



# 2010

## Statement of Assurance

Office of the Secretary of Defense  
and DoD Field Activities

Prepared by:  
Office of the Director  
Administration and Management





ADMINISTRATION AND  
MANAGEMENT

OFFICE OF THE SECRETARY OF DEFENSE  
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AUG 23 2010

MEMORANDUM FOR SECRETARY OF DEFENSE

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

As the Director of Administration and Management, I recognize the importance of establishing and maintaining effective internal controls to meet the objectives of the FMFIA. I have taken the necessary measures to ensure that the evaluation of the system of internal controls in the Office of the Secretary of Defense (OSD) and the Department of Defense (DoD) Field Activities has been conducted in a conscientious and thorough manner. The results indicate that the system of internal accounting and administrative control in effect during the Fiscal Year ending September 30, 2010, taken as a whole, provides reasonable assurance that internal controls are in place and effectively operating, with the exception of the material and systemic weaknesses noted. OSD and the DoD Field Activities have achieved the objectives of the FMFIA within the limits described in Tab A.

Tab A also provides information on how the evaluation was conducted and includes a summary of significant accomplishments and actions taken within OSD and the DoD Field Activities to improve internal controls during the past year.

Tab B addresses material weaknesses within OSD and the DoD Field Activities. Tab B-1 lists all corrected and uncorrected material weaknesses. Tab B-2 provides a narrative description of each uncorrected material weakness, while Tab B-3 provides a narrative description of each material weakness corrected during the past year.

Tab C addresses DoD systemic weaknesses, which OSD Principal Staff Assistants are required to identify and report within their areas of functional responsibility. Tab C-1 lists all uncorrected systemic weaknesses. Tab C-2 provides a narrative description of each uncorrected systemic weakness, while Tab C-3 provides a narrative description of the systemic weakness corrected during the past year.

The Assistant Secretary of Defense (Health Affairs)/TRICARE Management Activity, under the authority, direction and control of the Under Secretary of Defense (Personnel and Readiness), assessed the effectiveness of the Internal Controls Over Financial Reporting (ICOFR) for four Financial Statement Reporting Entities (FSREs) and provided Statements as follows:



- A qualified Statement of Assurance was provided for the Medicare-Eligible Retiree Health Care Fund FSRE. This Statement and associated material weaknesses are provided at Tab D.
- An unqualified Statement of Assurance was provided for the TRICARE Management Activity FSRE. This Statement is provided at Tab E.
- A qualified Statement of Assurance was provided for the Service Medical Activity FSRE. This Statement and associated material weaknesses are provided at Tab F.
- The DoD Chief Actuary addressed the actuarial liability portion of the Military Retirement Trust Fund FSRE. These Statements are provided at Tab G.

The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) (OUSD(AT&L)) indicated it would complete its assessment of the effectiveness of ICOFR for the Chemical and Biological Defense Program during August 2010. Based on the assessments completed to date, the OUSD(AT&L) is able to provide a qualified Statement of Assurance that these controls are operating effectively. This Statement and associated material weaknesses are provided at Tab H.

We believe that OSD and the DoD Field Activities have made many noteworthy accomplishments under the Managers' Internal Control Program in FY 2010. There has been significant progress made in resolving both material and systemic weaknesses throughout the year. We will make a concerted effort in FY 2011 to improve program awareness, enhance program execution, and continue to resolve weaknesses in a timely manner.



Michael L. Rhodes  
Director

Attachments:  
As stated

**STATEMENT OF ASSURANCE**

**OFFICE OF THE SECRETARY OF DEFENSE AND DOD FIELD ACTIVITIES**

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**TAB A**

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



## **TAB A**

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

#### **Guidelines**

The system of internal accounting and administrative control in the Office of the Secretary of Defense (OSD) and the DoD Field Activities, in effect during the Fiscal Year (FY) ending September 30, 2010, was evaluated in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," dated December 21, 2004, as implemented by DoD Instruction 5010.40, Managers' Internal Control (MIC) Program Procedures," dated January 4, 2006, and, subsequently, the reissued procedures contained in DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010. Included is an evaluation of whether the system of internal accounting and administrative control of the OSD and the DoD Field Activities is in compliance with standards prescribed by the Comptroller General.

#### **Objectives of Internal Control**

The objectives of the system of internal accounting and administrative control for the OSD and the DoD Field Activities are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to Agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets;
- Programmatic, administrative, and operating functions are efficiently and effectively executed in accordance with applicable law and management policy; and,
- The internal control process emphasizes training and reviews that prevent waste, fraud, and mismanagement, and timely correction of internal control weaknesses.

#### **Concept of Reasonable Assurance**

The evaluation of internal control extends to every responsibility and activity undertaken by the OSD and the DoD Field Activities and is applicable to financial, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal 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.

### **Evaluation**

The evaluation was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the OSD and the DoD Field Activities, in effect during FY 2010, ending September 30, 2010, taken as a whole, complies with the requirement to provide reasonable assurance, with exceptions that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

The Director, Administration and Management (DA&M), OSD, serves as the senior management official for the OSD Component. OSD is the principal staff element of the Secretary of Defense in the exercise of policy development, planning, resource management, fiscal, and program evaluation responsibilities. OSD includes the Secretary and Deputy Secretary of Defense and their Immediate Offices, and the officials and staffs of the following organizational elements, which are covered in the scope of this Statement. Also included are the DoD Field Activities, shown below, which report up through their respective proponent organizations:

Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L))

- Office of Economic Adjustment (OEA)
- Defense Technical Information Center (DTIC)
- Defense Test Resource Management Center (DTRMC)

Under Secretary of Defense (Policy) (USD(P))

- Defense Technology Security Administration (DTSA)
- Defense Prisoner of War/Missing Personnel Office (DPMO)

Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO)

Under Secretary of Defense (Personnel and Readiness) (USD(P&R))

- DoD Education Activity (DoDEA)
- Defense Human Resources Activity (DHRA)
- Tricare Management Activity (TMA), Uniformed Services University of Health Sciences

Under Secretary of Defense (Intelligence) (USD(I))

Deputy Chief Management Officer (DCMO)

Assistant Secretary of Defense (Legislative Affairs) (ASD(LA))

Assistant Secretary of Defense (Networks and Information Integration)/DoD Chief Information Officer (ASD(NII)/DoD CIO)

Assistant Secretary of Defense (Public Affairs) (ASD(PA))

- Defense Media Activity (DMA)

General Counsel of the Department of Defense (GC, DoD)

- Defense Legal Services Agency (DLSA)

Director, Operational Test and Evaluation (DOT&E)

Director, Cost Assessment and Program Evaluation (DCAPE) (formerly the Director, Program Analysis and Evaluation)

Director, Administration and Management (DA&M)

- Washington Headquarters Services (WHS)

Assistant to the Secretary of Defense (Intelligence Oversight) (ATSD(IO))

Director, Net Assessment (DNA)

Joint Improvised Explosive Device Defeat Organization (JIEDDO)

### **Determination of Reasonable Assurance**

The diversity and independence of the organizations within the OSD present a challenge to the MIC Program evaluation process. Throughout the OSD, internal control evaluations are done concurrently with other required reviews, audits, and inspections to eliminate duplicative evaluations and minimize the need for stand-alone internal control evaluations. The evaluation of OSD is based on a general assessment of internal controls throughout the organization and considered input from management studies and assessments, audits, inspections, investigations, internal review reports, and Inspector General of the Department of Defense (IG DoD) and Government Accountability Office (GAO) reports.

The OSD determination of reasonable assurance is based on the following factors:

- The MIC Program is fully institutionalized within OSD.
- The OSD Principal Staff Assistants (PSAs) and the DoD Field Activities executed Component Statements of Assurance attesting that their existing internal controls are operating as intended by the Federal Managers' Financial Integrity Act of 1982. In addition, they have cited numerous internal control accomplishments within their organizations.
- External reviews have cited few deficiencies in the operation of internal controls within OSD.
- The MIC Program is serving the purpose for which it was designed. It has brought material, nonmaterial, and DoD systemic weaknesses to the attention of senior management. Where weaknesses are found, they are acted upon and corrected.

The foregoing factors, as well as the discussion and accomplishments listed below, substantiate the conclusion that the internal controls that are in place in OSD are appropriate and effective.

### **Implementation of the MIC Program**

The MIC Program has been in operation within OSD since the passage of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. OSD adheres to Federal policy guidance in Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," dated December 21, 2004, and to DoD guidance in DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," dated January 4, 2006, and, subsequently, the reissued procedures contained in DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010.

The MIC Program is executed at all levels of OSD and the DoD Field Activities. There has been steady improvement in implementing the OSD MIC Program. OSD and the DoD Field Activities continue to integrate the MIC Program into daily operations and business processes, as follows:

- The OSD MIC Program covers all OSD programs, functions, and activities. The OSD MIC Program Manager provides policy guidance and direction throughout the year, which is consistent with that provided by the DoD MIC Program Manager.
- Each staff office has assigned a primary (and in most cases) an alternate MIC Program Officer. These MIC Program Officers are trained in Program requirements and their responsibilities, either as part of the annual DoD MIC Program Conference or in one-on-one sessions with the OSD MIC Program Manager.

The MIC Program Manager in the Office of the Director, Administration and Management (ODA&M), coordinated an aggressive OSD-wide MIC Program training effort:

- Approximately 25-30 MIC Program coordinators from OSD and its DoD Field Activities attended the FY 2010 MIC Program Conference, November 23-24, 2009, held at the Washington Navy Yard, Washington, DC. Personnel involved with the MIC Program, to include Internal Controls over Financial Reporting, were able to get up-to-date, first-hand information on the program and be aware of any changes in requirements. The theme of the conference was "Instilling Ethics, Integrity, and Internal Management Controls into the Business of Government." Many senior leaders from throughout the Department of Defense, as well as other government agencies, provided presentations on a variety of relevant topics. Personnel who successfully completed the program were provided with continuing professional education certificates.
- The Program Manager in the ODA&M provided numerous desk-side training sessions for new MIC Program Officers and key OSD staff members on the requirements, program execution, and annual reporting associated with the OSD MIC Program. ODA&M also produced standardized MIC Program briefings for use by the Program Officers in educating their own personnel. This train-the-trainer approach saved time for the many Program Officers involved with the OSD MIC Program and resulted in standardized training throughout the OSD and the DoD Field Activities.

All MIC Program Officers in the OSD are familiar with OSD MIC Program guidance. Copies of the FMFIA, OMB Circular A-123, and DoD Instruction 5010.40 are provided to all MIC Program personnel, and all OSD MIC Program guidance cites these statutory and policy directives, which are also made available on-line for easy reference. In addition, many staff offices have their own internal Standing Operating Procedures (SOPs) on the MIC Program and their own training programs that address the requirements and procedures of their respective programs.

Managers and key staff personnel are informed on the basic requirements of the FMFIA and the OSD MIC Program. In addition, all managers with significant MIC Program responsibilities are required to have MIC Program performance standards in their job performance objectives (for civilian personnel) or support forms (for military personnel). Their evaluations reflect their success or failure in implementing and maintaining effective internal controls within their organizations. In a similar vein, all newly-appointed MIC Program Officers have appropriate performance objectives identified for them.

Staff offices are segmented into Assessable Units (AUs) for the purpose of evaluating their internal controls. This AU structure is periodically reviewed and revised to reflect changes in missions and functions.

Controls are evaluated (for the most part) using Alternative Internal Control Reviews that are accomplished concurrently with other existing review efforts (e.g., computer security reviews; quality assessments; financial system reviews; audits, inspections and investigations; internal audits and studies; and other management reviews). This approach

embeds a “control perspective” into daily operations and reduces workload by eliminating the need for a separate evaluation done solely to comply with MIC Program requirements.

All subordinate organizations prepare annual Statements of Assurance addressing the effectiveness of their internal controls and submit them through their respective chains of command. DoD Field Activities provide their annual statements to their proponent organizations on the OSD staff, either as input for the OSD staff statement or for OSD staff “line-through” before being submitted to the OSD MIC Program Manager in the ODA&M. All PSAs submit their annual Statements of Assurance directly to the ODA&M.

Unlike any other element of the Department of Defense, the OSD Statement of Assurance includes the reporting by OSD PSAs of systemic weaknesses – weaknesses that are pervasive across the Department or that (at a minimum) affect multiple DoD Components. In reporting these systemic weaknesses, the OSD Statement of Assurance is identifying the most complex and significant internal control issues within the Department. The correction of each systemic weakness represents a major improvement in Department-wide internal controls.

The OSD MIC Program Manager maintains a system for tracking progress in resolving material and systemic weaknesses reported. Quarterly updates are provided for all material/systemic weaknesses to ensure that they are being corrected in a timely manner.

### **Problems and Challenges Encountered and Other Considerations Affecting the MIC Program**

There were no significant challenges in implementing the OSD and DoD Field Activity MIC Program. However, reporting organizations cited various challenges in implementing the MIC Program, to include reorganizations and realignments, the assumption of new missions and functions, and funding/manpower shortfalls exacerbated by position vacancies, shortages of experienced personnel, and delays in processing security clearances for contractor personnel.

### **Assessment of Acquisition Functions**

In May 2008, the Office of Management and Budget issued new guidance for conducting internal control assessment reviews of acquisition functions and integrate them into ongoing MIC Program processes. As the Defense Acquisition Executive (DAE),<sup>1</sup> the USD(AT&L) has oversight responsibility for the entire Defense Acquisition System. Through the Deputy Under Secretary of Defense (Acquisition and Technology) and the Assistant to the Secretary of Defense (Nuclear, Chemical, and Biological Defense Programs), the USD(AT&L) monitors acquisition programs to make sure they are compliant with the guidance in DoD Directive 5000.1, “The Defense Acquisition System,” and other DoD publications; achieve mission needs; leverage technology opportunities; and meet cost, schedule and performance goals. Examples of management controls used in acquisition are as follows:

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<sup>1</sup> DoD Directive 5134.1, “Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)),” establishes roles, responsibilities, and authorities of the USD(AT&L), including the designation as Defense Acquisition Executive.

- **DoD Instruction 5000.02.** DoD Instruction 5000.02, “Operation of the Defense Acquisition System,” establishes a flexible management framework for translating capability needs and technology opportunities, based on approved capability needs, into stable, affordable, and well-managed acquisition programs that include weapon systems, services, and automated information systems. The on-line Defense Acquisition Guidebook provides best practices and lessons learned for acquisition professionals.
- **DoD Acquisition Policy.** DoD Instruction 5000.02, “Operation of the Defense Acquisition System,” and the on-line Defense Acquisition Guidebook establish a framework for translating mission needs into deployed weapon and acquisition information systems and provide best practices and lessons learned for acquisition professionals.
- **Defense Acquisition Board (DAB).** The DAB is an advisory board of senior acquisition officials that reviews all major defense acquisition programs for cost, schedule, and performance risks and risk mitigation. The DAB makes recommendations on these programs to the USD(AT&L), who approves acquisition program baselines; acquisition strategies; and milestone decisions.

In order to ensure DAB meetings focus on issues and the data that affects issue resolution, the PDUSD(AT&L) holds a DAB Readiness Meeting (DRM) approximately two work weeks before each scheduled DAB. The DRM attendees focus on the purpose of the DAB, discuss and consider any outstanding issues on the specific program(s), and determine the readiness of the program(s) to proceed to a DAB for a discussion/decision.

In addition to the DRM, the PDUSD(AT&L) conducts a DAB Planning Meeting (DPM) with the Overarching Integrated Product Team (OIPT) chair and a Service or Agency representative early in the DAB preparation process to discuss the pending decision and any open issues that may be anticipated to exist at the time of the DAB. The purpose of this meeting is to expedite the entire process by identifying any new information requirements to support the decision, any alternatives that may need significant preparation time or analysis, and any actions needed to deal with major concerns that have already been raised.

- **Defense Acquisition Executive Summary (DAES).** The DAES allows the USD (AT&L) and his PSAs to oversee major defense acquisition programs between milestones. To provide a venue to identify and address program issues as early as possible, the PDUSD(AT&L) has instituted a restructured DAES review process. The OSD staff assessments of program execution performance have been reinstated. That is, about one-third of the programs will be reviewed and assessed monthly by the OSD staff, which ensures that all programs are assessed not less than quarterly.

The OIPT leaders and the Director, Performance Assessment and Root Cause

Analysis (PARCA) are responsible for evaluating the OSD staff assessments and recommending programs for review at the monthly DAES meetings. OIPT leaders share all issues that are raised by the OSD staff with the DoD Components in advance of the DAES meetings.

- **Implementation of the Weapon Systems Acquisition Reform Act (WSARA) of 2009.** The Weapons System Acquisition Reform Act of 2009 (Public Law 111-23) was signed by the President on May 22, 2009. The law established a number of requirements that directly impact the operation of the defense acquisition system and the duties of key officials that support it. The purpose of the WSARA is to improve DoD's organizational and procedural ability to acquire major weapons systems and other programs. To that end, WSARA established new positions including the Director, Cost Assessment and Program Evaluation (CAPE), the Director, PARCA, and the Directors of Development Testing and System Engineering, to enhance the effectiveness of the DoD acquisition organization and to improve the analytical rigor applied to DoD acquisition programs. In addition, the statute required the implementation of new procedural requirements designed to improve process effectiveness and management decision making. These statutory requirements have been implemented. The institutionalized policies are expected to improve management control and increase the effectiveness of the defense acquisition system.

### **Other Sources Considered in Evaluating Internal Controls**

A wide range of reports and other analytical products were reviewed and considered in evaluating the health of internal controls within OSD and the DoD Field Activities. The OSD organizations reviewed findings and reports issued by inspections, audits, and internal review activities, to include reports issued by the IG DoD and the GAO. They also considered the results and summaries of Congressional reviews and hearings on subjects related to their areas of responsibility. Finally, they considered DoD Hot Line reports, Quality Assurance reviews, and management oversight reviews conducted in a range of functional areas.

### **Accomplishments of OSD and the DoD Field Activities**

#### **(OUSD(AT&L))**

Description of Issue: Provide guidance to the Military Components and Defense Agencies on the requirements for Existence & Completeness (E&C) Quick Win assertions.

Accomplishment:

- Reviewed the September 30, 2009, and December 31, 2009, Financial Improvement Plan (FIP) submissions from each Component, and provided feedback on areas for improvement within the FIPs to strengthen the path to audit readiness for E&C and valuation.

- Supported the Air Force, Army, Navy, U.S. Marine Corps, U.S. Special Operations Command, and the Missile Defense Agency in the areas of inventory review plans and execution strategies to achieve quick wins for their Military Equipment (ME) assessable units (AU) by the end of 2<sup>nd</sup> Qtr, FY 2011.
  - Specifically, OUSD(AT&L), Acquisition Resources and Analysis, Property and Equipment Policy Office (P&EP) developed an execution strategy for E&C testing with the Air Force aircraft AU, and executed field testing for the Air Force to provide an independent assessment of audit readiness in this area. P&EP developed a detailed test plan, an internal controls questionnaire, and reviewed documentation to support the rights and obligation assertions.
  - Based on the Air Force test work, P&EP provided lessons learned to the Air Force, as well as to the other Components. The lessons learned are designed to assist with the preparation of inventory plans and execution strategies for completing E&C Quick Wins.
  - P&EP identified the need to utilize alternative methods for validating existence of ME assets that are not physically located on-site due to deployment, local mission, or maintenance. Based on this need, P&EP identified maintenance and usage records that were utilized to validate existence of Air Force aircraft. This methodology will be applied across the various Quick Win AUs for all Components moving forward.
- P&EP has provided assistance to the Components to identify mid-term and long-term AUs for E&C, and to formulate strategies for achieving audit success for more complex assets.

Description of Issue: Support Major Weapon Systems Oversight.

Accomplishments:

- Continued alignment of current and emerging Weapon Systems Lifecycle Management (WSLM) acquisition visibility (AV) capabilities to support agile, data-driven oversight and decision making. Capabilities including the Defense Acquisition Management Information Retrieval (DAMIR) system, the AT&L Acquisition Visibility Service Oriented Architecture (AT&L AV SOA), the Kaleidoscope Business Intelligence Toolkit, the Data Entity Package (DEP) tool, and the AT&L AV SOA Portal application, have been aligned within a single management structure directly supporting WSLM policy and oversight functions. This alignment facilitates integration of these core acquisition visibility capabilities into WSLM data governance and acquisition oversight processes, such as the DAES reviews, and the DAB and supporting acquisition management processes.

- Continued to expand the AV SOA capability from a working pilot to an initial operational capability in less than two years. This capability provides selected authoritative data for Major Defense Acquisition Programs (MDAPs) more quickly to DoD acquisition management systems.
- Expanded the coverage of the AT&L AV SOA capability from 140 data elements and 37 MDAPs in the pilot phase to 148 data elements and 102 MDAPs. The MDAP portfolio value is over \$1.6 Trillion over the lifecycle of these programs.
- Expanded DAMIR to facilitate the alignment of the annual Program Objective Memorandum (POM) data submissions from the Military Departments, the resulting President's Budget and associated MDAP Budget Justification Books (J-Books) with the Selected Acquisition Reports (SAR) submitted to Congress, to provide unambiguous alignment of Budget and SAR artifacts.
- Institutionalized comprehensive acquisition data governance structures consisting of the WSLM Senior Steering Group, WSLM Core Business Mission Group, Enterprise Integration Policy Working Group, and multiple ad-hoc technical / functional / policy working groups to identify and resolve acquisition data governance issues. This governance structure is employed to manage comprehensive and integrated Acquisition Visibility data services, capabilities and data requirements within the DoD acquisition community to provide higher quality data to senior leadership and the broader Defense acquisition workforce.
- Expanded the WSLM architecture within the Business Enterprise Architecture (BEA), thereby enhancing the future interoperability of the core business capabilities within the Department.

