: 3rd Qtr, FY 2012

Reason for Change in Date: N/A

Validation Indicator: The United States Army Audit Agency (USAAA) will review the effectiveness of these corrective actions in resolving the material weakness.

Results Indicator: The Army has addressed every USAAA finding and initiated corrective action.

Source(s) Identifying Weakness: USAAA audit report, "Managing Service Contracts," Audit Report A-2005-0580-AMA.

Major Milestones to Include Progress to Date:

A. Completed Milestones:

Date:	Milestone:

Completed	Instructed contracting officers to orient evaluators on the specific types of contracts and specific contract links.
Completed	Clarified existing guidance on quality assurance surveillance plans. Recommended to Army Commands (ACOMs) that they review guidance on surveillance when performing contract management reviews.
Completed	Issued guidance to require contracting officers to periodically review the Contracting Officer Representative (COR) contract files and provide the review results to the activity director.

B. Planned Milestones for Fiscal Year 2012:

Date:	Milestone:
2nd Qtr, FY 2012	Issue guidance to the acquisition community instructing contracting officers to establish the appropriate responsibilities and limitations for appointment letters.
3rd Qtr, FY 2012	Validate that weakness is corrected and through audit conducted by USAAA.

C. Planned Milestones Beyond Fiscal Year 2012: N/A

TEMPLATE 5

TAB B-3

MATERIAL WEAKNESS(ES) CORRECTED THIS PERIOD

ALSO FOR TABS C-3, D-3, E-3, F-3, ETC., FOR SYSTEMIC WEAKNESS(ES) FORMAT AS WELL AS FOR FMFIA ICOFR MATERIAL WEAKNESS(ES)

Use Tab B-3 to provide a narrative for each material weakness for which corrective actions were completed in FY 2011. Begin each material weakness narrative at the top of a new page. Group information into two subsections: "Identified During the Period" and "Identified During Prior Periods".

For weaknesses appearing in TAB B-3, use the format and data requirements identified for Tab B-2, Item 10, "Major Milestones to Include Progress to Date". Begin each corrective action with an active verb in the past tense. Since this must be a corrective status, all actions must be reflected as "completed" milestones. Otherwise, the weakness cannot be classified as completed, and the reporting entity must continue to report it as ongoing in Tab B-2.

EXAMPLE 4

TAB B-3

MATERIAL WEAKNESSES CORRECTED THIS PERIOD IDENTIFIED DURING PRIOR PERIODS

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

Functional Category: Supply Operations

Component: Navy

Senior Official in Charge: Mr. John Paul Jones, Deputy Director of Supply and Acquisitions, Navy

Pace of Corrective Action:

Year Identified: FY 2007

Original Targeted Correction Date: 2nd Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 3rd Qtr, FY 2011

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Indicator: All corrective action(s) were certified by an internal review audit.

Results Indicator: Overall, the number of ILAs performed is accurate, and the results or the basis of the logistics certification is disclosed to the appropriate parties for making informed decisions.

Source(s) Identifying Weakness: Naval Audit Service (NAVAUDSVC, NAVAUDSVC Report No. N2000-0027, "Independent Logistics Assessment Process," June 27, 2006.

Major Milestones to Include Progress to Date:

A. Completed Milestones:

Date:	Milestone:
Completed	Revised Navy acquisition policy to clearly state: (a) whether performing independent assessments of logistics is a requirement, and is the basis for logistics certification; (b) the desired outcome of the ILA process, and (c) whether or not use of a Chief of Naval Operations (CNO) – validated assessment process is required.
Completed	Revised ILA policy to: (a) clearly articulate the desired outcome of the ILA process; (b) clarify the full scope of individual implementation procedures which include the overall management of ILAs and all associated responsibilities; (c) clearly define procedures for submitting the ILA implementation procedures for validation; and (d) provide guidelines for development and implementation that ensure timely and effective supportability review and an opportunity for the decision process prior to initial operational capability.
Completed	Revised guidance, which addresses ILAs in detail, to provide additional guidance to SYSCOMS, PEOs, and Program Managers.
Completed	Validated the weakness was corrected through an on-site internal review audit performed by the Naval Audit Service.