Description of Issue: Access Control/Proximity Readers.

Accomplishment:

- Defense Acquisition University (DAU) occupies a series of vintage buildings outfitted with antiquated locking systems that proved to be ineffective in providing the necessary protection of the University's resources, as well as ensuring access to authorized personnel after duty hours.
- As part of DAU's facility improvement plan, the Director of Operations deployed a new access control system on all of its outside entrance control points, using proximity card readers for controlling entrance access and protecting the University's internal resources. As an added benefit, the upgraded access control system provides for more granularity in the reporting process of all entrance points. The scope of this effort was exhaustive; it included the replacement of hardware and software access controls on 35 doors that were not part of the original access control system; replacement of hardware on 42 doors; re-keying 70 exterior doors and padlocks, as well as the installation of a new badge system at all entrance points.

- The new access control system allows for better protection of DAU’s internal resources, resulting in improved management and asset control, enhanced reporting process of all access points, as well as flexibility in creating badges.

Description of Issue: Amplification of DoD Interagency Acquisition Policy.

Accomplishments:

- On August 24, 2009, the Director, Defense Procurement and Acquisition Policy (DPAP) issued a memorandum addressing specific Congressional concerns expressed in Section 801 of the National Defense Authorization Act for FY 2008, “Internal Controls for Procurements on Behalf of the Department of Defense by Certain Non-Defense Agencies.” Section 801 directed that the Department issue comprehensive guidance on the circumstances in which it is appropriate for DoD acquisition officials to procure goods or services through a contract entered into by an Agency outside of the Department. The memo also addressed issues and concerns identified in IG DoD and GAO audit reports. The memo included a series of Frequently Asked Questions (FAQs) using a Question and Answer format. The FAQs address proper procedures that should be followed when using the services and/or contracting vehicles of non-DoD contracting organizations to meet DoD needs and to ensure sufficient safeguards and internal controls are in place.
- Key policy areas addressed in the FAQs include:
  - What are the circumstances in which it is appropriate to use direct acquisitions?
  - What are the circumstances in which it is appropriate to use assisted acquisitions?
  - What are the circumstances in which it is appropriate for DoD acquisition officials to use interagency contracting to acquire items that are already being provided under a contract awarded by the Department of Defense?
  - What procedures should be followed to ensure that Defense procurement requirements are identified and communicated to outside Agencies involved in interagency contracting?
  - What tools should be used by DoD acquisition officials to determine whether items are already being provided under a contract awarded by the DoD?

Description of Issue: Supporting Major Weapon System Decision Making.

Accomplishments:

- Established the AT&L AV SOA capability from a concept to a working pilot in less than two years. This capability will enable getting selected authoritative data more quickly into DoD acquisition management systems, which will contribute to faster and better acquisition decisions.
- Expanded the coverage of the AT&L AV SOA capability from 60 data elements and 12 Major Defense Acquisition Programs (MDAP) in the demonstration phase to 140 data elements and 37 MDAPs in the pilot phase, which accounts for a MDAP portfolio value of approximately \$1.2 Trillion in the Future Year Defense Program.
- Implemented a top to bottom, data source to data consumer initial governance structure consisting of the WSLM Senior Steering Group, WSLM Core Business Mission Group, WSLM/AV Community of Interest (Technical Working Group), Functional Configuration Control Board, and Technical Configuration Control Board. This governance structure is employed to manage SOA services, capabilities, and data requirements within the DoD acquisition community and will provide higher quality data to the Defense acquisition workforce.
- Expanded the WSLM architecture within the BEA, thereby enhancing the future interoperability of the core business capabilities within the Department.

**OUSD(P)**

Description of Issue: Freedom of Information Act (FOIA)/Mandatory Declassification Reviews.

Accomplishments:

- OUSD(P) continues to make a concerted and determined effort to reduce the large backlog of FOIA requests. OUSD(P) employs six contract personnel to assist with administrative processing. The contract is being renewed.
- During the current reporting cycle, OUSD(P) awarded a FOIA support contract, which provides for 12 full-time contractors to work FOIA cases in support of regional and functional offices. As a result, OUSD(P) has implemented an effective tracking and staffing system and made great strides in reducing the number of backlogged cases.

Description of Issue: Research, Development, Test, and Evaluation (RDT&E) Funding.

Accomplishments:

- These programs consist of the Combating Terrorism Technology Support Office RDT&E Program and the Advance Development RDT&E Program.
- OUSD(P)/OASD(SO&CT) annually conducts a review and provides recommendations to the ASD(SO/LIC&IC) and the Department of State's Director for Counterterrorism to authorize and approve proposed new programs. OASD(SO&CT) then directs sub-allocation of all funding. These programs have progress reviews semiannually for execution and fiscal oversight.
- During FY 2010, a scrutinized review of programs that were to be transitioned, continued, or cancelled was implemented. The RDT&E budgets were justified and accounted for through the Washington Headquarters Services.

**OUSD(I)**

Description of Issue: Defense Civilian Intelligence Personnel System Implementation.

Accomplishments:

- The Defense Civilian Intelligence Personnel System (DCIPS) is the human resource management system for the DoD Intelligence Community. DCIPS implementation was authorized by Congress in 1996 to provide the Department with the independent personnel authorities needed to hire, develop, and retain a diverse, versatile, and highly qualified workforce able to perform both the Defense and National Intelligence missions.
- The OUSD(I) has successfully completed its first year of performance management under the DCIPS. However, the National Defense Intelligence Authorization Act (NDAA) for FY 2010 suspended certain DCIPS pay authorities relating to setting pay for all Defense intelligence components, except for the National Geospatial-Intelligence Agency (NGA) until December 31, 2010. Therefore, OUSD(I) was unable to award performance base-pay increases during the FY 2009 pay pool cycle. However, the DCIPS performance management process was not impacted and continues as scheduled. Additionally, DCIPS' ability to award performance bonuses was not impacted.
- In addition, the NDAA directed the Department to conduct an independent review of DCIPS. In January 2010, the Secretary of Defense, the Director of National Intelligence (DNI), and the Director of the United States Office of Personnel Management (OPM) jointly designated the National Academy of Public Administration (NAPA) as the independent organization to conduct the review. During June 2010, NAPA released the final DCIPS report to Congress. NAPA's review recommended moving ahead with DCIPS. Although the report indicated there were flaws in implementation that must be addressed, the DCIPS design is

sound and includes equity considerations and internal checks and balances to ensure fairness.

- The DoD is completing actions required by the NDAA language. Before finalizing recommendations for the Secretary's response to Congress, recommendations will be coordinated with the DNI and OPM

Description of Issue: Mission Assurance Program.

Accomplishments:

- Mission assurance is a collaborative effort of programs focused on continuity of operations, crisis management, critical infrastructure protection, emergency management, and testing and training those capabilities. During FY 2010, the OUSD(I) strengthened mission assurance capabilities for the OUSD(I) and promoted improved mission assurance within the Defense Intelligence Enterprise (DIE) through the following: development of the initial OUSD(I) Mission Assurance Plan (MAP), which provided structure and guidance to the planning and execution of mission assurance activities, development of continuity guidance for the DIE (DoD Instruction 3020.39), establishment of crisis and emergency management teams to support the USD(I) in managing crises and accounting for personnel, conduct of a biannual assessment of DIE component continuity programs, and development of guidance for pandemic influenza procedures.
- The OUSD(I) incorporated lessons learned from national-level exercises and real-world Continuity of Government Readiness Conditions elevations. These were applied to improve continuity communications capabilities, strengthen alert/notification procedures, and improve information sharing processes both internally and externally. OUSD(I) also conducted multiple alternate site orientations for deploying personnel to familiarize them with MAP requirements for crises emergency events.

Description of Issue: Policy Issuance Update.

Accomplishments:

- OUSD(I) directly supported the revision of 14 policy issuances in FY 2010, including key policies in the areas of interrogation, detainee debriefings and tactical questioning, human intelligence, security and counterintelligence. In addition, OUSD(I) supported the Director of Administration and Management in updating the NGA and National Security Agency Charter Directives, which establishes the mission, responsibilities and authorities for the operation of these agencies.

Description of Issue: Enhanced Secure Telecommunications Capabilities.

Accomplishments:

- Increased secure voice communications capability by establishing and installing the National Secure Telecommunication System (NSTS) voice over internet protocol phones in all OUSD(I) controlled work spaces. This effort is managed by the Defense Intelligence Agency (DIA). The OUSD(I) established an agreement with DIA to train, deploy, install, and troubleshoot all equipment leading to faster installations and less downtime for service and maintenance. This agreement allows the Chief of Staff to expedite the installation of requested equipment, which allows the workforce to function more effectively in a secure environment.
- Increased secure video teleconferencing (VTC) equipment capability to support all the OUSD(I) external and internal directors and special requirements offices throughout the Pentagon and National Capital Region. This allowed the organization to quickly communicate with users in a secure environment. Use of secure VTC capability allows the OUSD(I) to provide a secure-agile approach to supporting the warfighter with meaningful, timely intelligence and information. In addition, this secure VTC capability allows OUSD(I) to schedule critical decision making meetings and with world-wide participation. This greatly promotes the saving of time and money without any reduction in capability.

## **OUSD(P&R)**

Description of Issue: Support for the National Guard Youth Challenge Program.

Accomplishments:

- The OUSD(P&R) Reserve Affairs allocates funds for the National Guard (NG) Youth Challenge Program to the National Guard Bureau, for further allocation to the participating State U.S. Property and Fiscal Officers, upon confirmation of State matching funds, as required by law. Sound financial management practices were emphasized at the NG Youth Challenge Program Annual Workshop, and best practices for cost-savings were shared at a workshop at a subsequent Program Directors' workshop. Each NG Youth Challenge program is reviewed for proper execution of funds on an annual basis.
- The OUSD(P&R) Military Community and Family Policy (MC&FP) partnered with the U.S. Department of Agriculture (USDA) to collaborate with land-grant universities on several research and evaluation projects. Examples include the conduct of listening sessions with military family members to identify customer needs to ensure MC&FP programs respond to the needs most effectively and efficiently; development of assessment tools for non-medical counseling services; program evaluation; and establishment of a Clearinghouse for Family Readiness Programs including best practices and program standards.

- MC&FP DoD Child Development Centers maintain high standards of quality child care, with 98 percent of eligible programs being nationally accredited. Oversight of Children and Youth Programs includes an annual certification inspection conducted by Service Headquarters representatives; successful completion of national accreditation standards assessed every five years by a recognized non-DoD accrediting body; and an annual summary of operations report provided to MC&FP by each Service.

### **OASD(PA)/DMA**

Description of Issue: MIC Program Training.

Accomplishments:

- To enhance management's commitment to competence and accountability, training was conducted throughout the entire Activity. The MICP Assessable Unit Managers (AUMs) and Internal Control Administrators (ICAs) were required to complete a mandatory two-phase training program. Phase I included instructor-led and/or web-based AUM/ICA specific training. Each AUM/ICA was required to take and pass a test at the conclusion of the training to determine their knowledge and understanding of MICP duties and responsibilities.
- Phase II training included an MICP Workshop which was designed to prepare each Component for their Annual Statement of Assurance (ASA) Feeder Report submission and inclusion into the DMA ASA. The Workshop included training on the Management Control Reporting Tool (MCRT) and the ASA template instructions/guidance.
- The internet-based training program allows all personnel to review the requirements and tenants of MICP. It provides an overview of the entire MICP process. This training module is available to any person having access to the DMA intranet website.

### **ODCAPE**

Description of Issue: Performance Management.

Accomplishments:

- Developing a result-oriented performance culture is critical to successfully achieving organizational goals and objectives. CAPE fully recognizes the importance of the integration of performance management and incentive award programs into the core components of human capital management. Managers are held accountable to motivate high levels of achievement and for holding employees responsible for achieving their individual and organizational performance goals by:

- Ensuring performance objectives/elements and standards are clearly aligned with the agency mission and goals,
- Defining the purpose of the job, job duties, and responsibilities,
- Defining performance goals with measurable outcomes,
- Having interim discussions and providing feedback about employee performance, with at least one interim, but more when required. (Provide positive and constructive feedback),
- Developing and administering a performance improvement plan when employees are not meeting expectations,
- Executive members are required to have performance plans in place that holds them accountable for achieving measurable results and aligned with CAPE's strategic goals,
- Executive plans also include balanced measures reflecting employee and customer perspectives,
- Performance is rewarded, both formal and informal, based on differentiated levels of performance and rewards are given to recognize behavior and results that accomplish the mission.

## **ODA&M**

Description of Issue: Pentagon Area CIO Council (PACC) policy development and enforcement.

### Accomplishments:

- The PACC developed, coordinated, and sought approval for the Enterprise Data Lifecycle Management (EDLM) policy, which was a groundbreaking endeavor. The purpose of the EDLM policy is to provide the Pentagon tenant community with full data lifecycle management, storage, replication, recovery, and back-up data management services that is standards-based and delivered by the single Pentagon Common IT service provider, consistent with tenant defined service levels.
- The OSD CIO updated and approved the Voice Services Policy to reflect the convergence of services across the Internet Protocol backbone at multiple levels of classification; the policy defines the basic Common IT voice services provided to Pentagon tenants and the roles and responsibilities associated with the delivery of these services.

- The Pentagon Supervisory Control and Data Acquisition (SCADA) Network Policy was developed and disseminated to service providers for coordination, review, and concurrence. This policy will achieve Pentagon SCADA network accreditation and placement on the Enterprise backbone.

## **WHS**

Description of Issue: Need for improved accountability with the Secretary of Defense Communications (SDC) travel team personnel in the areas of personnel time and costs during travel and the use of blanket travel orders and actual expense authorization memos.

### Accomplishments:

- A new division administrative instruction was issued governing reimbursement for official travel, including detailed instructions for use of Blanket Travel Orders (BTO), use of government-issued credit cards for travel, and accounting for credit hours and travel compensation time. This guidance includes an internal SDC approval process for requests for BTOs, actual expense authorization memos, access to and retention of assigned BTOs, and associated vouchers/receipts by the SDC administrative staff with periodic and random reviews. SDC worked with APSD staff to develop procedures to account for the unique travel requirements of the SDC support teams. APSD provided the necessary program procedures to allow the SDC leadership to credit and compensate travel team members for time above-and-beyond the standard 40-hour workweek schedules. Travel team rule sets are now defined for compensation time and credit hour documentation with the associated proper coding in the Defense financial system.

## **JIEDDO**

Description of Issue: Implementation of JIEDDO managers' internal control (MIC) program.

### Accomplishments:

- The following are Internal Review initiatives which support the implementation of JIEDDO MIC program:
  - Hired a staff resource to lead and assist in the completion of multiple JIEDDO audits and assessments.
  - Retained an independent consulting firm to support ongoing Internal Review initiatives including the implementation of the JIEDDO MIC program.
  - Completed an organizational wide risk assessment in November 2009. The purpose and objectives of this risk assessment were to:

- Prioritize JIEDDO's efforts to implement internal controls on the processes and sub-processes that significantly impact:
  - Achieving JIEDDO's mission;
  - Safeguarding against fraud, waste, and abuse;
  - Accurately and completely recording and presenting financial transactions; and,
  - Complying with laws and regulations.
- Enable JIEDDO leadership to make informed decisions about where to devote resources to best manage and mitigate vulnerabilities.
- Ensure compliance with GAO and other oversight bodies' requirement to utilize a systemic approach to evaluate and mitigate risk.
- This risk assessment involved a JIEDDO-wide evaluation of sub-processes and provided summarized and detailed risk rankings as well as tailored mitigation strategies, recommendations and next steps for JIEDDO's MIC implementation efforts. This helped JIEDDO define the way forward for the MIC program, prioritizing efforts and resources on the areas with the most risk to the achievement of JIEDDO's mission.
- Identified JIEDDO Assessable Unit Managers (AUM) and Internal Control Administrators (ICAs) for each assessable unit and delivered formal training on the requirements and responsibilities for each leadership role within the MIC program.



**TAB B**  
**MATERIAL WEAKNESSES**



**OSD STATEMENT OF ASSURANCE**

**TAB B-1**

**LISTS OF ALL UNCORRECTED AND CORRECTED  
MATERIAL WEAKNESSES**

**Uncorrected Material Weaknesses Identified During the Period**

<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	OUSD(AT&L)/DTIC
<b>Title</b>	Review of Defense Technical Information Center (DTIC) Internal Controls
<b>Year First Reported</b>	FY 2010
<b>Correction Qtr/FY Date</b>	1 <sup>st</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 1

<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	OUSD(P&R)
<b>Title</b>	Deficiencies in Executive the DoD Enterprise Staff Solution Project
<b>Year First Reported</b>	FY 2010
<b>Correction Qtr/FY Date</b>	1 <sup>st</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 3

<b>Functional Category</b>	Information Technology
<b>Organization</b>	WHS
<b>Title</b>	Management of Wireless Devices
<b>Year First Reported</b>	FY 2010
<b>Correction Qtr/FY Date</b>	2 <sup>nd</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 5

<b>Functional Category</b>	Procurement
<b>Organization</b>	JIEDDO
<b>Title</b>	Assessment of the Effectiveness of Counter-Improved Explosive Device (D-IED) Material and Non-material Initiatives
<b>Year First Reported</b>	FY 2010
<b>Correction Qtr/FY Date</b>	3 <sup>rd</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 7

<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	JIEDDO
<b>Title</b>	Lack of Documented Fund Control Processes
<b>Year First Reported</b>	FY 2010
<b>Correction Qtr/FY Date</b>	3 <sup>rd</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 9

**Uncorrected Material Weaknesses Identified During Prior Periods**

<b>Functional Category</b>	Support Services
<b>Organization</b>	OUSD(P&R)
<b>Title</b>	Lack of Non-appropriated Fund Audit Policy Clarification and Compliance
<b>Year First Reported</b>	FY 2009
<b>Correction Qtr/FY Date</b>	2 <sup>nd</sup> Qtr, FY 2013
<b>Page #</b>	Tab B-2, Page 11

<b>Functional Category</b>	Procurement
<b>Organization</b>	DMA
<b>Title</b>	Procurement
<b>Year First Reported</b>	FY 2009
<b>Correction Qtr/FY Date</b>	1 <sup>st</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 14

<b>Functional Category</b>	Logistics
<b>Organization</b>	DMA
<b>Title</b>	Property Accountability (formerly titled Property Management)
<b>Year First Identified</b>	FY 2008
<b>Correction Qtr/FY Date</b>	3 <sup>rd</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 16

<b>Functional Category</b>	Personnel and/or Organizational Management
<b>Organization</b>	ODA&M
<b>Title</b>	DoD Privacy Act Training
<b>Year First Reported</b>	FY 2009
<b>Correction Qtr/FY Date</b>	1 <sup>st</sup> Qtr FY 2011
<b>Page #</b>	Tab B-2, Page 18

<b>Functional Category</b>	Procurement
<b>Organization</b>	WHS
<b>Title</b>	Improper Use on Non-DoD Contracts
<b>Year First Reported</b>	FY 2007
<b>Correction Qtr/FY Date</b>	1 <sup>st</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 20

<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	WHS
<b>Title</b>	Loss of Control Over Official Status of Funds
<b>Year First Identified</b>	FY 2006
<b>Correction Qtr/FY Date</b>	1 <sup>st</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 22

<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	WHS
<b>Title</b>	Inadequate Documentation of Processes
<b>Year First Identified</b>	FY 2007
<b>Correction Qtr/FY Date</b>	1 <sup>st</sup> Qtr, FY 2011
<b>Page #</b>	Tab B-2, Page 25

<b>Functional Category</b>	Property Management and Support Services
<b>Organization</b>	WHS
<b>Title</b>	Safety, Industrial Hygiene (IH), Environmental and Fire Prevention
<b>Year First Identified</b>	FY 2007
<b>Correction Qtr/FY Date</b>	4 <sup>th</sup> Qtr, FY 2015
<b>Page #</b>	Tab B-2, Page 27

<b>Functional Category</b>	Personnel and/or Organizational Management
<b>Organization</b>	JIEDDO
<b>Title</b>	Implementation of the JIEDDO Manager's Internal Control Program
<b>Year First Reported</b>	FY 2009
<b>Correction Qtr/FY Date</b>	3 <sup>rd</sup> Qtr, FY 2012
<b>Page #</b>	Tab B-2, Page 31

**Corrected Material Weaknesses Identified During All Periods**

<b>Functional Category</b>	Personnel and/or Organizational Management
<b>Organization</b>	Washington Headquarters Service, OSD Networks
<b>Title</b>	Improper Workforce Mix
<b>Year First Reported</b>	FY 2009
<b>Correction Qtr/FY Date</b>	2 <sup>nd</sup> Quarter, FY 2010
<b>Page #</b>	Tab B-3, Page 1

<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	Defense Media Activity
<b>Title</b>	Manager's Internal Control Program
<b>Year First Reported</b>	FY 2009
<b>Correction Qtr/FY Date</b>	3 <sup>rd</sup> Quarter, FY 2010
<b>Page #</b>	Tab B-3, Page 3



**OSD STATEMENT OF ASSURANCE**

**TAB B-2**

**UNCORRECTED MATERIAL WEAKNESSES  
STATUS OF CORRECTIVE ACTIONS**

**Uncorrected Material Weaknesses Identified During the Period**

<b>Title and Description of Issue</b>	<u>Review of Defense Technical Information Center (DTIC) Internal Controls</u> : Based on an audit report, DTIC is charged with developing a process to accumulate actual costs for the goods and services it provides and calculate a reimbursable fee rate that recovers actual costs.
<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	OUSD(AT&L)/DTIC
<b>Senior Official In Charge</b>	Alan R. Shaffer, Principal Deputy Director, Defense Research and Engineering, OUSD(AT&L)
<b>Pace of Corrective Actions</b>	<u>Year Identified</u> : FY 2010  <u>Original Targeted Correction Date</u> : 1st Qtr, FY 2011  <u>Targeted Correction Date in Last Year's Report</u> : N/A  <u>Current Target Date</u> : 1st Qtr, FY 2011
<b>Reason for change in date</b>	N/A
<b>Validation Indicator</b>	As required by the recommendations of Inspector General of the Department of Defense Report D-2010-023, the USD(C) and the General Counsel of the Department of Defense (GC DoD) will review and approve the products submitted by the DTIC Information Analysis Center (IAC) Reimbursable Review Board (IRRB), established at the direction of the Principal Deputy Director, Defense Research and Engineering within the OUSD(AT&L).
<b>Results Indicator (Impact)</b>	The USD(C) and the GC DoD will approve the cost for reimbursable services to be provided and the associated reimbursable fee rate on an annual basis and provide reimbursable authority for collections. At the end of each fiscal year, the amount of customer fees collected will balance with the cost of providing reimbursable services.
<b>Source(s) Identifying Weakness</b>	Inspector General of the Department of Defense Report D-2010-023, "Review of Defense Technical Information Center Internal Controls," dated December 3, 2009
<b>Major Milestones to Include Progress to Date</b>	A. <u>Completed Milestones</u> :  <u>Date</u> : Completed <u>Milestone</u> : Director, Defense Research and Engineering (DDR&E) and DTIC Established an IRRB.  Completed                              Calculated reimbursable fee rate that recovers estimated actual costs for the fiscal year; obtained USD(C)/GC DoD approval.

	<b>B. <u>Planned Milestones for FY 2010 and FY 2011:</u></b>	
	4 <sup>th</sup> Qtr, FY 2010	Compare collected fees to cost incurred, adjust rate as necessary or return excess fees; document final process.
	1 <sup>st</sup> Qtr, FY 2011	Validation that corrective actions resolved the internal control issue.
	<b>C. <u>Planned Milestones Beyond FY 2011:</u> N/A</b>	

<b>Title and Description of Issue</b>	<u>Deficiencies in Executing the DoD Enterprise Staffing Solution Project:</u> As a result of a hotline complaint, the following deficiencies were noted: obligating funds for the Enterprise Staffing Solution Project without Defense Business Systems Management Committee (DBSMC) certification; using the incorrect funding appropriation; obligating funds for services contracted for and received in the fiscal year after the funds expired; not adhering to the Clinger-Cohen Act, Division E of Public Law 104-106; and not having an adequate internal acquisition regulation/policy to ensure that all major program management officials are certified for business systems exceeding \$1M.
<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&R))
<b>Senior Official In Charge</b>	Sharon Stewart, Acting Director, Civilian Personnel Management Service (CPMS), OUSD(P&R)
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2010  <u>Original Targeted Correction Date:</u> 1 <sup>st</sup> Qtr, FY 2011  <u>Targeted Correction Date in Last Year's Report:</u> N/A  <u>Current Target Date:</u> 1 <sup>st</sup> Qtr, FY 2011
<b>Reason for change in date</b>	N/A
<b>Validation Indicator</b>	(1) Financial Management training is required for all personnel involved in budgetary and acquisition functions. Personnel are required to take the following courses: Anti-Deficiency Act and Appropriations Law. This requirement extended to all budget analysts, acquisition personnel, and Government Purchase Card (GPC) Program cardholders and billing officials. CPMS has fully complied with this requirement as of February, 2010. (2) CPMS has developed a training plan and has begun to require all acquisition management training for its Information Technology (IT) Project Managers, including certification of program management personnel so that laws and DoD policy are followed. CPMS has complied with this requirement as of January, 2010. (3) CPMS has drafted a new Standing Operating Procedure (SOP) for the acquisition process to include major business systems. The final SOP will be published by August, 2010.
<b>Results Indicator (Impact)</b>	The mandatory financial management training will ensure that personnel continue to be knowledgeable of current fiscal laws and DoD regulations. The annual training requirement will be documented in the "Individual Development Plans" for affected personnel. The SOPs will be reviewed by the process owners on an annual basis to ensure that all changes in laws and/or governing regulations have been incorporated into the existing SOP.
<b>Source(s) Identifying Weakness</b>	Inspector General of the Department of Defense (IG DoD) Report No. D-2009-107, "DoD Enterprise Staffing Solution," dated September 28, 2009

<b>Major Milestones to Include Progress to Date</b>	<u>A. Completed Milestones:</u>	
	<u>Date:</u>	<u>Milestone:</u>
	Completed	CPMS developed a training program for all personnel responsible for leading the acquisition of major business management systems exceeding \$1M.
	Completed	All CPMS personnel involved in financial management activities, including all budget analysts, division chiefs, GPC cardholders and billing officials, took both Anti-Deficiency and Appropriations Law courses. The courses were conducted on site by the Management Concepts, Inc. Each person received a certificate of completion for the courses, which has been annotated in his/her Individual Development Plan. All five budget analysts received training in Budget Formulation and Budget Execution during this period.
	<u>B. Planned Milestones for FY 2010 and FY 2011:</u>	
	<u>Date:</u>	<u>Milestones:</u>
	1 <sup>st</sup> Qtr, FY 2011	Completion of SOP for Contract Management, including Acquisition of Major Business Systems.
	1 <sup>st</sup> Qtr, FY 2011	Validate that corrective actions were effective and that Deficiencies have been resolved.
	<u>C. Planned Milestones Beyond FY 2011:</u> N/A	

<b>Title and Description of Issue</b>	<u>Management of Wireless Devices</u> : A process is needed to collect funds from those customers who exceed their baseline inventory or who are not supported in the baseline budget. As a result, WHS has procured more devices than funding supports. Problems include: no process for validating funding prior to ordering or issuing devices; hand receipts are only collected for a portion of the equipment that has been issued; devices are not turned in for service to be suspended/deactivated; service is not suspended in a timely manner when devices are decommissioned; and in-stock equipment is activated prior to issuance.						
<b>Functional Category</b>	Information Technology						
<b>Organization</b>	WHS, Information Technology Management Directorate (ITMD)						
<b>Senior Official In Charge</b>	Lytwaive Hutchinson, Acting Director, ITMD						
<b>Pace of Corrective Actions</b>	<u>Year Identified</u> : FY 2010 <u>Original Targeted Correction Date</u> : 2 <sup>nd</sup> Qtr, FY 2011 <u>Targeted Correction Date in Last Year's Report</u> : N/A <u>Current Target Date</u> : 2 <sup>nd</sup> Qtr, FY 2011						
<b>Reason for change in date</b>	N/A						
<b>Validation Indicator</b>	Validation will be accomplished through ITMD management review.						
<b>Results Indicator (Impact)</b>	Once this problem is corrected: <ul style="list-style-type: none"> <li>• There will be no wireless funding issues.</li> <li>• Devices and associated funding will be in balance.</li> <li>• No device will be ordered that is not fully funded.</li> <li>• There will be 100% wireless accountability.</li> <li>• Devices will be reported for deactivation in a timely manner.</li> <li>• Service will be suspended in a timely manner, reducing excess costs.</li> <li>• There will be a reduction in costs.</li> </ul>						
<b>Source(s) Identifying Weakness</b>	Management initiated an out-of-cycle internal review of the wireless program.						
<b>Major Milestones to Include Progress to Date</b>	A. <u>Completed Milestones</u> : N/A B. <u>Planned Milestones for FY 2010 and FY 2011</u> : <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;"><u>Date</u>:</td> <td style="width: 50%;"><u>Milestones</u>:</td> </tr> <tr> <td>3<sup>rd</sup> Qtr, FY 2010</td> <td>Implement monthly in stock equipment validation.</td> </tr> <tr> <td>3<sup>rd</sup> Qtr, FY 2010</td> <td>Implement monthly wireless device validation.</td> </tr> </table>	<u>Date</u> :	<u>Milestones</u> :	3 <sup>rd</sup> Qtr, FY 2010	Implement monthly in stock equipment validation.	3 <sup>rd</sup> Qtr, FY 2010	Implement monthly wireless device validation.
<u>Date</u> :	<u>Milestones</u> :						
3 <sup>rd</sup> Qtr, FY 2010	Implement monthly in stock equipment validation.						
3 <sup>rd</sup> Qtr, FY 2010	Implement monthly wireless device validation.						

	4 <sup>th</sup> Qtr, FY 2010	Develop process to collect funds due.
	4 <sup>th</sup> Qtr, FY 2010	Reconcile inventory.
	4 <sup>th</sup> Qtr, FY 2010	Develop process to validate orders.
	4 <sup>th</sup> Qtr, FY 2010	Conduct 100% hand receipt audit against active devices.
	1 <sup>st</sup> Qtr, FY 2011	Develop process briefings for Senior Administrative Officers.
	2 <sup>nd</sup> Qtr, FY 2011	Provide briefings at quarterly Senior Action Officer meeting.
	2 <sup>nd</sup> Qtr, FY 2011	Validation by ITMD management.
C. <u>Planned Milestones Beyond FY 2011</u> : N/A		

<b>Title and Description of Issue</b>	<p><u>Assessment of the Effectiveness of Counter-Improvised Explosive Device (C-IED) Material and Non-material Initiatives:</u> The Joint Improvised Explosive Device Defeat Organization's (JIEDDO's) capability to conduct assessments of the effectiveness of C-IED material and non-material initiatives is inadequate. JIEDDO is implementing several procedures that will link its planning, requirements validation, risk assessments, and performance measures of effectiveness to provide greater assurance in our decision making processes. These improvements will support JIEDDO's mission to defeat IEDs by identifying, assessing, and providing oversight of Counter-IED material and non-material solutions.</p> <p>To address these issues, JIEDDO is implementing an assessment methodology for all initiatives to provide a consistent evaluative framework to assess their level of readiness and risk to inform decision making specific to each Transition Point. This framework will provide transparency of incremental changes over time to furnish senior leaders with comprehensive information to inform decision making.</p>
<b>Functional Category</b>	Procurement
<b>Organization</b>	Joint Improvised Explosive Device Defeat Organization (JIEDDO), Capabilities Acquisition Center (CAC)
<b>Senior Official In Charge</b>	Mitch Howell, Deputy Director of Rapid Acquisition and Technology, JIEDDO
<b>Pace of Corrective Actions</b>	<p><u>Year Identified:</u> FY 2010</p> <p><u>Original Targeted Correction Date:</u> N/A</p> <p><u>Targeted Correction Date in Last Year's Report:</u> N/A</p> <p><u>Current Target Date:</u> 3<sup>rd</sup> Qtr, FY 2011</p>
<b>Reason for change in date</b>	N/A
<b>Validation Indicator</b>	CAC will validate the JIEDDO Assessment Methodology through pre- and post-analysis of initiatives at major transition points for trends and discrepancies. Changes will be continually inserted in the methodology until initiatives are at full value.
<b>Results Indicator (Impact)</b>	JIEDDO will have transparency of incremental changes over time to furnish senior leaders with comprehensive information to inform decision making throughout the Joint IED Defeat Capability Approval and Acquisition Management Process (JCAAMP). Every initiative is formally evaluated and results of that evaluation are documented within JCAAMP's review board processes and are considered for funding decisions.
<b>Source(s) Identifying Weakness</b>	Government Accountability Office Report to the Committee on Armed Services, U.S. Senate, "Warfighter Support: Improvement to DOD's Urgent Needs Processes Would Enhance Oversight and Expedite Efforts To Meet Critical Warfighter Needs."
<b>Major Milestones to</b>	A. <u>Completed Milestones:</u> N/A

<b>Include Progress to Date</b>	<u>Date:</u> 3 <sup>rd</sup> Qtr, FY 2010	<u>Milestones:</u> Designed and tested C-IED program assessment framework and methodology. Piloted the methodology using a sample of JIEDDO C-IED programs. Refined the assessment methodology and are in the process of developing the JIEDDO C-IED baseline portfolio.
	<b>B. <u>Planned Milestones for FY 2011</u></b>	
	<u>Date:</u> 1 <sup>st</sup> Qtr, FY 2011	<u>Milestones:</u> Synchronize the assessment methodology in conjunction with JCAAMP in-progress reviews and milestones. Based on lessons learned and data cleansing, refine the methodology to ensure that outputs lead to desired outcomes. Develop requirements to automate the JIEDDO assessment methodology.
	3 <sup>rd</sup> Qtr, FY 2011	Verify implementation of the JIEDDO Assessment Methodology and validate that the weakness has been resolved through internal control testing. Monitor refinement and execution to enable continuous improvement and integration with the evolving process.
<b>C. <u>Planned Milestones Beyond FY 2011:</u> N/A</b>		

<b>Title and Description of Issue</b>	<p><u>Lack of Documented Funds Control Processes:</u> The Joint Improvised Explosive Device Defeat Organization (JIEDDO) has identified the need to enhance and document funds control processes, specifically focusing on processes which support maintaining, recording, and/or accessing appropriate documentation to support obligations and disbursements. For example, through JIEDDO's periodic internal controls testing, JIEDDO identified instances where program managers' and vendors' contracts had not been received in a timely manner or could not be located. As such, the intended use of the funds and/or the accuracy of the disbursements could not be verified.</p> <p>To address these issues, JIEDDO is establishing a standard contract review process to ensure that the issuer, purpose, and line of accounting (LOA) correspond with the Military Interdepartmental Purchase Request (MIPR). Additionally, JIEDDO is implementing an automated work flow process within the Comprehensive Cost and Requirement (CCaR) System application to ensure supervisory review of pending obligations when contract/acceptance documentation is received. JIEDDO will also enhance standing operating procedures (SOP) to ensure that consistent processes are used to obligate and disburse JIEDDO funds.</p>
<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	Joint Improvised Explosive Device Defeat Organization (JIEDDO)
<b>Senior Official In Charge</b>	Captain Douglas S. Borrebach, J-8 Comptroller, JIEDDO
<b>Pace of Corrective Actions</b>	<p><u>Year Identified:</u> FY 2010</p> <p><u>Original Targeted Correction Date:</u> N/A</p> <p><u>Targeted Correction Date in Last Year's Report:</u> N/A</p> <p><u>Current Target Date:</u> 3<sup>rd</sup> Qtr, FY 2011</p>
<b>Reason for change in date</b>	N/A
<b>Validation Indicator</b>	The outlined corrective actions will be validated by follow-up testing and remediation conducted by JIEDDO's Internal Review Division as part of the MIC Program throughout FY 2011. The J-8/Comptroller, Quality Assurance /Policy Branch will conduct recurring testing throughout FY 2011 and beyond to validate that the weakness has been corrected.
<b>Results Indicator (Impact)</b>	Results will be indicated by improved test results. Quality Assurance /Policy Branch performs quarterly testing to ensure MIPR acceptances and contracts are received and related obligations are recorded in a timely manner. Daily testing is in place for review of MIPR acceptances.
<b>Source(s) Identifying Weakness</b>	The material weakness was identified through controls testing completed by the J8/Comptroller Division through its MIC Program evaluation and operational testing.
<b>Major Milestones to Include</b>	A. <u>Completed Milestones:</u> N/A

Progress to Date											
	<p data-bbox="386 247 850 279">B. <u>Planned Milestones for FY 2011</u></p> <table data-bbox="386 317 1560 968"> <thead> <tr> <th data-bbox="386 317 727 352"><u>Date:</u></th> <th data-bbox="727 317 1560 352"><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="386 390 727 426">1<sup>st</sup> Qtr, FY 2011</td> <td data-bbox="727 390 1560 464">Establish standard contract review procedures to ensure that the issuer, purpose, and LOA correspond with the MIPR.</td> </tr> <tr> <td data-bbox="386 501 727 537">1<sup>st</sup> Qtr, FY 2011</td> <td data-bbox="727 501 1560 642">Implement an automated work flow process within the CCaR System application to ensure supervisory review of pending obligations when contracts/acceptance documentation is received.</td> </tr> <tr> <td data-bbox="386 680 727 716">2<sup>nd</sup> Qtr, FY 2011</td> <td data-bbox="727 680 1560 789">Update SOP for funds controls to ensure that consistent processes are used obligate and disburse JIEDDO funds that are in accordance with the DoD Financial Management Regulation.</td> </tr> <tr> <td data-bbox="386 827 727 863">3<sup>rd</sup> Qtr, FY 2011</td> <td data-bbox="727 827 1560 968">Validate implementation and effectiveness of new controls through internal control testing conducted by Internal Review Division and J8 Quality Assurance to verify that the material weakness has been corrected.</td> </tr> </tbody> </table>	<u>Date:</u>	<u>Milestones:</u>	1 <sup>st</sup> Qtr, FY 2011	Establish standard contract review procedures to ensure that the issuer, purpose, and LOA correspond with the MIPR.	1 <sup>st</sup> Qtr, FY 2011	Implement an automated work flow process within the CCaR System application to ensure supervisory review of pending obligations when contracts/acceptance documentation is received.	2 <sup>nd</sup> Qtr, FY 2011	Update SOP for funds controls to ensure that consistent processes are used obligate and disburse JIEDDO funds that are in accordance with the DoD Financial Management Regulation.	3 <sup>rd</sup> Qtr, FY 2011	Validate implementation and effectiveness of new controls through internal control testing conducted by Internal Review Division and J8 Quality Assurance to verify that the material weakness has been corrected.
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	C. <u>Planned Milestones Beyond FY 2011:</u> N/A										

**Uncorrected Material Weaknesses Identified During Prior Periods**

<p><b>Title and Description of Issue</b></p>	<p><u>Lack of Non-Appropriated Fund Audit Policy Clarification and Compliance:</u> There is a significant weakness in the audit coverage of Nonappropriated Fund Instrumentalities (NAFIs) due to lack of policy clarification by the Inspector General of the Department of Defense (IG DoD) in DoD Instruction (DoDI) 7600.6. “Audit of Nonappropriated Fund Instrumentalities and Related Activities.” The Military Services are not complying with the policy in Paragraph E2.1.3.1., DoDI 7600.6, which requires a Service-wide financial audit of each Service's NAFIs by an independent audit organization. The financial audit shall include the central NAFIs (if maintained) and such other regional, installations, or base NAFIs as may be necessary to obtain properly certified statements as to the financial condition of the NAFIs under the cognizance of the Military Services. The audited financial statements shall be the basis for the Military Services' annual reports submitted to the Principal Deputy Under Secretary of Defense for Personnel and Readiness in accordance with Subparagraph 5.5.2. of DoDI 1015.15, “Establishment, Management, and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources.”</p> <p>The Military Services cite conflicting guidance in Paragraph E2.1.3. of DoDI 7600.6 which only requires annual financial audits (1) of all NAFIs with annual revenues or expenses that exceed \$7M and those NAFIs with operations deemed to be highly sensitive (e.g., potential fraud, large public exposure, etc.); and (2) other audits should be completed as deemed necessary by management based on risk assessments and within resource availability. The Marine Corps conducts a single audit of the NAFIs under the purview of the Marine Corps Community Services (MCCS) organization; however, those NAFIs outside of the MCCS are not included. The Army, Navy, and Air Force each conduct audits of their headquarters funds and some of the installation and/or regional funds but do not conduct Service-wide audits.</p> <p>At the request of the Resale Activities and Nonappropriated Fund Policy Office, the IG DoD conducted a review in 2006 of the Services' financial reporting for NAFIs (Project No. D-2006-D000FH-0120.000), to determine if the accounting records were in condition to permit Service-wide audits. The IG DoD reported numerous accounting discrepancies as well as recommended policy clarifications to DoDI 1015.15, Volume 13 of DoD Financial Management Regulation DoD 7000.14-R, “Nonappropriated Funds Policy and Procedures,” and DoDI 7600.6. Clarifications have been made to DoDI 1015.15 and DoD 7000.14-R, but have not been made to DoDI 7600.6. However, representatives from the Offices of Resale Activities and Nonappropriated Fund Policy, IG DoD Audit Policy and Oversight, and DoD Comptroller Accounting and Finance Policy Office met in ongoing discussions regarding conformance with the 2006 report recommendation to update DoDI 7600.6.</p>
<p><b>Functional Category</b></p>	<p>Support Services</p>
<p><b>Organization</b></p>	<p>Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&amp;R))</p>
<p><b>Senior Official</b></p>	<p>Clifford L. Stanley, Under Secretary of Defense for Personnel and Readiness</p>