GUIDELINES
FOR
INTERNAL CONTROL OVER FINANCIAL REPORTING (ICOFR) SOA

The OSD PSAs and, in some cases, their DoD Field Activities, must prepare, in addition to their regular SOAs, ICOFR SOAs. These SOAs must be based on strict assessments, following the requirements of the 2011 guidance for ICOFR, as required by OMB Circular No. A-123, Appendix A, "Internal Control over Financial Reporting".

When assessments of internal management control within financial reporting disclose material weaknesses, the plans and schedules to correct them will use the same format for the material weakness status reports as provided for the Tab B format and Examples 6, 7, and 8 in this guidance. **The PSA or Principal Deputy of the reporting entity must sign the statement.** This signature authority may not be delegated below this level.

The SOAs will cover a one year period from July 1, 2010, through June 30, 2011, and will be effective **as of June 30, FY 2011.** If a material weakness is expected to be corrected within the 4th Quarter, FY 2011, but all actions are not completed as of June 30, the OSD PSA should report the material weakness as still ongoing.

Each SOA submission shall consist of the following:

1. A memorandum, as described in Template 6 and Example 5, shall be **addressed to the OSD Director of Administration and Management and signed by the PSA or Principal Deputy of the reporting entity**. The ICOFR SOA(s) will be presented in separate paragraph(s) on the same memorandum as the FMFIA Internal Control Over Nonfinancial Operations (ICONO) SOA. A separate paragraph will provide senior management's assessment on whether there is reasonable assurance that internal management control is in place, operating effectively, and being used. The level of assurance can be in one of three forms as discussed in the paragraphs below. A reporting entity could have an unqualified assurance Over Nonfinancial Operations and a qualified assurance Over Financial Reporting for the General Fund. In another example, a reporting entity could have a qualified assurance Over Nonfinancial Reporting an unqualified assurance for the General Fund, and no assurance for the Working Capital Fund. Remember, regardless of the number of financial reporting entities, a separate paragraph should report the assurance level for each one.

a. An Unqualified SOA (reasonable assurance that internal management control over financial reporting is effective, with no material weaknesses reported). Each unqualified statement shall provide a firm basis for that position, which the OSD PSA or Principal Deputy will summarize in the cover memorandum.

b. A Qualified SOA (reasonable assurance that internal management control over financial reporting is effective with the exception of one or more material weakness(es) noted). The cover memorandum must cite the material weakness(es) in internal management control that preclude an unqualified statement.

c. A Statement of No Assurance (no reasonable assurance because no assessments conducted or the noted material weaknesses are pervasive). The OSD PSA or Principal Deputy shall provide an extensive rationale for this position.

2. Tabs D-1, E-1, F-1, etc.: For each financial reporting entity, provide a list of the titles of all uncorrected and corrected material weaknesses. Use the same format as described in

Template 3 and Example 6 in this guidance. The numbering of the tabs will begin with Tab D because Tab B is for the material weaknesses Over Nonfinancial Operations, and Tab C is reserved for systemic weakness write-ups by the OSD PSAs. For example, if the OSD PSA has three financial reporting entities and each has material weaknesses that are being reported, Tab D-1 can provide the material weakness information for the first one, Tab E-1 is for the second, and Tab F-1 for the third. Each tab must reflect the name of the financial reporting entity for which it applies. Clear reporting is crucial.

3. Tabs D-2, E-2, F-2, etc. (Uncorrected Weaknesses): For each financial reporting entity, provide detailed narrative descriptions of all uncorrected weaknesses including the plans and schedules for the corrective actions. Use the instructions in Template 4 and Example 7 in this guidance.

4. TABs D-3, E-3, F-3, etc. (Corrected Weaknesses): For each financial reporting entity, provide a brief narrative describing the material weaknesses corrected in the current year, including the most significant actions taken to correct the weakness. Use the instructions in Template 5 and Example 8 in this guidance.

TEMPLATE 6

ICOFR SOA

SAMPLE MEMORANDUM

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT
(OSD PSAs must follow the format for the memorandum as prescribed.)

SUBJECT: Annual Statement Required under the Federal Managers' Financial Integrity Act \

As the OSD PSA or Principal Deputy of **(name of reporting entity),** I recognize that the **(name of reporting entity)** management is responsible for establishing and maintaining effective internal management control to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide **[the statement must take one of three forms:** an unqualified statement of reasonable assurance **(no material weaknesses being reported);** a qualified statement of reasonable assurance **(one or more material weaknesses being reported); or** no assurance **(no processes in place to assess the internal management control or pervasive material weaknesses that cannot be assessed)]** that the **(name of reporting entity)** internal management control meets the objectives of FMFIA overall programs, administrative, and operations, **(if qualified)** with the exception of **(number)** material weakness(es) described in Tab B. These material weaknesses were found in the internal management control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weaknesses noted in Tab B, internal management control was operating effectively and no other material weaknesses were found in the design or operation of internal management control.

The statement will include the following paragraph only if the reporting entity identified material weaknesses:

The **(name of reporting entity)** FMFIA evaluation did identify material weaknesses. Tab B-1 is a list of material weaknesses that still require corrective action and those corrected during the period. Tab B-2 is an individual narrative for each uncorrected material weakness listed in Tab B-1. **(Include the previous two sentences if your reporting entity has uncorrected material weaknesses.)** Tab B-3 is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your reporting entity corrected any material weaknesses during the past fiscal year.)**

(The statement must include the following.) Tab A provides additional information on how the **(name of reporting entity)** conducted the assessment of internal management control for the ICONO, which was conducted according to OMB Circular A-123. In addition, Tab A provides a summary of the significant accomplishments and actions taken to improve the **(name of reporting entity)** internal management control during the past year.

If applicable, include a separate paragraph stating the level of assurance for each financial reporting entity under the OSD PSA's purview. (See Table 3 in this guidance.)

The **(name of reporting entity)** conducted an internal management control assessment of the effectiveness of the **(FSRE's name)** internal management control over financial reporting for the following implementation area(s): **(List the implementation areas assessed.)** The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the Senior Assessment Team. Based on the results of this evaluation, I am able to provide **[The statement must take one of three forms:** an unqualified statement of assurance **(no material weaknesses being reported);** a qualified statement of assurance **(one or more material weaknesses being reported); or** no assurance **(no processes in place to assess the internal management control or pervasive material weaknesses that cannot be assessed)]** that the **(name of reporting entity)** internal management control over financial reporting implementation areas as of June 30, 2011, were operating effectively **(if qualified)** with the exception of **(number)** material weakness(es) described in Tab D **(or if more than one financial reporting entity, Tab E, F, etc.).** These material weaknesses were found in the internal management control over the reliability of financial reporting as of June 30, 2011. Other than the material weaknesses noted in Tab D **[(or if more than one financial reporting entity, Tab E, F, etc.),** the internal management control was operating effectively and no other material weaknesses were found in the design or operation of the internal management control over financial reporting for the **(name of the financial reporting entity).** Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the **(name of the financial reporting entity).**

The OSD PSA's statement will include the following paragraph if the reporting entity identified material weaknesses over financial reporting for one or more financial reporting entity:

The **(name of the financial reporting entity)** material weaknesses are described in Tab D. Tab D-1 **(or Tab E-1, F-1, etc., for each FRE)** is a list of material weaknesses that still require corrective action and those corrected during the period. Tab D-2 **(or Tab E-2, F-2, etc.)** is an individual narrative for each uncorrected material weakness listed in Tab D-1 **(or Tab E-1, F-1, etc.). (Include the previous two sentences if your reporting entity has uncorrected material weaknesses.)** Tab D-3 **(or Tab E-3, F-3, etc.),** is an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your reporting entity corrected any material weaknesses during the past fiscal year.)**

(Signature of OSD PSA or Principal Deputy)

EXAMPLE 5

ICOFR SOA

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT

SUBJECT: Annual Statement Required under the Federal Managers' Financial Integrity Act

As Director of the Defense Aircraft Agency, I recognize that the Defense Aircraft Agency's management is responsible for establishing and maintaining effective internal management control to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide an unqualified statement of reasonable assurance that the Defense Aircraft Agency's internal management control meet the objectives of the FMFIA overall programs, administration, and operations.

Tab A provides additional information on how the Defense Aircraft Agency conducted the assessment of internal management control for the FMFIA over non-financial operations, which was conducted according to OMB Circular A-123, "Management's Responsibility for Internal Control". In addition, Tab A provides a summary of the significant accomplishments and actions taken to improve Defense Aircraft Agency internal management control during the past year.