<b>In Charge</b>							
<b>Pace of Corrective Actions</b>	<p><u>Year Identified:</u> FY 2009</p> <p><u>Original Targeted Correction Date:</u> 2<sup>nd</sup> Qtr, FY 2011</p> <p><u>Targeted Correction Date in Last Year's Report:</u> 2<sup>nd</sup> Qtr, FY 2011</p> <p><u>Current Target Date:</u> 2<sup>nd</sup> Qtr, FY 2013</p>						
<b>Reason for change in date</b>	The IG DoD Audit Policy and Oversight Office suspended ongoing review and discussion of DoDI 7600.6 due to higher priority projects.						
<b>Validation Indicator</b>	The Principal Deputy Under Secretary of Defense for Personnel and Readiness (PDUSD (P&R)) will certify the effectiveness of the corrective action upon receipt of the Military Service audited Service-wide financial statements. The Military Service audit agencies will monitor progress in awarding certified public accountant contracts for the audits and ensuring that the audits are conducted. The IG DoD will monitor compliance by the Military Departments and Military Services with DoDI 7600.6.						
<b>Results Indicator (Impact)</b>	This action will be completed when the IG DoD updates the nonappropriated fund audit policy in DoDI 7600.6 and the Military Departments require the Military Services to comply with the audit policy by having a Service-wide audit of their nonappropriated fund instrumentalities conducted for FY 2012 (to be completed and submitted to the PDUSD(P&R)) The Service-wide audits will replace the manual financial statements currently submitted annually to the PDUSD (P&R) and will ensure that the financial statements present fairly the financial position and the results of operations for the nonappropriated fund instrumentalities under the purview of the Military Departments.						
<b>Source(s) Identifying Weakness</b>	NAFI financial statements submitted to the PDUSD(P&R) by the Military Departments and DoDIG Project No. D-2006-D00FH-0 I20.000.						
<b>Major Milestones to Include Progress to Date</b>	<p>A. <u>Completed Milestones:</u> N/A</p>						
	<p>B. <u>Planned Milestones for FY 2011</u></p> <table border="0"> <tr> <td><u>Date:</u></td> <td><u>Milestones:</u></td> </tr> <tr> <td>4<sup>th</sup> Qtr, FY 2011</td> <td>IG DoD publishes updated DoDI 7600.6.</td> </tr> </table>	<u>Date:</u>	<u>Milestones:</u>	4 <sup>th</sup> Qtr, FY 2011	IG DoD publishes updated DoDI 7600.6.		
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	<p>C. <u>Planned Milestones Beyond FY 2011:</u></p> <table border="0"> <tr> <td><u>Date:</u></td> <td><u>Milestones:</u></td> </tr> <tr> <td>1<sup>st</sup> Qtr, FY 2012</td> <td>Provide nonappropriated fund audit policy clarification and compliance; Military Services award contracts for Service-wide audits of NAFIs.</td> </tr> <tr> <td>2<sup>nd</sup> Qtr, FY 2013</td> <td>Service-wide audits of NAFIs completed and audit reports submitted to the PDUSD(P&amp;R) by the Military Departments.</td> </tr> </table>	<u>Date:</u>	<u>Milestones:</u>	1 <sup>st</sup> Qtr, FY 2012	Provide nonappropriated fund audit policy clarification and compliance; Military Services award contracts for Service-wide audits of NAFIs.	2 <sup>nd</sup> Qtr, FY 2013	Service-wide audits of NAFIs completed and audit reports submitted to the PDUSD(P&R) by the Military Departments.
<u>Date:</u>	<u>Milestones:</u>						
1 <sup>st</sup> Qtr, FY 2012	Provide nonappropriated fund audit policy clarification and compliance; Military Services award contracts for Service-wide audits of NAFIs.						
2 <sup>nd</sup> Qtr, FY 2013	Service-wide audits of NAFIs completed and audit reports submitted to the PDUSD(P&R) by the Military Departments.						

	2 <sup>nd</sup> Qtr, FY 2013	Validate that corrective actions are in place and weakness has been corrected.
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<b>Title and Description of Issue</b>	<u>Procurement</u> : American Forces Information Service (AFIS) did not properly manage and oversee its delegated procurement functional responsibilities. As a result, residual weaknesses were identified by the Defense Logistics Agency (DLA) and the Inspector General of the Department of Defense (IG DoD) during FY 2009. Without adequately trained contracting staff and acquisition systems implementation, Defense Media Activity (DMA) identified a weakness in its ability to oversee entity-wide acquisition practices and purchasing requirements.
<b>Functional Category</b>	Procurement.
<b>Organization</b>	Defense Media Activity (DMA)
<b>Senior Official In Charge</b>	Mr. Melvin Russell, Acting Director, Defense Media Activity
<b>Pace of Corrective Actions</b>	<u>Year Identified</u> : FY 2009  <u>Original Targeted Correction Date</u> : 2 <sup>nd</sup> Qtr, FY 2010  <u>Targeted Correction Date in Last Year's Report</u> : 2 <sup>nd</sup> Qtr, FY 2010  <u>Current Target Date</u> : 1 <sup>st</sup> Qtr, FY 2011
<b>Reason for change in date</b>	Corrections were targeted for 2 <sup>nd</sup> Qtr, FY2010, but an internal review of contract files in December 2009 indicated further effort was required to make contracting staff aware of the deficiencies and change old processes.
<b>Validation Indicator</b>	Validation by Defense Logistics Agency (DLA) in its Level III Procurement Management Review.
<b>Results Indicator (Impact)</b>	Closeout of all open findings identified in the DLA Follow-Up Procurement Management Review Report, dated March 27, 2009.
<b>Source(s) Identifying Weakness</b>	DLA Follow-Up Procurement Management Review Report, dated March 27, 2009.
<b>Major Milestones to Include Progress to Date</b>	<p><u>A. Completed Milestones</u>:</p> <p><u>Date</u>: <u>Milestones</u>:</p> <p>Completed                      Established DMA Acquisition and Procurement Authority.</p> <p>Completed                      Issued policy to clarify procurement roles and responsibilities and to improve contracting integrity.</p> <p>Completed                      Instituted monthly Contracting Situation Reports to provide the Director, DMA, with visibility of contracting actions greater than \$100,000 and special interest items such as protests and claims.</p> <p>Completed                      Instituted review of contractual actions equal to or exceeding</p>

		\$100,000 by the Chief of the Contracting Office and the DMA Competition Advocate.
	Completed	Identified/Training Skill Gap.
	Completed	All staff meet certification requirements and training is up-to date.
	Completed	Publish a Contracting Standing Operating Procedure.
	<u>B. Planned Milestones for FY 2011:</u>	
	1st Qtr, FY 2011	Validate effectiveness of corrective action through DLA Level III Procurement Management Review.
	<u>C. Planned Milestones Beyond FY 2011:</u> N/A	



<b>Date</b>	<p>Completed</p> <p>Issue a DMA Enterprise-wide property accountability policy that establishes: a consistent personal property accountability threshold, an effective physical inventory process, adequate safeguards over personal property, hand receipting procedures that ensured proper accountability over personal property, and clearly defined and separation of personal property roles and responsibilities.</p>								
	<p>B. <u>Planned Milestones for FY 2011:</u></p> <table border="0"> <tr> <td data-bbox="381 499 716 537"><u>Date:</u></td> <td data-bbox="716 499 1572 537"><u>Milestones:</u></td> </tr> <tr> <td data-bbox="381 569 716 606">1<sup>st</sup> Qtr, FY 2011</td> <td data-bbox="716 569 1572 684">Merge all DMA DPAS databases under a single site ID to allow enterprise-wide asset visibility and management (in progress: 50% complete).</td> </tr> <tr> <td data-bbox="381 716 716 753">2<sup>nd</sup> Qtr, FY 2011</td> <td data-bbox="716 716 1572 831">Conduct Enterprise-wide 100% inventory using the consolidated DPAS database to generate all inventory documents and hand receipts (in progress; 50% complete).</td> </tr> <tr> <td data-bbox="381 863 716 900">3<sup>rd</sup> Qtr, FY 2011</td> <td data-bbox="716 863 1572 936">Validate that weakness is corrected through audit conducted by DMA IG.</td> </tr> </table> <p>C. <u>Planned Milestones Beyond FY 2011:</u> N/A</p>	<u>Date:</u>	<u>Milestones:</u>	1 <sup>st</sup> Qtr, FY 2011	Merge all DMA DPAS databases under a single site ID to allow enterprise-wide asset visibility and management (in progress: 50% complete).	2 <sup>nd</sup> Qtr, FY 2011	Conduct Enterprise-wide 100% inventory using the consolidated DPAS database to generate all inventory documents and hand receipts (in progress; 50% complete).	3 <sup>rd</sup> Qtr, FY 2011	Validate that weakness is corrected through audit conducted by DMA IG.
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1 <sup>st</sup> Qtr, FY 2011	Merge all DMA DPAS databases under a single site ID to allow enterprise-wide asset visibility and management (in progress: 50% complete).								
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3 <sup>rd</sup> Qtr, FY 2011	Validate that weakness is corrected through audit conducted by DMA IG.								

<b>Title and Description of Issue</b>	<u>DoD Privacy Act Training</u> : DoD Privacy Act Training. The Defense Privacy and Civil Liberties Office (DPCLCLO), under the OSD Director of Administration and Management, ensures DoD-wide compliance with the Privacy Act of 1974. A requirement of the Act is to train the workforce on implementation of the Act and roles and responsibilities related to the collection, maintenance, use, and dissemination of personally identifiable information. There is a significant weakness in the availability of comprehensive DoD-specific Privacy Act training materials and the deployment of DoD-wide Privacy Act training sessions.
<b>Functional Category</b>	Personnel and/or Organization Management
<b>Organization</b>	ODA&M
<b>Senior Official In Charge</b>	Samuel P. Jenkins, Acting Director, DPCLCLO (Note: The DPCLCLO now has a new director, Michael E. Reheuser, who is the senior official responsible for this weakness. However, Mr. Jenkins was Acting Director as of July 9, 2010, when he signed the DPCLCLO Statement of Assurance.)
<b>Pace of Corrective Actions</b>	<u>Year Identified</u> : FY 2009  <u>Original Targeted Correction Date</u> : 1st Qtr, FY 2011  <u>Targeted Correction Date in Last Year's Report</u> : 1st Qtr, FY 2011  <u>Current Target Date</u> : 1st Qtr, FY 2011
<b>Reason for change in date</b>	N/A
<b>Validation Indicator</b>	Corrective actions will be certified by an internal review, 1 <sup>st</sup> Qtr, FY 2011.
<b>Results Indicator (Impact)</b>	Comprehensive Privacy Act training modules will be available DoD-wide and a schedule of in-person training sessions deployed.
<b>Source(s) Identifying Weakness</b>	MIC Program evaluation.
<b>Major Milestones to Include Progress to Date</b>	<u>A. Completed Milestones</u> :  <u>Date</u> : <u>Milestones</u> : Completed Complete outline of training curricula Completed Secure/schedule appropriate training space(s)
	<u>B. Planned Milestones for FY 2011</u> :  <u>Date</u> : <u>Milestones</u> : 1 <sup>st</sup> Qtr, FY 2011 Complete development of initial series of training modules

	1st Qtr, FY 2011	Begin initial series of in-person training modules
	1st Qtr, FY 2011	Corrective actions will be certified by an internal review
	C. <u>Planned Milestones Beyond FY 2011</u> : N/A	

<b>Title and Description of Issue</b>	<u>Improper Use of Non-DoD Contracts:</u> The Department depends on non-DoD Agencies for award of billions of dollars in contracting actions. To mitigate the fiscal and contracting irregularities in non-DoD contracting processes, DoD mandated internal review and approval procedures for all non-DoD contracting actions. WHS is not conducting the required reviews prior to initiating actions with non-DoD contracting organizations.
<b>Functional Category</b>	Procurement
<b>Organization</b>	WHS, Acquisition and Procurement Office (A&PO)
<b>Senior Official in Charge</b>	Linda N. Allen, Director, Acquisition and Procurement Office (A&PO), WHS
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2007  <u>Original Targeted Correction Date:</u> 2 <sup>nd</sup> Qtr, FY 2008  <u>Targeted Correction Date in Last Year's Report:</u> 2 <sup>nd</sup> Qtr, FY 2010  <u>Current Target Date:</u> 1st Qtr, FY 2011
<b>Reason for Change in Date</b>	A&PO continues to make progress toward correcting this material weakness. Pursuant to the June 26, 2009 Managers' Internal Control (MIC) review, the WHS Financial Management Directorate (FMD) and A&PO were well on the way to full compliance with the approved recommendations: (1) adherence to WHS Operating Instructions 30-2 and 50-2; (2) agreement on using the Model Interagency Agreement prescribed by the Office of Federal Procurement Policy and mandated by the Defense Procurement and Acquisition Policy; and (3) final draft revision to WHS OI 50-2. Subsequently, the DoD Office of Defense Procurement and Acquisition Policy (DPAP) established an additional requirement for DoD activities to check the DPAP web site to ensure that the Agency selected to execute a DoD acquisition has a current certification on file that its procurement policies conform to DoD requirements. In January 2010, FMD and A&PO agreed that the responsibility to check the website should be assigned to the requiring office before submitting its purchase request. Accordingly, OI 50-02 was withdrawn from coordination to include the new requirement. The WHS MIC Program Manager will conduct another follow-up review of the non-DoD contract approval process six months after the publishing of an updated WHS OI 50-2 (currently in progress).
<b>Validation Indicator</b>	A comparison of non-DoD actions from the WHS Allotment Accounting System (WAAS) against the non-DoD actions recorded in the Standard Procurement System (SPS). No action will be required of the Inspector General of the Department of Defense (IG DoD) or the Defense Contract Audit Agency in verification of this corrective action.
<b>Results Indicator (Impact)</b>	A&PO will continue to perform annual reviews of interagency transactions reported in SPS and WAAS to measure the degree of success in assuring that no funds are transferred without appropriate A&PO approvals. A&PO will ensure that non-DoD contracting actions comply with the DoD policies outlined in A&PO's OI 50-2 and in FMD's OI 30-2.

<b>Source(s) Identifying Weakness</b>	<p>Various IG DoD reviews and Government Accountability Office Decision B-308944, (not specific to WHS).</p> <p>The A&amp;PO review required by OI 50-2 and summarized by memos dated March 28, 2007, and November 29, 2007, documented WHS noncompliance with the DoD review requirements.</p> <p>The analysis in November 2008 and collaboration with the WHS Planning and Evaluation Directorate (P&amp;ED) and FMD confirmed there is still a noncompliance issue.</p> <p>A&amp;PO monitors and reports on an annual basis to the Director, WHS.</p> <p>The Department identified a similar Systemic Weakness in the FY 2007 DoD Statement of Assurance, which has since been corrected and closed out.</p>												
<b>Major Milestones to Include Progress to Date</b>	<p>A. <u>Completed Milestones:</u></p> <table border="0"> <tr> <td data-bbox="391 688 727 722"><u>Date:</u></td> <td data-bbox="740 688 1572 722"><u>Milestones:</u></td> </tr> <tr> <td data-bbox="391 762 727 795">Completed</td> <td data-bbox="740 762 1572 795">Conducted WHS/P&amp;ED internal review with A&amp;PO and FMD.</td> </tr> <tr> <td data-bbox="391 835 727 869">Completed</td> <td data-bbox="740 835 1572 869">Performed initial validation of results.</td> </tr> <tr> <td data-bbox="391 909 727 942">Completed</td> <td data-bbox="740 909 1572 942">Conducted follow-up internal review.</td> </tr> <tr> <td data-bbox="391 982 727 1016">Completed</td> <td data-bbox="740 982 1572 1016">Forwarded package to WHS for signature.</td> </tr> <tr> <td data-bbox="391 1056 727 1089">Completed</td> <td data-bbox="740 1056 1572 1125">Obtained an allocation of slots for A&amp;PO management personnel to receive MIC Program training.</td> </tr> </table>	<u>Date:</u>	<u>Milestones:</u>	Completed	Conducted WHS/P&ED internal review with A&PO and FMD.	Completed	Performed initial validation of results.	Completed	Conducted follow-up internal review.	Completed	Forwarded package to WHS for signature.	Completed	Obtained an allocation of slots for A&PO management personnel to receive MIC Program training.
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1 <sup>st</sup> Qtr, FY 2011	Revalidate results.												
	<p>C. <u>Planned Milestones Beyond FY 2011:</u> N/A</p>												

<b>Title and Description of Issue</b>	<u>Loss of Control of Official Status of Funds:</u> Originally identified when the WHS, Financial Management Directorate (FMD) failed to record \$2 million in commitments and obligations at the end of FY 2005. Further investigation and review identified that the FMD recording processes relied on the transfer of documents from one office to another for the recording of commitments and obligations into the system of record to occur. The involved steps were mainly manual in nature and did not allow for timely processing of data on a regular basis. These conditions led fund certifiers to develop a second set of books, commonly referred to as “checkbooks” to keep track of documents and fund availability independent of the system of record. The checkbooks added manual processing to the already lengthy procedures and added another step of re-keying data. All of these conditions left FMD at a high risk for untimely and inaccurate data which created a loss of control over the official status of funds.
<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	WHS, FMD
<b>Senior Official In Charge</b>	Mr. David Zlowe, Director, FMD
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2006  <u>Original Targeted Correction Date:</u> 2nd Qtr, FY 2007  <u>Target Correction Date in Last Year’s Report:</u> 1st Qtr, FY 2009  <u>Current Target Date:</u> 1st Qtr, FY 2011
<b>Reason for change in date</b>	<p>FMD performed validation of the effectiveness of utilizing the migrated access database to perform fund certification (see completed milestones) during the first half of FY 2010. The review revealed the new process was still manual in nature (i.e. transfer of documents from one office to another, manual re-keying of data); did not provide timely data; and contained an unacceptable rate of error. Additionally, the identification and correction of errors was not timely, which resulted in inaccurate and untimely data used to certify funds. Finally, FMD developed a backlog of documents for processing in the system of record due to a high turnover of qualified staff and implementation of new document storage procedures in the Finance and Accounting Division.</p> <p>The above circumstances created a high risk for over utilization of resources, specifically appropriated funds. Based on these results and findings FMD determined a different course of action was necessary to correct this material weakness. The goal of FMD in correcting this weakness is to ensure timely and accurate fund certification and financial reporting of fund availability.</p>
<b>Validation Indicator</b>	FMD will conduct validation testing of fund certification performed by Budget Execution Division and its new procedures for auto-uploading of transactions into the system of record during 1 <sup>st</sup> Qtr, FY 2011 (these revised procedures were implemented in 3 <sup>rd</sup> Qtr, FY 2010). FMD will conduct validation testing of the accuracy of availability of funds

	reported in the system of record, to include: testing of the timeliness of transaction processing, accuracy of data, and completeness of data recorded in the system of record.																		
<b>Results Indicator (Impact)</b>	Timely, accurate, and complete recording and reporting of commitments and obligations (availability of funds) in the system of record.																		
<b>Source(s) Identifying Weakness</b>	FMD internal review																		
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	<p>procedures and further strengthened the control activities such as daily reviews by supervisors.</p> <p>Completed</p> <p>Reviewed, revised, documented, and implemented the “Documents Received” procedures conducted by Finance and Accounting Division / Field Accounting Branch, which includes policies, procedures, and control activities over the appropriate handling, processing, review, and storage of commitment and obligation transactions processed within the Field Accounting Branch.</p>								
	<p><u>B. Planned Milestones for FY 2011:</u></p> <table border="0"> <thead> <tr> <th data-bbox="391 611 727 646"><u>Date:</u></th> <th data-bbox="737 611 1565 646"><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="391 684 727 720">1st Qtr, FY 2011</td> <td data-bbox="737 684 1565 898">Conduct validation testing of timeliness, accuracy, and completeness of commitments and obligations recorded and reported in the system of record for all funds, to include the verification of effectiveness of control activities of revised procedures in the Field Accounting Branch and Budget Execution.</td> </tr> <tr> <td data-bbox="391 936 727 972">1<sup>st</sup> Qtr, FY 2011</td> <td data-bbox="737 936 1565 1052">Update WHS OI-30-2 to reflect restructuring of roles and responsibilities of funds certification in Budget Execution and the implemented revisions to the funds certification process.</td> </tr> <tr> <td data-bbox="391 1089 727 1125">1st Qtr, FY 2011</td> <td data-bbox="737 1089 1565 1339">Deployment (phase one) of a new accounting system, the Comptrollers Finance and Acquisition System (CFAS), currently in operation with the Joint Chief of Staff Comptroller’s office. CFAS is a Commercial-off-the-shelf- (COTS) system capable of providing higher levels of automation and more stringent control activities throughout all of FMD’s major business processes.</td> </tr> </tbody> </table>	<u>Date:</u>	<u>Milestones:</u>	1st Qtr, FY 2011	Conduct validation testing of timeliness, accuracy, and completeness of commitments and obligations recorded and reported in the system of record for all funds, to include the verification of effectiveness of control activities of revised procedures in the Field Accounting Branch and Budget Execution.	1 <sup>st</sup> Qtr, FY 2011	Update WHS OI-30-2 to reflect restructuring of roles and responsibilities of funds certification in Budget Execution and the implemented revisions to the funds certification process.	1st Qtr, FY 2011	Deployment (phase one) of a new accounting system, the Comptrollers Finance and Acquisition System (CFAS), currently in operation with the Joint Chief of Staff Comptroller’s office. CFAS is a Commercial-off-the-shelf- (COTS) system capable of providing higher levels of automation and more stringent control activities throughout all of FMD’s major business processes.
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	<p><u>C. Planned Milestones Beyond FY 2011:</u> N/A</p>								