The Defense Aircraft Agency conducted an internal management control assessment of the effectiveness of the General Fund's internal management control over financial reporting for the following implementation areas: Fund Balance with Treasury, Accounts Receivable, Operating Materials and Supplies, Real Property and Military Equipment. The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the Senior Assessment Team, which is maintaining complete records of the assessment documentation. Based on the results of this evaluation, I am able to provide a qualified statement of assurance that the Defense Aircraft Agency General Fund's ICOFR implementation areas as of June 30, 2011 were operating effectively with the exception of the two material weaknesses described in Tab D. These material weaknesses were found in the internal management control over the reliability of financial reporting as of June 30, 2011. Other than the material weaknesses noted in Tab D, the internal management control was operating effectively, and no other material weaknesses were found in the design or operation of the internal management control over financial reporting for the Defense Aircraft Agency General Fund. Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the Defense Aircraft Agency General Fund.

The Defense Aircraft Agency General Fund material weaknesses are described in Tab D. Tab D-1 is a list of material weaknesses that still require corrective action and those corrected during the period. Tab D-2 is an individual narrative for each uncorrected material weakness listed in Tab D-1. Tab D-3 is an individual narrative for each material weakness corrected during the period.

Jane Deer
Director, Defense Aircraft Agency

EXAMPLE 6

TAB D-1

LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Below are examples of Tab D-1 (List of All Uncorrected and Corrected Material Weaknesses), Tab D-2 (Uncorrected Material Weaknesses Identified During the Period), and Tab D-3 (Material Weaknesses Corrected Identified During Prior Periods), which correspond with the preceding example memorandum. For instructions on how to complete Tabs D-1, D-2, and D-3, see the Tab B format in this guidance.

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
Category: Financial Reporting Accounts Receivable	2nd Qtr, FY 2013	TAB D-2-1

Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Correction QTR & FY Date Per Last Annual Statement	Correction QTR & FY Date Per This Annual Statement	Page #
N/A	N/A	N/A	N/A	N/A

Corrected Weaknesses Identified During All Periods:

Title	Year First Reported	Page #
Category: Financial Reporting Accounts Payable	FY 2010	TAB D-3-1

EXAMPLE 7

TAB D-2

UNCORRECTED WEAKNESSES IDENTIFIED DURING THE PERIOD

Title and Description of Issue: Accounts Receivable. All costs not captured to appropriate orders. Customer invoiced for incorrect amount of goods or services received. The inability to reconcile invoice with customer orders may lead to misstatement of Accounts Receivable.

Functional Category: Financial Reporting, Accounts Receivable

Component: Defense Aircraft Agency (DAA) General Fund

Senior Official In Charge: Ms. Buck Fawn, Comptroller, Defense Aircraft Agency

Pace of Corrective Action:

Year Identified: FY 2010

Original Targeted Correction Date: N/A

Targeted Correction Date in Last Year's Report: N/A

Current Target Date: 2nd Qtr, FY 2013

Reason for Change in Date: N/A

Validation Indicator: All costs will be captured to projects. Monthly reconciliation of costs to DAA projects will result in variance of less that 5 percent.

Results Indicator: Reduced billing errors and more accurate Accounts Receivable reporting.

Source(s) Identifying Weakness: Control Test results, June 2010

Major Milestones to Include Progress to Date:

A. Completed Milestones:

Date:	Milestone:
Completed	Evaluated current accounting system capabilities for capturing costs.
Completed	Developed preliminary reconciliation process.

B. Planned Milestones for Fiscal Year 2012:

Date:	Milestone:
3rd Qtr, FY 2012	Develop reconciliation procedures.
4th Qtr, FY 2012	Issue reconciliation procedures.

C. Planned Milestones Beyond Fiscal Year 2012:

Date:	Milestone:
1st Qtr, FY 2013	Test procedures for variance.
1st Qtr, FY 2013	Train employees on new procedures and implement.
2nd Qtr, FY 2013	Validate that variance is less than 5 percent, during monthly reconciliation of costs to DAA projects.

EXAMPLE 8

TAB D-3

MATERIAL WEAKNESSES CORRECTED IDENTIFIED DURING PRIOR PERIODS

Title and Description of Issue: Accounts Payable. Requesting Component and Performing DoD Component do not reconcile payables. This may result in financial reporting misstatements.

Functional Category: Financial Reporting, Accounts Payable

Component: Defense Aircraft Agency (DAA) General Fund

Senior Official in Charge: Mr. Buck Fawn, Comptroller, Defense Aircraft Agency

Pace of Corrective Action:

Year Identified: FY 2010

Original Targeted Correction Date: 1st Qtr, FY 2011

Targeted Correction Date in Last Year's Report: 3rd Qtr, FY 2011

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Indicator: Payables balance is reflected accurately in correct period.