<b>Title and Description of Issue</b>	<u>Inadequate Documentation of Processes:</u> A review of major business processes in FY 2007 found the WHS Financial Management Directorate (FMD) was lacking the documentation necessary to become Chief Financial Officer (CFO) Act Compliant. A lack of written procedures and processes can also result in informal business practices, inconsistent procedures between individuals performing similar functions; and a lack of reference material for training new staff. These conditions can cause a weak internal control environment and leave FMD at a higher risk for fraud, waste, abuse, and mismanagement.
<b>Functional Category</b>	Comptroller and/or Resource Management
<b>Organization</b>	WHS FMD
<b>Senior Official In Charge</b>	David Zlowe, Director, FMD
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2007 <u>Original Targeted Correction Date:</u> 4 <sup>th</sup> Qtr, FY 2010 <u>Target Correction Date in Last Year's Report:</u> 4 <sup>th</sup> Qtr, FY 2010 <u>Current Target Date:</u> 1 <sup>st</sup> Qtr, FY 2011
<b>Reason for change in date</b>	Validation could not be accomplished by the submission date for the annual Statement of Assurance.
<b>Validation Indicator</b>	Validation testing of business process documents. Major business processes, as defined by Level 1 of the Department of Defense Business Enterprise Architecture, are documented to include: process cycle narratives, internal control activities, and flowcharts.
<b>Results Indicator (Impact)</b>	<p>Since FY 2007, FMD has accomplished the correction of this material weakness through a process of review, revision, and documentation of FMD business processes using an end-to-end business segment approach. The FMD business process documentation includes process cycle narratives and flowcharts as well as recommended changes for improvement for all FMD business segments. FMD has published all business process documentation in an FMD library located on the FMD SharePoint site accessible for all FMD staff. Additionally, FMD has implemented several process improvements to strengthen the effectiveness of internal controls and business operations since this material weakness was first reported in FY 2007.</p> <p>FMD efforts to produce, improve, and update process documentation has become a regular part of daily business operations. The Performance Management and Program Analysis Division in FMD hired several new employees in FY 2010 to fill key roles for monitoring and improving the FMD business process documentation and overall internal control environment. Additionally, the FMD business processes served as a base from which FMD developed Service Line Standards to our customers. See the milestones section for more details of the efforts accomplished within FMD in the correction of this material weakness.</p>

<b>Source(s) Identifying Weakness</b>	Internal review of the FMD process documentation conducted by the Performance Management and Program Analysis Division.																
<b>Major Milestones to Include Progress to Date</b>	<p>A. <u>Completed Milestones:</u></p> <table border="0"> <thead> <tr> <th data-bbox="391 352 537 386"><u>Date:</u></th> <th data-bbox="737 352 883 386"><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="391 428 537 462">Completed</td> <td data-bbox="737 428 1317 462">Documented major FMD business processes.</td> </tr> <tr> <td data-bbox="391 501 537 535">Completed</td> <td data-bbox="737 501 1565 569">Established FMD Operating Instruction on Business Process Reengineering (FMD OI-005).</td> </tr> <tr> <td data-bbox="391 609 537 642">Completed</td> <td data-bbox="737 609 1565 716">Hired an additional manpower to support transformation and operational activities to achieve CFO Act compliance and implement a formal FMD internal control review program.</td> </tr> <tr> <td data-bbox="391 756 537 789">Completed</td> <td data-bbox="737 756 1565 823">Aligned business process documentation to the BTA Business Enterprise Architecture (BEA) End-to-End Business Flows</td> </tr> <tr> <td data-bbox="391 863 537 896">Completed</td> <td data-bbox="737 863 1565 1008">Cataloged business process documents (including narratives and flowcharts), system manuals, standard operating procedures and policy documents developed over the past three years on FMD SharePoint site.</td> </tr> <tr> <td data-bbox="391 1047 537 1081">Completed</td> <td data-bbox="737 1047 1565 1115">Evaluated business process documents to identify status as Current or Requires Update.</td> </tr> <tr> <td data-bbox="391 1155 537 1188">Completed</td> <td data-bbox="737 1155 1565 1262">Evaluated and documented activities, roles and responsibilities of FMD staff and cross-referenced FMD activities against the business process library to ensure completeness and accuracy.</td> </tr> </tbody> </table>	<u>Date:</u>	<u>Milestones:</u>	Completed	Documented major FMD business processes.	Completed	Established FMD Operating Instruction on Business Process Reengineering (FMD OI-005).	Completed	Hired an additional manpower to support transformation and operational activities to achieve CFO Act compliance and implement a formal FMD internal control review program.	Completed	Aligned business process documentation to the BTA Business Enterprise Architecture (BEA) End-to-End Business Flows	Completed	Cataloged business process documents (including narratives and flowcharts), system manuals, standard operating procedures and policy documents developed over the past three years on FMD SharePoint site.	Completed	Evaluated business process documents to identify status as Current or Requires Update.	Completed	Evaluated and documented activities, roles and responsibilities of FMD staff and cross-referenced FMD activities against the business process library to ensure completeness and accuracy.
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	C. <u>Planned Milestones Beyond FY 2011:</u> N/A																

<p><b>Title and Description of Issue</b></p>	<p><u>Safety, Industrial Hygiene (IH), Environmental, and Fire Prevention Programs:</u> WHS Defense Facilities Directorate (DFD) began a process of developing an integrated management system for safety, IH, environmental and fire prevention compliance applicable to all WHS/WHM-managed facilities and WHM-serviced organizations. As part of that effort a program-by-program evaluation was conducted on the current compliance of each program. The results of that evaluation found that many of the safety, IH, environmental, and fire prevention programs either were noncompliant with the legal requirements or had not been addressed at all. The result of the noncompliant or nonexistent status of these programs can lead to regulatory fines, notices of violations, and civil and criminal penalty risks to WHM management. Additionally, because of the status of these programs, there is increased risk to WHM employees, as well as tenants of WHM-managed facilities, for injury/illness/death, and property or environmental damage due to the lack of programmatic management controls. Many of the deficiencies could be tracked back to inadequate resources (both manpower and budget). The decision (BRAC 133 support (Mark Center)) in April 2009 for the Safety and Environmental Management Branch to serve as the U.S. Army Corps of Engineers' (USACE's) lead for environmental permitting with Arlington County and the State of Virginia, and as the Authority Having Jurisdiction for fire and life safety has unexpectedly increased our programmatic requirements, increased the need for management controls, and increased both budget and manpower needs without any immediate additional resources.</p> <p>Manpower Deficiencies (prior to BRAC 133 support) - DFD conducted a staffing study that demonstrated that, due to a large and varied mission, manpower resources for the Safety, IH, Environmental, and Fire Prevention programs have a 62% shortfall for what is required to fulfill mission requirements. The manpower deficiencies affect the ability to provide proper written programmatic guidance and controls and provide the proper oversight and compliance assurance. In some cases, this can potentially result in complete failure to accomplish the defined mission (WHS specific direction/requirements are defined in DoD Instruction 6055.1). In June 2006, an independent Environmental, Safety, and Occupational Health Compliance Management Program Assessment was conducted by the Air National Guard as directed and funded by OSD. This assessment verified the lack of compliance of safety, environmental, and fire prevention programs, and attributed the lack of compliance to a lack of resources (both manpower and funding).</p> <p>Budget Deficiencies - In the 2008 budget request, increased funding resources (from historical budget amounts) were requested based on the program evaluation to advance the programs to a compliant level. It is estimated that the overall Safety, Environmental, and Fire Prevention budget had approximately a 40% shortfall in FY 2008 between requested funding and estimated budget guidance. Future projections for the programs budget through 2015 shows a steady closure of the projected budget gap, but in 2015, the projected gap between needs and guidance will be approximately 20%. The lack of adequate funding results in an increased risk of non-compliance and the inability to advance already noncompliant programs to a compliant status.</p>
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<b>Functional Category</b>	Property Management and Support Services										
<b>Organization</b>	WHS, DFD										
<b>Senior Official in Charge</b>	Sajeel S. Ahmed, Director, Defense Facilities Directorate										
<b>Pace of Corrective Actions</b>	<p><u>Year Identified:</u> FY 2007</p> <p><u>Original Targeted Correction Date:</u> 4<sup>th</sup> Qtr, FY 2011</p> <p><u>Targeted Correction Date in Last Year's Report:</u> 4<sup>th</sup> Qtr, FY 2015</p> <p>Current Target Date: 4<sup>th</sup> Qtr, FY 2015</p>										
<b>Reason for Change in Date</b>	N/A										
<b>Validation Indicator</b>	Safety, IH, Environmental, and Fire Prevention programs are adequately resourced and compliance programs and associated metrics are updated.										
<b>Results Indicator (Impact)</b>	The risk of noncompliance of these requirements could not only result in notices of violation and fines (up \$32,500 a day per violation) but also increased injury, illness, or death. Noncompliance could result in complete failure of mission requirements.										
<b>Source(s) Identifying Weakness</b>	<p>Various laws under the jurisdiction of the Occupational Safety and Health Administration and Environmental Protection Agency.</p> <ul style="list-style-type: none"> <li>- DoD Instruction 6055.1, "DoD Safety and Occupational Health Program," Section 5.3.</li> <li>- DoD Instruction 6055.6, "DoD Fire and Emergency Services Program," Section E7.</li> <li>- Environmental, Safety, and Occupational Health Compliance and Management Program Assessment, June 2006.</li> <li>- WHS DFD Staffing Study, 2006.</li> <li>- Voluntary Protection Program (VPP) Gap Analysis, October 2009.</li> <li>- Executive Order 13423.</li> <li>- Energy Independence Security Act 2007.</li> </ul>										
<b>Major Milestones to Include Progress to Date</b>	<p>A. <u>Completed Milestones:</u></p> <table border="0"> <thead> <tr> <th><u>Date:</u></th> <th><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td>Completed</td> <td>Compliance gap analysis.</td> </tr> <tr> <td>Completed</td> <td>Program prioritization.</td> </tr> <tr> <td>Completed</td> <td>Developed Safety, Environmental, and Fire Prevention Policy statement.</td> </tr> <tr> <td>Completed</td> <td>Revised asbestos management, hearing conservation, confined space, lockout/tagout, respiratory protection programs, and developed program metrics, respectively.</td> </tr> </tbody> </table>	<u>Date:</u>	<u>Milestones:</u>	Completed	Compliance gap analysis.	Completed	Program prioritization.	Completed	Developed Safety, Environmental, and Fire Prevention Policy statement.	Completed	Revised asbestos management, hearing conservation, confined space, lockout/tagout, respiratory protection programs, and developed program metrics, respectively.
<u>Date:</u>	<u>Milestones:</u>										
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Completed	Developed Sustainability Program.
Completed	Performed gap analysis of storm water permit.
Completed	Identified key areas of sustainability to focus (i.e. energy efficiency, indoor air quality, etc.).
Completed	Drafted program policy for key sustainability areas.
Completed	Wrote procedures for Hazard Communication, Services Provided by Civilian Employee Health Services Clinic, Ammunition and Explosives Safety Management, Cultural Resources Management, Water Quality Management, NEPA Management Plan, and developed program metrics, respectively.
Completed	Completed interim fire regulations and drafted WHS Administrative Instruction (AI) to adopt them by reference. AI in Component staffing phase.
Completed	Wrote a Building Circular to inform occupants of their requirement for monthly fire extinguisher inspections and how to perform the inspections with a step-by-step guide.
Completed	Assisted Pentagon Building Management Office in writing Fire Protection Inspection, Testing, and Maintenance Program contract performance work statement.
Completed	Implemented a fire inspection process for the Pentagon Reservation and WHS Leased Properties.
Completed	Developed VPP Plan of Action and Milestones.
Completed	Completed Air Field Management Plan.
Completed	Drafted procedure for Potable Water Program Management.
Completed	Began serving as USACE's lead for environmental permits and Authority Having Jurisdiction (fire and life safety) for BRAC 133 construction (Mark Center).
Completed	Held first meeting on Management Information Control Inspection of the Fire Prevention Program. Audit conducted and action plan in place.
Completed	Draft final program policy for key sustainability areas.
Completed	Implemented EMS for Environmental Permit Program.

B. <u>Planned Milestones for FY 2010 and FY 2011:</u>	
<u>Date:</u>	<u>Milestones:</u>
3 <sup>rd</sup> Qtr, FY 2010	Integrate contractor resources to provide cohesive, imbedded support to drive VPP policy within trade groups.
3 <sup>rd</sup> Qtr, FY 2010	Begin implementation of updated policy chapters.
3 <sup>rd</sup> Qtr, FY 2010	Obtain and begin implementation of a database management tool which will facilitate improved mishap reporting/corrective actions, training records management, and medical monitoring requirements.
4 <sup>th</sup> Qtr, FY 2010	Complete conversion of program policy chapters from draft Integrated Safety, Environment, and Fire Prevention Management System format to final, peer-reviewed format compatible with VPP implementation strategy.
4 <sup>th</sup> Qtr, FY 2010	Complete updated inventory and characterization of permit required confined spaces at the Pentagon Reservation and Raven Rock Mountain Complex.
4 <sup>th</sup> Qtr, FY 2010	Complete safety and health assessment of all WHS and WHS-serviced spaces except OSD.
4 <sup>th</sup> Qtr, FY 2010	Carry out a comprehensive Workplace Exposure Assessment (WEA) thorough application of systematic industrial hygiene sampling and analysis campaign.
4 <sup>th</sup> Qtr, FY 2010	Continue implementation of the Pentagon Reservation emergency evacuation routing and assembly area methodology and support system for WHS and all Components.
4 <sup>th</sup> Qtr, FY 2011	Leadership in Energy and Environmental Design (LEED) certification for new construction.
C. <u>Planned Milestones Beyond FY 2011:</u>	
<u>Date:</u>	<u>Milestones:</u>
1 <sup>st</sup> Qtr, FY 2013	LEED certification for existing buildings.
4 <sup>th</sup> Qtr, FY 2015	Revision, drafting, and implementation of 35+ Integrated Safety, Environmental, Fire Prevention Management System programs and metrics.



Completed	Decision to realign divisions within JIEDDO and revise the JOFG.
Completed	Conducted JIEDDO-wide risk assessment and developed detailed three-year plan to implement JIEDDO's MIC Program.
Completed	Guidance issued to designate MCAs for each JIEDDO Assessable Unit
Completed	Conducted MCA training and begin review of standards (measures of effectiveness) used for managers' internal controls in each Assessable Unit.
Completed	Policy memorandums and Standing Operating Procedures revised and in place.
Completed	Began review of the effectiveness of the MIC Program in newly established Assessable Units. They are as follows: <ul style="list-style-type: none"> <li>• Program Development;</li> <li>• Resource Management (J-8);</li> <li>• Procurement (J-1,4);</li> <li>• IT Management (J-6); and</li> <li>• Entity Level Controls.</li> </ul>
Completed	JIEDDO divisions realigned to facilitate improved performance for rapid acquisition and oversight.
Completed	JIEDDO Organization and Functions Guide (JOFG) revised.
<b>B. <u>Planned Milestones for FY 2011:</u></b>	
<u>Date:</u>	<u>Milestones:</u>
1 <sup>st</sup> Qtr, FY 2011	Confirmation that MIC Program is established in all divisions of JIEDDO as part of the development of the FY 2010 Annual Statement of Assurance.
2 <sup>nd</sup> Qtr FY 2011	Testing of MIC Program by AUMs and MCAs.
3 <sup>rd</sup> Qtr FY 2011	Reporting of effectiveness of MIC Program by AUMs.
<b>C. <u>Planned Milestones Beyond FY 2011:</u></b>	
<u>Date:</u>	<u>Milestones:</u>
2 <sup>nd</sup> Qtr, FY 2012	Sample review and inspection of MIC Program compliance within each JIEDDO Division.

	3 <sup>rd</sup> Qtr, FY 2012	Validation of effective MIC Program during development of the FY 2012 Annual Statement of Assurance.
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**OSD STATEMENT OF ASSURANCE**

**TAB B-3**

**CORRECTED MATERIAL WEAKNESSES**

**Corrected Material Weaknesses Identified During All Periods**

<b>Title and Description of Issue</b>	<p><u>Improper Workforce Mix</u>: Secretary of Defense Communications (SDC) Office is heavily dependent on contractor assistance to perform its mission of providing an integrated decision support environment delivering global situational awareness across all threat scenarios and geographic locations to the Secretary of Defense. Recent reviews have questioned the workforce mix of SDC and raised questions on whether:</p> <ul style="list-style-type: none"> <li>(1) Contractors are performing inherently governmental functions.</li> <li>(2) Civilian positions should be designated as “key positions” in accordance with DoD Directive (DoDD) 1400.31 and DoDD 1200.7 because the position could not be vacated or eliminated during a national emergency or war without seriously impairing SDC’s ability to function effectively.</li> <li>(3) Contractors are performing these key functions; or in accordance with DoD Instruction 1100.22, they should be in civilian positions coded as key personnel.</li> <li>(4) The current SDC workforce mix meets the risk assessment requirements of DoD Instruction 1100.22, Enclosure 3.</li> </ul>
<b>Functional Category</b>	Personnel and/or Organizational Management
<b>Component</b>	OSD Networks, Secretary of Defense Communications
<b>Senior Official In Charge</b>	Ron Bechtold, Director, OSD Networks
<b>Pace of Corrective Actions</b>	<p><u>Year Identified</u>: FY 2008</p> <p><u>Original Targeted Correction Date</u>: 2<sup>nd</sup> Qtr, FY 2011</p> <p><u>Targeted Correction Date in Last Year’s Report</u>: 2<sup>nd</sup> Qtr, FY 2011</p> <p><u>Current Target Date</u>: N/A</p>
<b>Reason for change in date</b>	N/A
<b>Validation Indicator</b>	Review by WHS, Acquisition and Procurement Office (A&PO) personnel.
<b>Results Indicator (Impact)</b>	Approved workforce mix; accession of personnel for positions which have changed categories.
<b>Source(s) Identifying</b>	The Director, WHS, ordered a review of SDC contracts during internal controls review. A&PO identified issues with the use of contractors; Planning and Evaluation Directorate

<b>Weakness</b>	validated the issue, especially the identification of key personnel and positions.																
<b>Major Milestones to Include Progress to Date</b>	<p>A. <u>Completed Milestones:</u></p> <table border="0"> <thead> <tr> <th data-bbox="391 321 537 352"><u>Date:</u></th> <th data-bbox="740 321 886 352"><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="391 394 537 426">Completed</td> <td data-bbox="740 394 1528 426">AP&amp;O review reflected questions on SDC use of contractors.</td> </tr> <tr> <td data-bbox="391 468 537 499">Completed</td> <td data-bbox="740 468 1552 541">Met with WHS HRD to develop criteria for emergency and key positions.</td> </tr> <tr> <td data-bbox="391 573 537 604">Completed</td> <td data-bbox="740 573 1341 604">Developed list of emergency and key positions.</td> </tr> <tr> <td data-bbox="391 646 537 678">Completed</td> <td data-bbox="740 646 1179 678">SDC Risk Assessment completed.</td> </tr> <tr> <td data-bbox="391 720 537 751">Completed</td> <td data-bbox="740 720 1544 835">Submitted to WHS list of positions and recommended workforce mix as part of WHS insourcing initiative to reassign positions from contractor to government.</td> </tr> <tr> <td data-bbox="391 867 537 898">Completed</td> <td data-bbox="740 867 1341 898">Director, WHS, approved in-sourcing package.</td> </tr> <tr> <td data-bbox="391 940 537 972">Completed</td> <td data-bbox="740 940 1235 972">Validation by WHS, A&amp;PO personnel.</td> </tr> </tbody> </table>	<u>Date:</u>	<u>Milestones:</u>	Completed	AP&O review reflected questions on SDC use of contractors.	Completed	Met with WHS HRD to develop criteria for emergency and key positions.	Completed	Developed list of emergency and key positions.	Completed	SDC Risk Assessment completed.	Completed	Submitted to WHS list of positions and recommended workforce mix as part of WHS insourcing initiative to reassign positions from contractor to government.	Completed	Director, WHS, approved in-sourcing package.	Completed	Validation by WHS, A&PO personnel.
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<b>Title and Description of Issue</b>	<u>Managers' Internal Control Program</u> : The Defense Media Activity (DMA) has not established a Managers' Internal Control (MIC) Program to effectively comply with the Federal Managers' Financial Integrity Act of 1982.														
<b>Functional Category</b>	Comptroller and/or Resource Management														
<b>Organization</b>	Defense Media Activity (DMA)														
<b>Senior Official In Charge</b>	Mr. Melvin Russell, Acting Director, Defense Media Activity														
<b>Pace of Corrective Actions</b>	<u>Year Identified</u> : FY 2009 <u>Original Targeted Correction Date</u> : 3 <sup>rd</sup> Qtr, FY 2010 <u>Targeted Correction Date in Last Year's Report</u> : 3 <sup>rd</sup> Qtr, FY 2010 <u>Current Target Date</u> : N/A														
<b>Reason for change in date</b>	N/A														
<b>Validation Indicator</b>	Validation by the Inspector General of the Department of Defense (DoD IG) of implementation of all recommendations in Finding D of IG DoD Report D-2009-28 "Organizational Structure and Managers' Internal Control Program for the Assistant Secretary of Defense (Public Affairs) and American Forces Information Service, December 10, 2008 (Project No. D2007-D000FI-0215.000)".														
<b>Results Indicator (Impact)</b>	Closeout of all open findings identified in IG DoD Report D-2009-28 "Organizational Structure and Managers' Internal Control Program for the Assistant Secretary of Defense (Public Affairs) and American Forces Information Service, December 10, 2008 (Project No. D2007-D000FI-0215.000)".														
<b>Source(s) Identifying Weakness</b>	IG DoD Report D-2009-28 "Organizational Structure and Managers' Internal Control Program for the Assistant Secretary of Defense (Public Affairs) and American Forces Information Service, December 10, 2008 (Project No. D2007-D000FI-0215.000)".														
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	Completed	Providing appointment orders.
	Completed	DMA IG validated that effective MIC Program is in place.