Results Indicator: A benchmark of at least 98% of instances where Requesting Component and Performing DoD Component reconcile payables in the same accounting period. Variances can be explained.

Source(s) Identifying Weakness: Control Tests, May 2010

Major Milestones to Include Progress to Date:

A. Completed Milestones:

Date:	Milestone:
Completed	Implemented process that required reconciliation between Requesting Component's and Performing DoD Component's payables in the same accounting period.

A. Completed Milestones (continued):

Completed	Management represents that reconciliation results in financial reports that are properly classified, described, and disclosed.
Completed	Validated that the weakness is corrected; payables balance is accurate for correct period.

TEMPLATE 7

INTERNAL CONTROL OVER FINANCIAL SYSTEMS (ICOFS) PROCESS

Federal Financial Management Improvement Act (FFMIA) Compliance. The reporting entity should provide an overall introductory summary statement to accompany and explain the below table regarding its compliance with FFMIA. Instructions for completing the table are provided below.

Compliance with Federal Financial Management Improvement Act			
Substantial Compliance Requirements	**Reporting Entity**	**Auditor**	**Reason for Non-Compliance**
1. System Requirements			
2. Accounting Standards			
3. USSGL at Transaction Level			

Actions to Achieve FFMIA Compliance. The reporting entity should describe, as prescribed in the below instructions, its ongoing actions and/or plans to achieve FFMIA compliance. In addition, the reporting entity should provide the date when FFMIA compliance is expected to be achieved.

INSTRUCTIONS FOR ICOFS

This guidance provides direction for conducting the FMFIA ICOFS process and reporting the results annually in the SOA. This guidance is consistent with the FFMIA of 1996 (Section. 801 of title 31, United States Code); OMB Cir. A-127, "Financial Management Systems"; and DoD Financial Management Regulation (DoDFMR) Volume 1, Chapter 3, "Federal Financial Management Improvement Act of 1996 Compliance, Evaluation, and Reporting". Preparers of the annual SOA should be thoroughly familiar with the FFMIA, OMB Cir. A-127, and DoDFMR Volume 1, Chapter 3.

Applicability. Establishing a FMFIA ICOFS process and annual SOA reporting is mandatory for DoD reporting entities listed in Volume 6B, Chapter 1, paragraphs 010601, 010602, and 010605 of the DoDFMR.`

Reporting Requirement.

The Head of each reporting entity is responsible for reporting the compliance of the entity's Integrated Financial Management System (IFMS) with the FFMIA, OMB Circular A-127, and Chapter 3 of Volume 1 of the DoDFMR. IFMS is defined in the last section of these instructions. The FFMIA requires the entity's IFMS to be substantially compliant with:

1. Federal system requirements;

2. Federal accounting standards; and

3. U.S. Standard General Ledger (USSGL) at the transaction level.

Compliance is to be reported in the table in the format section above. Specific guidance for completing the table is provided below.

1. Reporting Entity and Auditor Columns of the Table. Enter either "Yes" or "No" for each compliance requirement. Use "Yes" to report substantial compliance, and use "No" to indicate non-compliance. The reporting entity column is used to report the entity's compliance determination. Determination is accomplished in accordance with the next section. The Auditor column is used to report the auditor of entity's financial statements determination of compliance. Financial statement audit reports are required to provide the auditor's determination of the entity's FFMIA compliance. If the entity's financial statements have not been audited, then "N/A" is to be reported.

2. Reason for Non-Compliance Column of the Table.

a. If the entity's IFMS is reported as not substantially compliant ("No") for any of the three compliance requirements, complete the Reason for Non-Compliance column, as described in the next subsection, and accompany the table with a narrative explanation to explain why the IFMS is not substantially compliant and what is planned to achieve compliance, as well as the fiscal year that the IFMS is expected to achieve substantial compliance.

b. For each "No" indicating that the entity's IFMS is not substantially compliant, one of the following is to be used in the Reason for Non-Compliance column:

i. "IFMS has not been defined."

ii. "IFMS has been defined, but has not been fully implemented."

iii. "IFMS has been implemented, but has not been fully tested."

FFMIA Compliance Determination.