**TAB C**  
**SYSTEMIC WEAKNESSES**



**OSD STATEMENT OF ASSURANCE**

**TAB C-1**

**LISTS OF ALL UNCORRECTED AND CORRECTED  
SYSTEMIC WEAKNESSES**

**Uncorrected Systemic Weaknesses Identified During the Period**

None

**Uncorrected Systemic Weaknesses Identified During Prior Periods**

<b>Functional Category</b>	Procurement
<b>Organization</b>	OUSD(AT&L)
<b>Title</b>	Internal Controls over Contingency Contracting
<b>Year First Reported</b>	FY 2009
<b>Per Last Annual Statement</b>	2 <sup>nd</sup> Qtr, FY 2011
<b>Per This Annual Statement</b>	3 <sup>rd</sup> Quarter, FY 2014
<b>Page #</b>	Tab C-2, Page 1

<b>Functional Category</b>	Information Technology
<b>Organization</b>	OUSD(C)
<b>Title</b>	DoD Financial Management Systems and Processes
<b>Year First Identified</b>	FY 2001
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2015
<b>Per This Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2015
<b>Page #</b>	Tab C-2, Page 6

<b>Functional Category</b>	Information Technology
<b>Organization</b>	OASD(NII)/DoD CIO
<b>Title</b>	Management of Information Technology and Assurance
<b>Year First Identified</b>	FY 2003
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2010
<b>Per This Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2011
<b>Page #</b>	Tab C-2, Page 11

<b>Functional Category</b>	Personnel and/or Organizational Management
<b>Organization</b>	OUSD(I)
<b>Title</b>	Personnel Security Investigations Program
<b>Year First Identified</b>	FY 2003
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2010
<b>Per This Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2011
<b>Page #</b>	Tab C-2, Page 16

**Corrected Material Weaknesses Identified During All Periods**

<b>Functional Category</b>	Procurement
<b>Organization</b>	OUSD(AT&L)
<b>Title</b>	DoD Contracting for Services
<b>Year First Reported</b>	FY 2005
<b>Per Last Annual Statement</b>	1 <sup>st</sup> Qtr, FY 2010
<b>Per This Annual Statement</b>	N/A
<b>Page #</b>	Tab C-3, Page 1

**OSD STATEMENT OF ASSURANCE**

**TAB C-2**

**UNCORRECTED SYSTEMIC WEAKNESSES  
STATUS OF CORRECTIVE ACTIONS**

**Uncorrected Systemic Weaknesses Identified During the Period**

None

**Uncorrected Systemic Weaknesses Identified During Prior Periods**

<b>Title and Description of Issue</b>	<u>Internal Controls over Contingency Contracting</u> . The acquisition workforce is not adequately staffed, trained, structured, or empowered to meet the needs of the 21 <sup>st</sup> Century deployed warfighters. Audit reports conclude that internal controls to mitigate risks in the contracting process were ineffective or nonexistent. Additionally, there is inadequate surveillance of service contracts due to a significant shortfall of Contracting Officer's Representatives (CORs) affecting the Department's oversight capability and rendering the Department vulnerable.
<b>Functional Category</b>	Procurement/Contract Administration
<b>Organization</b>	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics (OUSD(AT&L)), Defense Procurement and Acquisition Policy
<b>Senior Official In Charge</b>	Mr. Shay Assad, Director, Defense Procurement and Acquisition Policy
<b>Pace of Corrective Actions</b>	<u>Year Identified</u> : FY 2009  <u>Original Targeted Correction Date</u> : 2 <sup>nd</sup> Qtr, FY 2011  <u>Targeted Correction Date in Last Year's Report</u> : 2 <sup>nd</sup> Qtr, FY 2011  <u>Current Target Date</u> : 3 <sup>rd</sup> Qtr, FY 2014
<b>Reason for change in date</b>	Both the Defense Contract Management Agency (DCMA) and the Department of Army (Army) continue working to increase their military and civilian Contract Administration Services (CAS) and COR force structure in a constrained resource environment. These resource requirements compete against other validated requirements and ultimately are balanced to provide the best warfighter support possible while being good stewards of the taxpayers' money. While DCMA projects achieved their force structure requirements in FY 2010, the Army now estimates achieving its requirements in the 3 <sup>rd</sup> Qtr, FY 2014.
<b>Validation Indicator</b>	Fulfillment of manpower requirements; for DCMA obtaining 75% fill rate of Joint Manning Document (JMD) requirements for Subject Matter Experts (SME) and CORs. For Army, obtaining 256 additional CAS soldiers for their Expeditionary Contracting Command, with an additional 158 soldiers to perform contract management and close-out requirements, and 518 civilian CAS authorizations for the Army Contracting Command. The Army will use its Procurement Management Teams and Internal Review personnel

	from respective Army contracting organizations impacted by this material weakness (primarily the Expeditionary Contracting Command and the U.S. Army Corps of Engineers) to validate the completion.																				
<b>Results Indicator (Impact)</b>	Achievement of DCMA staffing level by 3 <sup>rd</sup> Qtr, FY 2010; achievement of Army Expeditionary Contracting staffing level, training, and certification requirements metrics by the 3 <sup>rd</sup> Qtr, FY 2014.																				
<b>Source(s) Identifying Weakness</b>	GAO-06-838R Report, "Contract Management: DoD Vulnerabilities to Contracting Fraud, Waste and Abuse," identified five areas of vulnerability: sustained senior leadership, capable acquisition workforce, adequate pricing, appropriate contracting approaches and techniques, and sufficient contract surveillance. Gansler Commission Report and numerous GAO and IG DoD reports also identified this weakness.																				
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Completed	Army's Contracting Operations Review team reported management control review results.
Completed	DCMA and Joint Staff (JS) validated COR shortfalls initially identified by Services.
Completed	DCMA and JS validated SME shortfalls initially identified to Services.
Completed	Army updated its Internal Control Evaluation and published it in the Army Federal Acquisition Regulation Supplement (AFARS), Appendix BB.
Completed	DCMA engage with Services to rectify shortfalls.
Completed	Issuance of Deputy Secretary of Defense Memorandum requiring appointment of trained COR before contract award and requiring that COR duties be considered during annual performance assessment.
Completed	Issued 10,000 copies of the Department's "Contingency Contracting Handbook: A Joint Handbook for the 21st Century". This is a pocket-sized handbook with a DVD of information, tools, and training to meet challenges, regardless of the mission or environment.
Completed	DCMA continued monthly reporting and engagement with Services to include risk analysis of contract oversight in theater.
Completed	DCMA verified effectiveness of Services' strategies to meet SME and COR requirements. When position requirements support the use of civilian resource in lieu of military-only, DCMA will expand the current JMD request to include the OSD Civilian Expeditionary Work Force, thus expanding the population of eligible candidates able to fill these critical billets.
Completed	DCMA had obtained 50% fill rate of JMD SME requirements and Service-provided CORs.
Completed	Issued a draft Joint Contingency COR Handbook, designed specifically to address the realities faced by CORs in operations outside the continental United States (OCONUS).
Completed	The USD(AT&L) issued a Memorandum on the DoD Standard for Certification of CORs for Service Acquisitions.
Completed	Identified new DoD-wide certification requirements based on

	types of work/requirements; identified competencies, experience, and minimum training needed.
Completed	Identified learning objectives and competencies for incorporation into Defense Acquisition University (DAU) course – COR 222.
Completed	Utilized Section 852 funding to convert the five- day residence COR 222 course to an on-line course.
Completed	Army issued Vice Chief of Staff of the Army COR Policy, March 2010, tying unit readiness to having properly identified and trained CORs prior to deployment.
Completed	Issued the third edition of the Contingency Contracting Handbook with a specific chapter on contingency contracting for the Services.
Completed	Release first edition of the Joint Contingency COR Handbook.
Completed	Army continued to have unit conduct self-inspections to validate use of internal control evaluations.
Completed	Army identified subtasks associated with material weakness resolution (i.e., manning, training, structure, internal controls) and established a milestone schedule for subtask completion.
Completed	DCMA obtained 75% fill rate of JMD SME requirements and Service-provided CORs.
Completed	DCMA certified that all validation factors have been met.
<b>B. <u>Planned Milestones for 4<sup>th</sup> Qtr, FY 2010 and FY 2011:</u></b>	
<u>Date:</u>	<u>Milestones:</u>
4 <sup>th</sup> Qtr, FY 2010	Deploy a web-based DoD COR tool enabling Military Departments and Defense Agencies to manage nomination, training, and tracking of their respective cadres of CORs and the contract(s) assigned to each COR.
4 <sup>th</sup> Qtr, FY 2010	Deliver the on-line versions of DAU COR 222 and Contingency Contracting course, COR 206.
4 <sup>th</sup> Qtr, FY 2010	Army's ongoing Independent Review/Procurement Management Review Team conducts compliance review of individual subtasks.
4 <sup>th</sup> Qtr, FY 2010	Army's ongoing process of review teams providing results.

	<p>1st Qtr, FY 2011</p> <p>3rd Qtr, FY 2011</p> <p>3<sup>rd</sup> Qtr, FY 2011</p> <p>4th Qtr, FY 2011</p>	<p>Pilot deployment of the 3'n'1 Tool and automation of the Standard Form 44, Purchase Order –Invoice–Voucher; supports the micro-purchase and payment process in contingency operations through improved internal controls and troop safety.</p> <p>Army Expeditionary Contracting Command Internal Review/Corps of Engineers (ECCIR/COE) conducts review of completed subtasks.</p> <p>Issuance of second edition of the Joint Contingency COR Handbook.</p> <p>Issuance of DoDI for DoD Standard for COR Certification.</p>														
	<p>C. <u>Planned Milestones Beyond FY 2011:</u></p> <table border="0"> <thead> <tr> <th data-bbox="383 814 699 856"><u>Date:</u></th> <th data-bbox="699 814 1562 856"><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="383 884 699 926">1<sup>st</sup> Qtr, FY 2012</td> <td data-bbox="699 884 1562 957">18- month revision cycle for the CCO Handbook and COR Handbook.</td> </tr> <tr> <td data-bbox="383 995 699 1037">3<sup>rd</sup> Qtr, FY 2012</td> <td data-bbox="699 995 1562 1037">Army - ECCIR/COE conducts review of completed subtasks.</td> </tr> <tr> <td data-bbox="383 1075 699 1117">3<sup>rd</sup> Qtr, FY 2013</td> <td data-bbox="699 1075 1562 1117">Army - ECCIR/COE conducts review of completed subtasks.</td> </tr> <tr> <td data-bbox="383 1152 699 1194">4<sup>th</sup> Qtr, FY 2013</td> <td data-bbox="699 1152 1562 1226">Army – Deputy Assistant Secretary of the Army (Policy) requests United States Army Audit Agency (USAAA) audit.</td> </tr> <tr> <td data-bbox="383 1264 699 1306">2nd Qtr, FY 2014</td> <td data-bbox="699 1264 1562 1306">Army USAAA validation audit commences.</td> </tr> <tr> <td data-bbox="383 1341 699 1383">3rd Qtr, FY 2014</td> <td data-bbox="699 1341 1562 1383">Army USAAA provides audit results.</td> </tr> </tbody> </table>		<u>Date:</u>	<u>Milestones:</u>	1 <sup>st</sup> Qtr, FY 2012	18- month revision cycle for the CCO Handbook and COR Handbook.	3 <sup>rd</sup> Qtr, FY 2012	Army - ECCIR/COE conducts review of completed subtasks.	3 <sup>rd</sup> Qtr, FY 2013	Army - ECCIR/COE conducts review of completed subtasks.	4 <sup>th</sup> Qtr, FY 2013	Army – Deputy Assistant Secretary of the Army (Policy) requests United States Army Audit Agency (USAAA) audit.	2nd Qtr, FY 2014	Army USAAA validation audit commences.	3rd Qtr, FY 2014	Army USAAA provides audit results.
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<b>Title and Description of Issue</b>	<u>Department of Defense Financial Management Systems and Processes</u> . DoD financial 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 noncompliant with the Federal Financial Management Improvement Act of 1996 and as nonconforming with Section 4 of the Federal Managers' Financial Integrity Act of 1982.
<b>Functional Category</b>	Information Technology
<b>Organization</b>	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense (OUSD(C)/CFO)
<b>Senior Official In Charge</b>	Joseph P. Quinn, Director, Business Integration Office , OUSD(C)/CFO
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2001 <u>Original Targeted Correction Date:</u> 4 <sup>th</sup> Qtr, FY 2007 <u>Targeted Correction Date in Last Year's Report:</u> 4 <sup>th</sup> Qtr, FY 2015 <u>Current Target Date:</u> 4 <sup>th</sup> Qtr, FY 2015
<b>Reason for change in date</b>	N/A
<b>Validation Indicator</b>	Program status and corrective actions will be continually monitored with: <ul style="list-style-type: none"> <li>○ Integrated performance measures and targets.</li> <li>○ System and initiative implementation progress reported in semi-annual Enterprise Transition Plan (ETP).</li> <li>○ Progress reported in the semi-annual Financial Improvement and Audit Readiness (FIAR) Plan.</li> <li>○ Increased percentage of the Department's financial systems that are compliant with the Standard Financial Information Structure (SFIS).</li> <li>○ Affirmative Government Accountability Office (GAO) reports.</li> </ul>
<b>Results Indicator (Impact)</b>	Indicators will continue to evolve as the needs of the Department change. Preliminary goals, objectives, measures, and targets are in place, performance will be measured accordingly, and briefed to the Defense Business System Management Committee (DBSMC). Key indicators include: <ul style="list-style-type: none"> <li>○ Demonstrated progress towards achieving milestones identified in the ETP.</li> <li>○ Demonstrated progress towards achieving milestones identified in the FIAR Plan.</li> <li>○ Cumulative number of DoD Components achieving unqualified audit opinions.</li> <li>○ Receipt of unqualified audit opinion on DoD Consolidated Financial Statements.</li> </ul>
<b>Source(s) Identifying Weakness</b>	<ul style="list-style-type: none"> <li>○ DoD FIAR Plan.</li> <li>○ DoD ETP.</li> <li>○ DoD Business Enterprise Architecture (BEA).</li> <li>○ GAO-05-723T, "DOD Business Transformation: Sustained Leadership Needed to Address Long-standing Financial Business and Management Problems," June 2005.</li> <li>○ GAO-05-702, "DOD Business Systems Modernization: Long-standing</li> </ul>

	<p>Weaknesses in Enterprise Architecture Development Need to Be Addressed,” July 2005.</p> <ul style="list-style-type: none"> <li>○ GAO-06-219, “DOD Business Systems Modernization: Important Progress Made in Establishing Foundational Architecture Products and Investment Management Practices, but Much Work Remains,” November 2005.</li> <li>○ GAO-06-658, “Business Systems Modernization: DOD Continues to Improve Institutional Approach, but Further Steps Needed,” May 2006.</li> </ul>																
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		common financial transaction structure.
Completed		Developed, coordinated, and published an updated version of the ETP in September 2007 to include system and program milestones and progress measures; final identification of DBSAE enterprise financial and other business programs and initiatives; and associated responsibilities and implementation milestones.
Completed		Gathered, validated, and integrated BMA information for the March 2008 version of the BEA. Focused efforts on systems information exchanges, business capability improvement, and enhancement of quality and consistency of information throughout architecture artifacts and assessments.
Completed		Drafted, coordinated, and began institutionalization of the Enterprise Risk Assessment Methodology and Business Capability Lifecycle for risk and program management associated with BMA systems and initiatives.
Completed		Developed and validated meaningful metrics with which to track progress, manage, and measure results of BMA transformations.
Completed		Extended the capabilities of the Common Contingency Contracting Systems and extend the membership, coordination of actions, and economic results of Iraq In-Theater Business Transformation Conferences.
Completed		Extended and tested the concepts of Service-Oriented and Federated Architectures in the DoD BMA to enhance business agility and enterprise information definition and exchange.
Completed		Institutionalized a DoD “Center of Excellence” to provide lessons learned, exchange of feedback, and implementation acceleration assistance to Component ERP programs and initiatives.
Completed		Implemented the Enterprise Risk Assessment Methodology and Business Capability Lifecycle for risk and program management associated with BMA systems and initiatives.
Completed		Published initial version of BMA Transformation Metrics with which to report progress.
Completed		Updated the BEA to version 5.0, integrated it with an updated version of the Enterprise Transition Plan to include system and program milestones and progress measures, and published both in March 2008.

Completed	Published update of the FIAR Plan to include progress metrics.
Completed	Published an update of the BMA Transformation Metrics with which to report progress.
Completed	Published The BMA Federation Strategy and Roadmap v 2.4, which provides an updated vision for business transformation.
Completed	Published an update of the ETP to include Component and enterprise systems, and program milestones and accomplishments.
Completed	Published an update of the FIAR Plan to include progress metrics.
Completed	Updated the BEA to version 6.0.
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Completed	Published an update of the BMA Transformation Metrics with which to report progress.
Completed	Moved initial Service-Oriented and Federated Architecture concepts from test to operational capability with the DoD BMA.
Completed	Published an update of the BMA Transformation Metrics with which to report progress.
Completed	Published an update of the ETP to include Component and enterprise systems, and program milestones and accomplishments.
Completed	Updated the BEA to version 7.0.
Completed	Published an update of the FIAR Plan to include progress metrics.
Completed	Published an update of the BMA Transformation Metrics with which to report progress.
<b>B. <u>Planned Milestones for 4<sup>th</sup> Qtr, FY 2010:</u></b>	
<u>Date:</u>	<u>Milestones:</u>
4 <sup>th</sup> Qtr, FY 2010	Publish an update of the FIAR Plan to include progress metrics.

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<b>Title and Description of Issue</b>	<u>Management of Information Technology and Assurance</u> . The Office of the Assistant Secretary of Defense (Networks and Information Integration)/DoD Chief Information Officer (OASD (NII)/DoD CIO) has determined that the Department's information systems are potentially vulnerable to an information warfare attack. The Department has uncovered numerous attempts to breach "sensitive but unclassified" systems and networks supporting finance, logistics, medical, procurement, personnel, and research and development activities. A successful attack on DoD systems would have a serious and immediate impact on the ability of the Department to carry out its mission.
<b>Functional Category</b>	Information Technology
<b>Organization</b>	Office of the Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer (OASD(NII)/DoD CIO)
<b>Senior Official In Charge</b>	John G. Grimes, Assistant Secretary of Defense (Networks and Information Integration)/DoD Chief Information Officer
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2003  <u>Original Targeted Correction Date:</u> 3 <sup>rd</sup> Qtr, FY 2007  <u>Targeted Correction Date in Last Year's Report:</u> 4 <sup>th</sup> Qtr, FY 2010  <u>Current Target Date:</u> 4 <sup>th</sup> Qtr, FY 2011
<b>Reason for change in date</b>	While targeted corrections have generally been achieved, the ASD(NII)/DoD CIO has determined that a major change in the nonclassified Internet Protocol Router Network (NIPRNet) architecture is required to establish "demilitarized zones" (DMZs) to address the network defense and information sharing needs of the Department.
<b>Validation Indicator</b>	Information Assurance Vulnerability Alert (IAVA), Federal Information Security Management Act (FISMA) reporting; IA readiness reporting in the Joint Quarterly Readiness Report (JQRR) statistics, and the DoD Information Assurance (IA) Strategic Plan metrics.
<b>Results Indicator (Impact)</b>	IAVA compliance, IA readiness (JQRR), and FISMA report scoring improves; network and system intrusions (particularly root-level) decrease; virus/malicious codes incidents decrease; certification and creditation (C&A) performance increases above 90%; USSTRATCOM achieves initial command and control/situational awareness capability over Computer Network Defense (CND) and IA systems; engineering plan for NIPRNet DMZs; strategy and plan for migrating applications to the DMZs, migration of externally-facing applications to the DMZs.
<b>Source(s) Identifying Weakness</b>	Multiple Inspector General of the Department of Defense (IG DoD) and Government Accountability Office audits and reports and DoD FISMA reports (IA is a recurring topic, with annual IG reviews mandated by FISMA). Note: These include significant deficiencies – considered part of this issue – noted in DoD FY05 FISMA report regarding Inadequate C&A process, security controls not tested annually on a majority of information systems, contingency plans not tested on a majority of information systems, Plan of Action and Milestones (POA&M) inadequate, specialized training (IA training and certification requirement) deficiency as well as problems with managing/tracking DoD's IA workforce.

<b>Major Milestones to Include Progress to Date</b>	A. <u>Completed Milestones:</u>	
	<u>Date:</u>	<u>Milestones:</u>
	Completed	Revised DoD security C&A policy and process (DoD Instruction 8510.01, "Defense Information Assurance Certification and Accreditation Process (DIACAP)") to improve compliance and provide enterprise management capability has been signed and published. Incorporates DoD POA&M policy guidance to manage and close identified security performance weaknesses and directs DoD Components to appropriately report all security weaknesses identified in annual reviews, IG DoD/GAO audits, etc.
	Completed	Began issuing PKI certificates to network domain controllers in support of smartcard login to DoD Networks.
	Completed	Initiate Phase II of PKI operational implementation (digital signature for e-mail with attachments and encryption of sensitive data).
	Completed	All 23 DoD CND service providers certified and accredited (one provider in Interim Authority to Operate (IATO) status - expect all to be in compliance by Sep 2008).
	Completed	10% of DoD IA workforce certified under DoD 8570.01-M.
	Completed	All 52 DoD Components aligned with a certified DoD Computer Network Defense Service Provider (CNDSP) - 15 require improvements to CND Program. Expect full compliance by October 2008.
	Completed	Initial phase, DoD Internet - NIPRNet DMZ Engineering Plan developed.
	Completed	Demonstrated prototype capability of "Security Content Automation Protocol" (in a lab environment, which provides data standards and web-services for Enterprise-level situational awareness. Supports improved mitigation of vulnerabilities, intrusions, and misconfigurations across the Department's Information Technology (IT) assets.
Completed	Achieved 95% C&A of DoD systems (84% Authority to Operate (ATO); 7% IATO).	
Completed	Initiated Phase 2 of NIPRNet DMZ Engineering Plan, Enterprise DMZ Configuration Control Board established, and Application	

	Migration Plan developed.
Completed	Implemented enterprise-wide passive vulnerability monitoring of IT assets. (Additional notes: 85 passive monitoring sensors installed on SIPRNet and 123 intrusion detection sensors acquired for NIPRNet and Secret Internet Protocol Router Network (SIPRNet).
Completed	DoD external application migration strategy and roadmap developed.
Completed	Conducted initial implementation of 5 NIPRNet DMZs at Defense Information Systems Agency (DISA) Defense Enterprise Computing Centers (DECCs) (3 CONUS and 2 OCONUS).
Completed	30% of DoD IA workforce certified under DoD 8570.01-M.
Completed	Fielded prototype capability of "Security Content Automation Protocol" and CND Data Standards - providing a model for Enterprise-level situational awareness and mitigation of vulnerabilities, intrusions, and mis-configurations across select Global Information Grid (GIG) organization IT assets.
Completed	Implemented requirements of the DoD Principal Accrediting Authorities (PAAs). Issued, "Information Systems Certification and Accreditation (C&A) Reciprocity" memorandum to increase the deployment speed of secure information systems to the DoD enterprise.
Completed	Extended Public Key Infrastructure (PKI) functionality to support nonperson entity certificates and external trust relationships, while increasing capacity.
Completed	Reengineered United States Cyber Command's (USCYBERCOM's) Information Assurance Vulnerability Management (IAVM) System to web-based application to accelerate and automate the DoD vulnerability assessment and IAVM notice creation processes. USCYBERCOM, CC/S/A's and DISA File System Object (FSO) will take advantage of new IAVM System's role-based capabilities to streamline the IAVM workflow. Added additional data from DeepSight (commercial vulnerability feed) into database; redesigned IAVM scoring page. Added workflow states to IAVM notice, automation features, browse and filtered IAVM notices by state, and tied vulnerability workflow state to DeepSight data.

Completed	Deployed an automated C&A capability to 23 DoD Components to more accurately and efficiently respond to Congressionally-mandated FISMA reporting requirements.
Completed	Developed and conducted a SIPRNet hardware token pilot which demonstrated the ability to issue certificates on tokens for use on the SIPRNet, validated the proposed issuance concept of operations, identified potential obstacles to implementation of the production, and identified potential obstacles to implementation of the production system. Issued the SIPRNet pilot hardware tokens to select users in STRATCOM, the Services, and the OSD staff.
Completed	Initial Phase of DMZ plan globally implemented (whitelisting of inbound file transfer protocol (FTP), e-mail, and web), reducing the accessible “attack surface” of the DoD by 96%.
Completed	Installed SIPRNet PKI infrastructure at Chambersburg, PA, and stood-up Community of National Security Systems (CNSS) Root.
Completed	Published DoD Instruction 8581.01, “Information Assurance (IA) Policy for Space Systems used by the Department of Defense.”
<b>B. <u>Planned Milestones for 4<sup>th</sup> Qtr, FY 2010 and FY 2011:</u></b>	
<u>Date:</u>	<u>Milestones:</u>
4 <sup>th</sup> Qtr, FY 2010	60% of DOD IA workforce certified under DoD 8570.01-M.
4 <sup>th</sup> Qtr, FY 2010	Began deploying PKI hardware credentials on SIPRNET to support PKI piloting on SIPRNet.
4 <sup>th</sup> Qtr, FY 2010	Achieve greater than 90% C&A of DoD systems.
4 <sup>th</sup> Qtr, FY 2010	Complete 80% of garrison-level Host Based Security Solution (HBSS) implementation at Component locations in accordance with Joint Task Force-Global Network Operations (JTF-GNO) requirements.
1 <sup>st</sup> Qtr, FY2011	Guide implementation of DoD DMZ Increment 1 phases.
1 <sup>st</sup> Qtr, FY2011	Support NIPRNet mapping and leak detection effort.
1 <sup>st</sup> Qtr, FY2011	Publish updates to DoD Directive 8500.01E, “Information Assurance (IA)”, DoD Instruction 8500.02, "Information Assurance (IA) Implementation,” DoD Instruction 8520.02,

	<p>"Public Key Infrastructure (PKI) And Public Key Enabling (PKE)," and DoD Instruction 8510.01, "DoD Information Assurance Certification and Accreditation Process (DIACAP)."</p>
1 <sup>st</sup> Qtr, FY2011	Data pilot efforts will continue to focus on operational transition over to DISA programs for reporting and patching activities. Continued pilot work will focus on increasing quality of the measurements and data being collected at the network and system level to bring significant enhancements to GIG Situational awareness and analysis (and health) of systems and networks.
2 <sup>nd</sup> Qtr, FY 2011	Complete acquisition requirements for approximately 50 intrusion detection sensors for NIPRNet and SIPRNet.
3 <sup>rd</sup> Qtr, FY 2011	Begin operational deployment of hardware token on SIPRNet.
4 <sup>th</sup> Qtr, FY 2011	Achieve greater than 90% C&A of DoD IT systems for FISMA reporting.
4 <sup>th</sup> Qtr, FY2011	75% of DoD IA workforce certified under 8570.01-M.
<u>C. Planned Milestones Beyond FY 2011:</u>	
1 <sup>st</sup> Qtr. FY 2012	Guide implementation of DoD DMZ Increment 1.
2 <sup>nd</sup> Qtr, FY 2012	Publish updates to DoD Instruction 8523.01, "Communications Security (COMSEC)" and DoD Instruction 8560.01, "Communications Security (COMSEC) Monitoring and Information Assurance (IA) Readiness Testing of DoD Information Systems."
3 <sup>rd</sup> Qtr, FY 2012	Ensure implementation of DoD DMZ Increments 2 and 3.
4 <sup>th</sup> Qtr, FY 2012	Complete baseline certification of DoD IA workforce under DoD 8570.01-M.
4 <sup>th</sup> Qtr, FY 2012	Complete implementation of NIPRNet DMZs and migration of outward facing applications.
4 <sup>th</sup> Qtr, FY 2012	IAVM System and data strategy pilot; to be determined, but expected to be follow-on activities to those listed in FY 2011.
1 <sup>st</sup> Qtr, FY 2013	Validation of corrective Action Plan.

<b>Title and Description of Issue</b>	<u>Personnel Security Investigations Program</u> . Security clearances and Personnel Security Investigations (PSIs) are key elements in protecting national security by determining whether an individual should be granted access to classified information, accessed or retained in the military, or employed in a sensitive position. In 2003, the DoD Security Clearance Program was reported as a systemic weakness. In January 2005, the Government Accountability Office (GAO) issued its High-Risk Series Report and listed the DoD Personnel Security Program as a high-risk program. GAO indicated that problems such as timeliness and quality in the personnel security clearance process directly affect the Department's operations and are a matter of national security. Other factors contributing to the high-risk designation included: inadequate program oversight and monitoring and lack of a comprehensive, integrated management plan to address various obstacles.
<b>Functional Category</b>	Personnel and/or Organizational Management
<b>Organization</b>	Office of the Under Secretary of Defense (Intelligence) (OUSD(I))
<b>Senior Official In Charge</b>	Laurence K. Burgess, Deputy Under Secretary of Defense (HUMINT, Counterintelligence and Security)
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2003  <u>Original Targeted Correction Date:</u> 4 <sup>th</sup> Qtr, FY 2004  <u>Targeted Correction Date in Last Year's Report:</u> 4 <sup>th</sup> Qtr, FY 2010  <u>Current Target Date:</u> 4 <sup>th</sup> Qtr, FY 2011
<b>Reason for change in date</b>	In addition to maintaining daily personnel security operations and working personnel security policy issues, the Department continues to work with the Office of Management and Budget (OMB), the Performance Accountability Council (PAC), and the Joint Security and Suitability Reform Team (JSSRT) to ensure the alignment of the security and suitability processes, establish annual goals and performance metrics, and participate in the development of tools and techniques for enhancing background investigations and eligibility determinations, which have caused milestone timelines to shift. Furthermore, in most cases, achievement of the milestones requires coordination with, and/or approval from, other organizations outside of the Department, as DoD milestones impact the larger, government-wide personnel security reform effort. As a result, dates shifted to accommodate requirements or capabilities of other organizations that have impact on milestone completion. Dates for completion of some milestones regarding performance measures and projections were changed because they are dependent upon the hiring and orientation of new staff, as the function is being transferred from the Defense Security Service (DSS) to the Deputy Under Secretary of Defense (HUMINT, Counterintelligence and Security). Still, other milestone dates have changed due to delays caused by legal reviews and risk assessments necessary to support implementation. The progress realized thus far has heralded significant strides in efficiency, cost savings, and productivity. In GAO Report GAO-04-344, GAO referenced its 1981 estimate that the DoD investigations backlog alone could cost nearly \$1B per year in lost productivity. More than a decade later, the Joint Security Commission report noted that the costs directly attributable to investigative delays in FY 1994 could be as high as several billion dollars

	<p>because workers were unable to perform their jobs while awaiting clearances. With the elimination of the backlog and the current timeliness of investigations and adjudications, the associated threats to security and efficiency recognized when the Intelligence Reform and Terrorism Prevention Act (IRTPA) legislation was enacted have been reduced. Although significant progress has been made, additional reforms are necessary to achieve long-term sustainable performance.</p> <p>Accountability Council and the JSSRT will ensure the alignment of the security and suitability processes, establish annual goals and performance metrics, and participate in the development of tools and techniques for enhancing background investigations, eligibility, and determinations, which have caused milestone timelines to shift.</p>												
<b>Validation Indicator</b>	<p>The Department will validate program efficiency and effectiveness using:</p> <ul style="list-style-type: none"> <li>○ The OMB Program Assessment Rating Tool (PART) and other Performance Accountability Council metrics.</li> <li>○ Continued monitoring of the National Security Oversight Reports submitted to OMB by the Office of Personnel Management (OPM).</li> </ul>												
<b>Results Indicator (Impact)</b>	<p>The Department will determine program results by:</p> <ul style="list-style-type: none"> <li>○ Following the timelines set by the IRTPA and the related OMB goals.</li> <li>○ Monitoring the PART measures and the Department’s progress towards meeting PART goals.</li> <li>○ Tracking students’ progress in related program areas to ensure the Department’s Security Education Training and Awareness Program curriculum is meeting identified requirements.</li> </ul>												
<b>Source(s) Identifying Weakness</b>	<p>The January 2005 GAO High-Risk Series Report identified long-standing delays in completing investigations, a growing backlog, and no effective method to estimate total workload requirements within the Department.</p>												
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		depletion of funds well in advance to avoid any stop-work action.
Completed		Submitted a \$25M reprogramming action to Congress to fund DSS requirements.
Completed		Established a number of working groups to address essential elements of the Personnel Security Program for improvement.
Completed		DSS put a number of initiatives in place to improve financial management and allow DSS to meet the requirements of accurate budget estimates and budget execution.
Completed		Maintained only 2% variance of workload projections and actual submissions for personnel security investigations.
Completed		Established jointly, with the Office of the Director of National Intelligence (ODNI), a formal team to develop recommendations for a reformed clearance system to address current and future program needs.
Completed		The Personnel Security Research Center (PERSEREC) received the predictive model established by the Air Force for independent validation as a forecasting tool for all the Department personnel security investigative requirements.
Completed		Increased FY 2008 funding for industry investigations in the President's Budget to cover all anticipated requirements.
Completed		Increased the Department's use of Electronic Questionnaires for Investigations Processing (e-QIP) to 72%, thus delaying fewer requests for investigations because of incomplete or erroneous information.
Completed		Reiterated guidance on the requirement for full e-QIP submissions for national security investigations.
Completed		Investigations (all types) pending at OPM were reduced from 444,000 to 293,650 reported pending last year.
Completed		The Army Central Adjudications Facility (CAF) began receiving investigations from OPM electronically.
Completed		Completed the program of instruction for DoD Adjudicator Certification Program.
Completed		The Under Secretary of Defense for Intelligence (USD(I))

		mandated a study to review the Department's CAFs to maximize efficiencies in the adjudication process and related IT infrastructure.
	Completed	The JSSRT provided an initial report to OMB for submission to the President. The Department is a champion of the reform effort and participated on the JSSRT; the report outlines several reform efforts that should improve the cost, timeliness, and quality of the Security Clearance Program.
	Completed	The USD(I) mandated a review of the DSS mission areas to assess sensitive activities that support stakeholders.
	Completed	Submitted a revised Program Assessment Rating Tool (PART) that identified measures to assess the cost, timeliness, and quality of the Security Clearance Program for all three phases of the process.
	Completed	Completed a virtual test of electronic adjudication (eAdjudication) of investigations with no actionable issues in support of Secret security clearances.
	Completed	Completed a virtual test of the On-Line Rapid Assessment of Incomplete Security Evaluations (RAISE) to assess the quality of investigations completed by OPM.
	Completed	e-QIP use increased to 89%.
	Completed	Met the IRTPA timelines of adjudicating 80% of all completed investigations received within 25 days.
	Completed	Average adjudication timeliness for 90% of IRTPA security clearance requests was 39 days. Completed the end-to-end time for the entire process in an average of 135 days, which included an approximate 15 days of processing and mailing time.
	Completed	Established DoD Adjudicator Certification Program business rules.
	Completed	Funded and published several successful demonstrations of the feasibility and effectiveness of greater reliance on automated records checks in lieu of field leads.
	Completed	Executive Order 13467, signed June 30, 2008, established the Performance Accountability Council with oversight for security clearance processing and performance goals.

Completed	Conducted a successful pilot test of the investigation quality assessment tool (RAISE) and the adjudication quality assessment tool, Review of Adjudication Documentation And Rationales, (RADAR).
Completed	Concluded and published findings of a successful demonstration of the end-to-end investigative process as envisioned by the Joint Reform Team.
Completed	Began e-adjudication of non-issue National Agency Checks with Law and Credit (NACLC) investigations in support of a Secret security clearance.
Completed	In support of the PART, established program baseline measures for the cost and timeliness and established short and long range performance goals.
Completed	Achieved 95% usage of e-QIP for national security investigations.
Completed	Began implementation of financial disclosure requirement in Executive Order 12968.
Completed	Designated the Case Adjudication Tracking System (CATS) as the DoD case management and adjudication system for the non-Intelligence community.
Completed	Directed implementation of e-QIP for all investigative submissions by October 2009.
Completed	The Department's Defense Clearance and Investigations Index (DCII) produced 90% of the requested files/information in 30 days or less.
Completed	The Defense Industrial Security Clearance Office (DISCO) began receiving completed investigations electronically.
Completed	Met or exceeded IRTPA goals that require 90% of all applications for an initial personnel security clearance to be adjudicated in an average of 20 days.
Completed	The Air Force began receiving completed investigations electronically.
Completed	The Navy began receiving completed investigations electronically.

Completed	e-QIP submissions of investigative requests to OPM did not extend beyond 14 days from date of subject signature to the date OPM received all required information.
Completed	Deployed CATS DoD-wide.
Completed	Washington Headquarters Services will receive completed investigations electronically.
<b>B. <u>Planned Milestones for 4<sup>th</sup> Qtr, FY 2010 and FY 2011:</u></b>	
<u>Date:</u>	<u>Milestones:</u>
4 <sup>th</sup> Qtr, FY 2010	Implement DoD Adjudicator Certification Program.
4 <sup>th</sup> Qtr, FY 2010	Pilot Automated Record Checks (ARC) capability within select DoD population.
1 <sup>st</sup> Qtr, FY 2011	Incorporate use of RAISE functionality into CATS to provide a comprehensive case management system for DoD. Pilot RAISE functionality in preparation for DoD-wide implementation.
2 <sup>nd</sup> Qtr, FY 2011	Implement the use of RADAR to assess adjudicative quality.
2 <sup>nd</sup> Qtr, FY 2011	Evaluate the need for modifications to OPM's and/or the Services' models for accurately projecting DoD-wide military and civilian investigative requirements.
3 <sup>rd</sup> Qtr, FY 2011	Begin e-Adjudication of non-issue investigations in support of clearance types other than NACLIC.
3 <sup>rd</sup> Qtr, FY 2011	Pilot ARC continuous evaluation capability within select DoD population.
4 <sup>th</sup> Qtr, FY 2011	In support of Congressional and OMB requirements, assess annual performance and trends in the following areas: (1) use of e-QIP; (2) workload projections; (3) investigation and adjudication timelines; (4) investigative and adjudication quality; and (5) cost of the security clearance process.
4 <sup>th</sup> Qtr, FY 2011	Validation of corrective action plan.
<b>C. <u>Planned Milestones Beyond FY 2011:</u> N/A</b>	



**OSD STATEMENT OF ASSURANCE**

**TAB C-3**

**CORRECTED SYSTEMIC WEAKNESSES**

**Corrected Systemic Weaknesses Identified During All Periods**

<p><b>Title and Description of Issue</b></p>	<p><u>DoD Contracting for Services (formerly titled DoD Services Contracts)</u>. The Inspector General of the Department of Defense (IG DoD) and the Government Accountability Office (GAO) issued numerous reports which identify various deficiencies in the Department’s acquisition of services. Subsequently, in response to the Office of Management and Budget’s (OMB’s) June 17, 2005, memorandum regarding GAO’s High-Risk List, the OUSD(AT&amp;L) staff developed, in collaboration with applicable OMB and GAO staff, the “DoD Plan for Improvement for the GAO High Risk Area of Contract Management,” dated August 12, 2005, and updated it in February 2006. The DoD Plan for Improvement provides a DoD-wide approach, coordinated with GAO and OMB, to resolving the issues and concerns relating to the acquisition of services.</p>
<p><b>Functional Category</b></p>	<p>Procurement</p>
<p><b>Organization</b></p>	<p>OUSD(AT&amp;L) A&amp;T</p>
<p><b>Senior Official In Charge</b></p>	<p>Shay D. Assad, Director Defense Procurement and Acquisition Policy</p>
<p><b>Pace of Corrective Actions</b></p>	<p><u>Year Identified:</u> FY 2005  <u>Original Targeted Correction Date:</u> 2<sup>nd</sup> Qtr, FY 2007  <u>Targeted Correction Date in Last Report:</u> 1<sup>st</sup> Qtr FY 2010  <u>Current Target Date:</u> N/A</p>
<p><b>Reason for Change in Date</b></p>	<p>N/A</p>
<p><b>Validation Indicator</b></p>	<p>All Military Departments and Defense Agencies conducted self assessments to ensure that they comply with all required pre-award and post-award requirements and that all required documentation is completed in a timely manner. The Department verified that this has occurred through the use of appropriate internal controls.</p>
<p><b>Results Indicator (Impact)</b></p>	<p>OSD determines that all required actions set forth in the milestones for each Military Department and Defense Agency, as well as the actions in the DoD Plan for Improvement for the GAO High Risk Area of Contract Management, dated August 12, 2005, and updated in February 2006; May 2007; and March 2008, are achieved.</p>
<p><b>Source(s) Identifying Weakness</b></p>	<p>“DoD Plan for Improvement for the GAO High Risk Area of Contract Management,” dated August 12, 2005, and updated in February 2006; May 2007; and March 2008.</p>

<b>Major Milestones to Include Progress to Date</b>	A. <u>Completed Milestones:</u>	
	<u>Date</u>	<u>Milestone</u>
	Completed	Defense Contracting Command-Washington resolved overpayments issues identified in the DoD IG Report No. 2004-057.
	Completed	Army reviewed all Logistics Civil Augmentation Plan (LOGCAP) orders to ensure that they were within scope and eliminated backlog of undefinitized orders. Developed new procedures to ensure timely definitization.
	Completed	The Department revised the October 2004 policy on proper use of other Agencies' contracts to include guidance on conducting surveillance of services procured from other Agencies' contracts.
	Completed	The Department published updated policy dealing with the appointment and training of Contracting Officer Representatives (CORs). Defense Acquisition University (DAU) updated COR training (CLC 106, COR with a Mission Focus).
	Completed	Working groups identified in the DoD Plan for Improvement established; implementation of the DoD Plan for Improvement and periodic status briefs on the DoD Plan for Improvement/Systemic Weaknesses to senior OSD leadership initiated.
	Completed	Acting Director, Defense Procurement and Acquisition Policy (DPAP) issued DoD Policy Memo on Performance-Based Services Acquisition (PBSA). Memo contained requirement for progress report on PBSA training for individuals participating in preparation of performance-based work statements.
	Completed	Metrics goals and thresholds developed for Strategic Sourcing Program.
	Completed	Developed a Concept of Operations (CONOPS) for DoD Strategic Sourcing.
Completed	Updated the DoD Plan for Improvement for the GAO High Risk Area of Contract Management, to include implementation of section 812, "Management Structure for the Procurement of Contract Services," P. L. 109-163.	
Completed	DoD published guidance regarding procedures for, and use of, waivers to competitive requirements.	