1. FFMIA compliance shall be determined through testing and evaluation by an independent internal or external resource (e.g., IG DoD, Component Audit Agency, or Independent Public Accounting firm). Reporting entity Heads shall ensure that the internal or external resource is objective and sufficiently qualified to perform the testing and evaluation.

2. Compliance testing shall be performed in accordance with the GAO Financial Audit Manual (FAM). The GAO FAM (section 300 of Volume 1 and section 700 of Volume 2) provides specific procedures auditors should perform when assessing FFMIA compliance.

3. FFMIA compliance test results/audit reports shall be retained for no less than three years and be made available to financial statement auditors.

IFMS Improvement Plans.

1. The Head of each reporting entity is responsible for preparing, maintaining, and executing an IFMS improvement plan when there is moderate risk of non-compliance. IFMS improvement plans shall be fully integrated with financial improvement plans and preparation plans for future financial statement audits.

a. Reporting entities, as defined above but not including the reporting entities in section a above, shall develop and maintain their IFMS improvement plans internally to their organizations utilizing a method (e.g., Microsoft Project) that supports coordination of the plans with the Defense Finance and Accounting Service, Business Transformation Agency, and other DoD organizations, as needed.

2. IFMS improvement plans also must:

a. Be integrated with the reporting entity's internal control program and implementation and execution of OMB Circular A-123, Appendix A; and

b. Provide assurance to management through control testing that the IFMS is ready for conducting the FFMIA compliance determination, as described above.

Integrated Financial Management System (IFMS) Defined. The IFMS is a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to carry out financial management functions, manage financial operations of the agency and report on the Agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs. The IFMS has the following characteristics:

1. Common data elements.
2. Common transaction processing.
3. Consistent internal control.
4. Efficient transaction entry.

DEFINITIONS

DoD INTERNAL MANAGEMENT CONTROL REPORTING FUNCTIONAL CATEGORIES

Group material weaknesses, both uncorrected and corrected, by the DoD functional category designations listed and defined below.

1. Research, Development, Test, and Evaluation. The basic project definition, approval, and transition from basic research through development, test, and evaluation and all DoD and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.

2. Acquisition. This category applies to all acquisitions, including major acquisitions. Items designated as major systems are subject to the procedures of the Defense Acquisition Board, the Military Services Acquisition Review Councils, or the Selected Acquisition Reporting System. DoD Directive 5000.01 may be helpful when evaluating a weakness for inclusion in this category. (Explanatory Note: The OMB Office of Federal Procurement Policy issued "OMB Guidelines for Assessing the Acquisition Function," in May 2008. Subsequently, on April 6, 2009, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics issued, "Guidance on the Assessment of Acquisition Functions under OMB Circular A-123," which requires the use of an acquisition assessment template when conducting internal control reviews and reporting of internal control weaknesses. The purpose of the acquisition template is to assist in the determination of risks related to proper implementation; evaluation of existing control and monitoring activities; consideration of corresponding standards and success factors; and determination of new deficiencies or material weaknesses.)

3. Procurement. The decisions to purchase items and services with certain actions to award and amend contracts (e.g., contractual provisions, type of contract, invitation to bid, independent Government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting).

4. Contract Administration. The fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment control, justification for contractual amendments, and actions to protect the best interests of the Government, according to OMB Memorandum, "Conducting Acquisition Assessments Under Circular No. A-123," dated May 21, 2008, and the Assessment of Acquisition Functions under OMB Circular A-123.

5. Force Readiness. The operational readiness capability of combat and combat support (both Active and Reserve) forces based on analyses of the use of resources to attain required combat capability or readiness levels.

6. Manufacturing, Maintenance, and Repair. The management and operation of in-house and contractor-operated facilities performing maintenance and repair and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

7. Supply Operations. The supply operations at the wholesale (depot and inventory control point) level from the initial determination of materiel requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materiels and supplies). Covers all supply operations at retail (customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of materiel, equipment, and supplies).

8. Property Management. Construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction) and includes all phases of property life-cycle management. Also covers disposal actions for all materiel, equipment, and supplies, including the Defense Reutilization and Marketing System.

9. Communications and/or Intelligence and/or Security. The plans, operations, systems, and management activities for accomplishing the communications and intelligence missions and safeguarding classified resources (not peripheral assets and support functions covered by other reporting categories). Also covers the DoD programs for protection of classified information.

10. Information Technology. The design, development, testing, approval, deployment, use, and security of automated information systems (using a combination of computer hardware, software, data or telecommunications that performs functions such as collecting, processing, storing, transmitting, or displaying information) and other technologies for processing management information. This includes requirements for justification of equipment and software. DoD Directive 8000.01 may be helpful when evaluation a weakness for inclusion in this category.

11. Personnel and/or Organization Management. Authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the Department of Defense. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

12. Comptroller and/or Resource Management. The budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76, Performance of Commercial Activities, May 29, 2003.

13. Support Services. All support service functions financed from appropriated funds not covered by the other reporting categories such as healthcare, veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category.

14. Security Assistance. Management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

15. Other (Primarily Transportation). All functional responsibilities not contained in sections 1 through 14, including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.

16. Financial Reporting (Pertaining to ICOFR). Processes, procedures, and systems used to prepare, compile, and generate the Department of Defense's financial statements according to Section 3512 of title 31, United States Code; DoD 8910.1-M, "DoD Procedures for Management of Information Requirements," June 1998; the Federal Accounting Standards Advisory Board (FASAB) guidance; the Department of Treasury Financial Manual, Volume 1: Federal Agencies; the United States Standard General Ledger (USSGL); OMB Circular No. A-136, "Financial Reporting Requirements,"; and DoD 7000.14-R, "DoD Financial Management Regulations".

17. Financial Systems (Pertaining to ICOFS) Conformance with Federal Requirements. The assessment, evaluation, and reporting of achievement or material weakness(es) of the integrated financial management system's conformance with Federal requirements for financial systems in accordance with title 31, United States Code; OMB Circular No. A-127; and DoD 7000.14-R, Volume 1, Chapter 3, "Department of Defense Financial Management Regulation," as amended.

PART II

SCORECARD INFORMATION FOR THE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

ANNUAL STATEMENT OF ASSURANCE

FISCAL YEAR 2011

Attachment

For the overall Statement of Assurance, there are five categories scored in FY 2011.

- Timeliness
  - Was the Statement of Assurance received according to the suspense, ahead, or behind the suspense date?
  - Were the DoD Component's financial reporting requirements timely?
  - Was the Statement of Assurance the first received for the fiscal year?
  - Late submissions put the Department at risk for not meeting the Office of Management and Budget's deadlines.
  - Extremely late reports are an indication of poor program execution or lack of sufficient leadership involvement.
- Format
  - Was the Statement of Assurance accurate, complete, and easy to read?
  - Was the Statement compliant with guidance?
  - Did the Head or Principal Deputy sign the Statement, and is the Statement addressed to the Secretary of Defense? (Note for OSD submissions: Only the overall OSD Statement is addressed to the Secretary of Defense. OSD Principal Staff Assistants address their Statements to the DA&M.)
  - Did the Statement have the appropriate signatures for all leadership in the coordination chain?
- Program Execution
  - Does the Statement include narrative indicating that the Managers' Internal Control Program (MICP) is executed at all levels of the Component?
  - To what extent is the Component using innovative methods to reach all levels of the organization?
  - Does the program execution support a timely submission with an acceptable format and prompt resolution of weaknesses?
  - Is there evidence that the Component includes all subordinate organizations in the program execution as required?
- Training
  - Does the Statement include narrative describing MICP training given at all levels of the Component?
  - What is the extent to which the Component uses innovative methods to reach all levels of the organization?
  - Is the Component sufficiently training all Component personnel?
  - Are the MICP coordinators receiving annual training on their roles and responsibilities?
- Material Weakness Reporting Activity
  - Does the Statement describe progress toward correcting identified material weaknesses promptly?
  - Does the Statement indicate resolution of all delinquent weaknesses? Delinquent weaknesses are unacceptable.
  - Does the Statement clearly show that the Component conducted a robust assessment of internal controls?
  - Is the Component forthrightly reporting weaknesses, especially those issues where the Department is criticized by an outside stakeholder such as the Government Accountability Office or the Office of Management and Budget for omitting the issue as a material weakness?
  - Has the Component obtained an unqualified opinion with no material weaknesses outstanding, a qualified opinion, or another independent audit opinion over financial reporting?

The tables below describe the criteria used to score the Statements of Assurance.

Timeliness Category	
+3 points	• Received on or before August 25, 2011 by close of business (COB).
+2 points	• Received after August 25, 2011 or by COB on September 1, 2011.
+1 point	• Received after September 2, 2011 or by COB September 8, 2011.
-1 point	Received after September 8, 2011 or by COB on September 16, 2011.
-10 points	• Received after September 16, 2011.
Format Category	
+3 points	• Best in Category – Benchmark product and exceptional in all aspects *(Accurate, complete, easy to read, and represents an exceptional model to benchmark. Benchmark means that the Statement of Assurance is an exceptional model for other Components to emulate.)*
+2 points	• No revisions required and not necessary to ask for explanation from Component. AND • Acceptable in all aspects. *(Accurate, complete, easy to read, and represents a good model.)*
+1 point	• Returned for correction or requested Component to clarify any aspect of the Statement, to include unclear material weakness corrective actions or milestone dates that do not correctly follow the required format. OR • Unsatisfactory in at least one aspect. *(Not accurate, not complete, not easy to read, or does not represent an acceptable model.)*
-1 point	• Extensive changes required. OR • Incorrectly stated the opinion; i.e., provided an unqualified Statement that should have been qualified, or opinion omitted. OR • Omitting requirements. OR • Statement is noncompliant in one or more aspects.
Program Execution Category	
+3 points	Component reports at least one innovative measure **that has not been previously reported** to enhance Component-wide program.
+2 points	• Statement clearly indicates that MICP is executed at all levels; i.e., indicating a Component-wide program.
+1 point	• Statement has limited evidence of Component-wide program execution.
-1 point	• No evidence of Component-wide program execution in Statement. • Statement is over 15 days late, receiving (-10) points in the Timeliness Category.

Training Category	
+3 points	• Best in Category – Component reports at least one innovative measure **that has not been previously reported,** which enhances the MICP Component-wide training.
+2 points	• Evidence of Component-wide MICP training that includes training targeted for the MICP coordinators, Component managers, and assessable unit managers.
+1 point	• Statement reflects training, but not extensive Component-wide MICP training.
-1 point	• Statement provides no evidence MICP training.
Material Weakness Reporting Activity Category	
+5 points	• 85% or more of weaknesses corrected on time in FY 2011 as targeted in FY 2011 Statement of Assurance. *(There must be at least 2 weaknesses corrected.)* AND/OR • Unqualified opinion through independent audit on financial statement. OR • 70% or more are corrected on time and at least two weaknesses are corrected in advance of target. OR • None due for correction but more than three weaknesses are corrected in advance of target.
+4 points	• 80% to 84% of weaknesses corrected on time. *(There is no qualification on the number of weaknesses that must be corrected.)* AND/OR • Qualified opinion through independent audit on financial statement. OR • 60% to 69% are corrected on time and more than one weakness corrected in advance of target. OR • None due for correction but at least two weaknesses corrected in advance of target.
+3 points	• 75% to 79% of weaknesses are corrected on time. *(There is no qualification on the number that must be corrected.)* OR • 50% to 59% are corrected on time and at least one weakness corrected in advance of target. OR • None due for correction, but one corrected in advance of due date.
+2 points	• 60% to 74% are corrected on time. OR • If none due for correction in FY 2011: o At least one new weakness reported or one weakness reported as corrected in last three years. OR o Statement indicates at least two issues/deficiencies found, that do not warrant reporting as material weaknesses and Statement describes actions to resolve. *(Must use format described in Part I of guidance.)*

Material Weakness Reporting Activity Category (continued)	
+1 point	• 50% to 59% corrected on time. OR • If none due for correction during FY 2011 and no new or old weaknesses in last three years, the Statement of Assurance must indicate at least one issue/deficiency and actions to resolve. *(Must include corrective actions using the format in Part 1 of guidance.)*
-1 point	• Less than 50% of weaknesses corrected. OR • No weaknesses reported as new in past three fiscal years. AND • No weaknesses corrected in past three fiscal years. AND • No deficiencies with corrective actions discussed in Statement of Assurance. *NOTE:* • *Delinquent weaknesses will result in a REDUCTION OF TOTAL SCORE as follows:* *(A Component with remaining delinquent weaknesses would receive the next lower score in the total score of this category. For example, a Component that resolved 4 of 4 material weaknesses on time would receive +5 points. However, if one or more delinquent weaknesses remain open, the total score would be reduced to +4 points.)*