Completed	The Department reviewed and updated policy on quality assurance surveillance or written oversight plans.
Completed	The DAU published the AT&L Workforce Human Capital Strategic Plan.
Completed	The Department published policy implementing section 812, "Management Structure for the Procurement of Contract Services," National Defense Authorization Act (NDAA) for FY 2006, P. L. 109-163.
Completed	Designated Senior Officials to ensure that their service contract review processes and associated data collection requirements support adequate contract surveillance.
Completed	Reviewed DoD Component data for "Top 20" acquisitions of services.
Completed	Personnel who develop PBSA statements of work are required to have received PBSA training.
Completed	Military Departments and Defense Agencies completed self-assessments of sound use of pricing techniques, PBSA, and quality assurance surveillance or written oversight plans.
Completed	Contracting Functional Integrated Process Team (FIPT) addressed GAO High Risk Areas in training requirements and/or policy, based on results of working group self-assessments.
Completed	OSD reviewed guidance for use of task orders, competition, price reasonableness determinations, and quality assurance surveillance or written oversight plans in response to any related weaknesses identified in the DoD Plan for Improvement self-assessment results.
Completed	Implemented the new DoD Architecture for Acquisition of Services. Issued policy memorandum entitled, "Review Criteria for the Acquisition of Services" on February 18, 2009. The policy memorandum articulates the 12 tenets of the DoD architecture for the acquisition of services applicable in the pre-award phase and the eight tenets applicable in the post-award phase.
Completed	75% of total DoD invoices submitted electronically via an authorized electronic invoicing system.



**TAB D**

**MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND**

**(FINANCIAL STATEMENT REPORTING ENTITY)**





OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
HEALTH AFFAIRS  
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FALLS CHURCH, VIRGINIA 22041-3206

JUL 08 2010

TRICARE  
MANAGEMENT  
ACTIVITY

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (PERSONNEL AND  
READINESS)

SUBJECT: Annual Statement Required Under the Federal Managers' Financial  
Integrity Act of 1982

This memorandum supplements Annual Statement of Assurance (ASA) information previously provided. Due to the differences in reporting dates established by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and the Office of the Under Secretary of Defense (Personnel & Readiness) for the Internal Controls Over Financial Reporting (ICOFR) and Federal Managers' Financial Integrity Act (FMFIA) Annual Statements of Assurance, the ICOFR submission is being submitted separately from the FMFIA ASA.

The TRICARE Management Activity (TMA) supports three Financial Statement Reporting Entities (FSRE) under the Internal Control Over Financial Reporting (ICOFR) responsibility. The three FSREs are: (1) Medicare-Eligible Retiree Healthcare Fund (MERHCF); (2) Service Medical Activity (SMA); and (3) TMA. Each is addressed below.

As the TMA Management Control Senior Responsible Official, I recognize that TMA management is responsible for establishing and maintaining effective internal management controls to meet the objectives of the FMFIA. The review verified the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Areas of the MERHCF, SMA, and TMA outside of those discussed below were not reviewed. Therefore, I can provide no assurance on the areas that are not within the implementation areas described.

(1) **MERHCF**: TMA conducted an internal management controls assessment of the effectiveness of the MERHCF internal management controls over financial reporting for the following implementation areas: all material financial statement line items on the Balance Sheet, Statement of Budgetary Resources, Statement of Net Cost, and Statement of Changes in Net Position. With respect to Accounts Receivable, the fiscal year (FY) 2009 independent audit of MERHCF identified Mandatory Agreements (for TRICARE) Retail Network Refunds (MARR) as a scope limitation. The collections process for MARR is still under development, to be integrated with the collections process for the Voluntary Agreements for TRICARE Retail Network Refunds (VARR), and hence

internal controls for this process could not be tested. Therefore, with respect to Accounts Receivable, this Statement of Assurance does not cover MARR or VARR.

The assessment of the implementation areas was conducted in strict compliance with the Office of Management and Budget (OMB) Circular A-123, Appendix A, as directed by Department of Defense (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 MERHCF's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively with the exception of one material weakness described in TAB D. This material weakness was found in the internal management controls over the reliability of financial reporting as of June 30, 2010. Other than the material weakness noted in TAB D, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal management controls over financial reporting for the MERHCF.

The MERHCF material weakness is described in TAB D. TAB D-1 is a list of the material weakness that still requires corrective action. TAB D-2 is an individual narrative for the uncorrected material weakness listed in TAB D-1.

**(2) SMA:** In addition, an internal management controls assessment of the effectiveness of the SMA Consolidated FSRE's internal management controls over financial reporting was conducted for the following implementation areas: all material financial statement line items on the Balance Sheet and Statement of Budgetary Resources. The SMA Consolidated FSRE is comprised of the following three components: SMA-Army, SMA-Navy, and SMA-Air Force; each of which is executed by its parent Military Service. The TMA received input from each parent Military Service and used that as the basis for the assessment of internal management controls over financial reporting for the SMA Consolidated FSRE.

There is currently no balance for Operating Materials and Supplies (OM&S) on the SMA Consolidated Balance Sheet. In FY 2009, TMA and the SMA components have established an OM&S workgroup to discuss issues related to the proper accounting treatment for OM&S, consistent with Federal Generally Accepted Accounting Principles (FED GAAP). The FY 2010 test plans for OM&S have addressed the purchasing process for pharmaceutical products within Military Treatment Facilities (MTFs). The OM&S Workgroup will gather data which will support either a "Purchase" or "Consumption" method of accounting. The Senior Assessment Team will withhold judgment as to whether a material weakness exists for OM&S until more data becomes available to support an accounting treatment consistent with FED GAAP.

Real Property was not an assigned implementation area for SMA this year, unlike previous years, and therefore an assessment of the effectiveness of the SMA Consolidated FSRE internal management controls over financial reporting was not conducted for Real Property. There is no Real Property on the SMA Consolidated Balance Sheet because the DoD Financial Management Regulation (FMR) establishes that medical facilities and equipment are exempt from the preponderant use policy, which otherwise applies when the preponderant user is not the owner or DoD component that purchased the asset (DoD FMR 7000.14R, Volume 4, Chapter 6, 060105 B 4 d). However, future change to the preponderant use policy could affect the medical facilities exemption. If so, the effectiveness of internal management controls over the Real Property implementation area, if reassigned to SMA, will require re-evaluation in light of any such policy change.

Other Assets was also not an assigned implementation area for SMA this year. Other Assets are immaterial and an assessment of the effectiveness of internal management controls over financial reporting for Other Assets was not conducted.

With respect to the Compilation focus area previously assigned, SMA Consolidated is subject to the DoD-identified significant deficiencies of Intragovernmental Eliminations and Other Accounting Entries (unsupported accounting adjustments) both of which were identified as material in the DoD Agency Financial Report for Fiscal Year 2009. Although the Compilation process is executed by Defense Financing and Accounting Service (DFAS), responsibility for the accuracy and integrity of financial data ultimately lies with the SMA components. Thus, the SMA components and TMA will work collaboratively with DFAS to implement corrective actions for the Compilation implementation area and these have been incorporated into the corrective action plans for Fund Balance with Treasury, Accounts Payable, and Accounts Receivable as presented in TAB G.

With respect to the American Recovery and Reinvestment Act of 2009 (ARRA), the execution of these funds is the responsibility of United States Army Corps of Engineers (USACE) and the Naval Facilities Engineering Command (NAVFAC), on behalf of SMA-Army and SMA-Navy respectively. SMA-Army, SMA-Navy and TMA will work collaboratively with USACE and NAVFAC and DFAS to support reasonable assurance associated with the execution of ARRA funds. Similarly, SMA-Army, SMA-Navy, and SMA-Air Force will work collaboratively with USACE, NAVFAC, U.S. Air Forces in Europe (USAFE), and DFAS to support reasonable assurance associated with the execution of Military Construction funds, including the proper transfer of Construction in Progress from the SMA component statements to the parent Military Service statements.

With respect to the Statement of Budgetary Resources (SBR), each SMA component has submitted corrective action plans for Fund Balance with Treasury (FBWT), Accounts Payable (A/P), and Accounts Receivable (A/R), which will largely address any material weaknesses in the SMA Consolidated SBR.

The assessment of the implementation areas was conducted in strict compliance with 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 SMA Consolidated FSRE's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively with the exception of four material weaknesses described in TAB G. These material weaknesses were found in the internal management controls over the reliability of financial reporting as of June 30, 2010. Other than the material weaknesses noted in TAB G and as indicated above, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting for the SMA Consolidated FSRE.

The SMA Consolidated FSRE material weaknesses are described in TAB G. TAB G-1 is a list of material weaknesses that still require corrective action. TAB G-2 is an individual narrative for each uncorrected material weakness listed in TAB G-1.

The attached memorandum from the TMA Acting Chief Financial Officer (CFO) to the USD(C), dated February 14, 2008 provided guidance that the material weakness for "Financial Reporting of Health Care Liabilities" identified in TAB G of the FY 2008 Annual Statement of Assurance actually belongs to the SMA components and their parent Military Departments. While the material weakness was presented and continues to be presented in the TMA Annual Statement of Assurance, the resolution of the material weakness requires financial system changes by the Military Departments and therefore the correction responsibility resides with the Military Departments and not TMA. TMA, as the responsible organization for submitting financial statements for the SMA Financial Statement Reporting Entity, will monitor the correction process for this material weakness and work collaboratively with SMA component leadership in this regard.

**(3) TMA:** TMA, in collaboration with the Uniformed Services University of the Health Sciences (USUHS), conducted an internal management controls assessment of the effectiveness of the TMA Consolidated FSRE's internal control over financial reporting for the following implementation areas: all material financial statement line items on the Balance Sheet and Statement of Budgetary Resources. The TMA Consolidated FSRE is comprised of the following three components: TMA-Financial Operations Division (TMA-FOD), TMA Contract Resource Management (TMA-CRM), and TMA-USUHS. With respect to Accounts Receivable, the FY 2009 independent audit of TMA-CRM identified Mandatory Agreements (for TRICARE) Retail Network Refunds (MARR) as a scope limitation. The collections process for MARR is still under development, to be

integrated with the collections process for the Voluntary Agreements for TRICARE Retail Network Refunds (VARR), and hence internal controls for this process could not be tested. Therefore, with respect to Accounts Receivable, this Statement of Assurance does not cover MARR or VARR.

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 an unqualified statement of assurance that the TMA Consolidated FSRE's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively. TAB H reflects the identification of no material weakness as of June 30, 2010 for the TMA Consolidated FSRE.

**(4) Internal Control over Financial Systems:** Lastly, an assessment of Internal Control over Financial Systems (ICOFS), was performed for all three of the above-mentioned FSREs: MERHCF, SMA, and TMA. This assessment was conducted in compliance with Part 1 Guidance for the Preparation of the FMFIA Annual Statement of Assurance for the Office of the Secretary of Defense (OSD) and the DoD Field Activities, as distributed by the Office of the Secretary of Defense, Office of Administration and Management, Director for Organizational and Management Planning on May 4, 2010. This assessment is presented at TAB C.

**(5) Other Observations:** Consistent with OUSD(C)-stated priorities for FY 2010, internal controls for material lines on the Statements of Budgetary Resources for MERHCF, SMA, and TMA have been reviewed. This review has contributed to the proven ability of MERHCF, SMA components, and TMA components to ensure effective and efficient use of funds. TMA continues to pursue a financial statement assertion based approach to ICOFR, which to date has successfully led to all financial statements for MERHCF and TMA-CRM being under independent audit.

My point of contact for this issue is Mr. David H. Fisher, TMA/OCFO (Management Control & Financial Studies), who can be reached at 703-681-4365 or by email at David.Fisher@tma.osd.mil.

  
Jack Trowbridge, COL, MS, USA  
Acting Chief Financial Officer

cc: OUSD (C)



**FINANCIAL STATEMENT REPORTING ENTITY:  
MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND**

**TAB D-1**

**LISTS OF ALL UNCORRECTED AND CORRECTED  
MATERIAL WEAKNESSES**

**Uncorrected Material Weaknesses Identified During the Period**

None

**Uncorrected Material Weaknesses Identified During Prior Periods**

<b>Functional Category</b>	Financial Reporting
<b>Organization</b>	TRICARE Management Activity (TMA) for FSRE, Medicare-Eligible Retiree Health Care Fund (MERHCF)
<b>Title</b>	Direct Care Costs – Develop and Implement Methodology for <i>Per Capita</i> Rate to Correct Auditor-Identified Weakness Related to Direct Care
<b>Year First Reported</b>	FY 2008
<b>Per Last Annual Statement</b>	3 <sup>rd</sup> Qtr, FY 2013
<b>Per This Annual Statement</b>	1 <sup>st</sup> Qtr, FY 2014
<b>Page #</b>	Tab D-2, Page 1

**Corrected Material Weaknesses Identified During All Periods**

None



**FINANCIAL STATEMENT REPORTING ENTITY:  
MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND**

**TAB D-2**

**UNCORRECTED MATERIAL WEAKNESSES  
STATUS OF CORRECTIVE ACTIONS**

**Uncorrected Material Weaknesses Identified During the Period**

None

**Uncorrected Material Weaknesses Identified During Prior Periods**

<b>Title and Description of Issue</b>	<u>Direct Care Costs – Develop and Implement Methodology for <i>Per Capita</i> Rate to Correct Auditor Identified Weakness Related to Direct Care.</u> Independent auditor was "...unable to obtain sufficient, appropriate audit evidence from compliant transaction-based accounting systems to support the costs of direct care provided by DoD-managed Military Treatment Facilities."
<b>Functional Category</b>	Financial Reporting – Health Care Liabilities
<b>Organization</b>	TRICARE Management Activity (TMA) for FSRE, Medicare-Eligible Retiree Health Care Fund (MERHCF)
<b>Senior Official In Charge</b>	COL Jack Trowbridge, Medical Service, U.S. Army, Acting Chief Financial Officer, TRICARE Management Activity
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2008  <u>Original Targeted Correction Date:</u> 2 <sup>nd</sup> Qtr, FY 2009  <u>Targeted Correction Date in Last Year's Report:</u> 3 <sup>rd</sup> Qtr, FY 2013  <u>Current Target Date:</u> 1 <sup>st</sup> Qtr, FY 2014
<b>Reason for change in date</b>	Methodology will be built using Centers for Medicare and Medicaid Services (CMS) data for modeling purposes. The DoD Office of the Actuary did not receive requested data from CMS until 3 <sup>rd</sup> Qtr, FY 2009. Initial review of data is currently being conducted, and required data scrubs are being identified.
<b>Validation Indicator</b>	Validation will be achieved through an annual, independent audit process already in place for the MERHCF. (Note: The MERHCF has achieved qualified audit opinions since its inception, and independent auditors have identified only the direct care weakness above.)
<b>Results Indicator (Impact)</b>	Use of the <i>per capita</i> rate methodology to compute the FY 2013 MERHCF Liability and FY 2014 Distribution Plan to the Military Services in July 2013.
<b>Source(s) Identifying Weakness</b>	Independent Auditor's Report for MERHCF: FY 2008 and FY 2009 Basic Financial Statements; Inspector General of the Department of Defense (IG DoD) Report: D-2010-019, November 10, 2009

<b>Major Milestones to Include Progress to Date</b>	<u>A. Completed Milestones:</u>	
	<u>Date:</u>	<u>Milestones:</u>
	Completed	The DoD Office of the Actuary received requested data from CMS. The initial review of data is currently being conducted and required data scrubs are being identified.
	Completed	The DoD Office of the Actuary briefed the MERHCF Audit Committee on the status of the <i>per capita</i> rate methodology.
	<u>B. Planned Milestones for FY 2011:</u>	
	<u>Date:</u>	<u>Milestones:</u>
	4 <sup>th</sup> Qtr, FY 2011	The DoD Office of the Actuary is to brief the MERHCF Audit Committee regularly on the progress/status of development and application of the <i>per capita</i> rate methodology.
	<u>C. Planned Milestones Beyond FY 2011:</u>	
	<u>Date:</u>	<u>Milestones:</u>
4 <sup>th</sup> Qtr, FY 2013	The <i>per capita</i> rate methodology will be used to compute FY 2013 MERHCF Liability and the FY 2014 Distribution Plan to the Military Services.	
1 <sup>st</sup> Qtr, FY 2014	Validate through an annual independent audit process, which is already in place for the MERHCF, with the objective of an unqualified audit opinion for FY 2013.	

**FINANCIAL STATEMENT REPORTING ENTITY:  
MEDICARE-ELIGIBLE RETIREE HEALTH CARE FUND**

**TAB D-3**

**CORRECTED MATERIAL WEAKNESSES**

**Corrected Material Weaknesses Identified During All Periods**

None



**TAB E**  
**TRICARE MANAGEMENT ACTIVITY**  
**(FINANCIAL STATEMENT REPORTING ENTITY)**





OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
HEALTH AFFAIRS  
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FALLS CHURCH, VIRGINIA 22041-3206

JUL 08 2010

TRICARE  
MANAGEMENT  
ACTIVITY

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (PERSONNEL AND  
READINESS)

SUBJECT: Annual Statement Required Under the Federal Managers' Financial  
Integrity Act of 1982

This memorandum supplements Annual Statement of Assurance (ASA) information previously provided. Due to the differences in reporting dates established by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and the Office of the Under Secretary of Defense (Personnel & Readiness) for the Internal Controls Over Financial Reporting (ICOFR) and Federal Managers' Financial Integrity Act (FMFIA) Annual Statements of Assurance, the ICOFR submission is being submitted separately from the FMFIA ASA.

The TRICARE Management Activity (TMA) supports three Financial Statement Reporting Entities (FSRE) under the Internal Control Over Financial Reporting (ICOFR) responsibility. The three FSREs are: (1) Medicare-Eligible Retiree Healthcare Fund (MERHCF); (2) Service Medical Activity (SMA); and (3) TMA. Each is addressed below.

As the TMA Management Control Senior Responsible Official, I recognize that TMA management is responsible for establishing and maintaining effective internal management controls to meet the objectives of the FMFIA. The review verified the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Areas of the MERHCF, SMA, and TMA outside of those discussed below were not reviewed. Therefore, I can provide no assurance on the areas that are not within the implementation areas described.

(1) **MERHCF**: TMA conducted an internal management controls assessment of the effectiveness of the MERHCF internal management controls over financial reporting for the following implementation areas: all material financial statement line items on the Balance Sheet, Statement of Budgetary Resources, Statement of Net Cost, and Statement of Changes in Net Position. With respect to Accounts Receivable, the fiscal year (FY) 2009 independent audit of MERHCF identified Mandatory Agreements (for TRICARE) Retail Network Refunds (MARR) as a scope limitation. The collections process for MARR is still under development, to be integrated with the collections process for the Voluntary Agreements for TRICARE Retail Network Refunds (VARR), and hence

internal controls for this process could not be tested. Therefore, with respect to Accounts Receivable, this Statement of Assurance does not cover MARR or VARR.

The assessment of the implementation areas was conducted in strict compliance with the Office of Management and Budget (OMB) Circular A-123, Appendix A, as directed by Department of Defense (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 MERHCF's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively with the exception of one material weakness described in TAB D. This material weakness was found in the internal management controls over the reliability of financial reporting as of June 30, 2010. Other than the material weakness noted in TAB D, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal management controls over financial reporting for the MERHCF.

The MERHCF material weakness is described in TAB D. TAB D-1 is a list of the material weakness that still requires corrective action. TAB D-2 is an individual narrative for the uncorrected material weakness listed in TAB D-1.

**(2) SMA:** In addition, an internal management controls assessment of the effectiveness of the SMA Consolidated FSRE's internal management controls over financial reporting was conducted for the following implementation areas: all material financial statement line items on the Balance Sheet and Statement of Budgetary Resources. The SMA Consolidated FSRE is comprised of the following three components: SMA-Army, SMA-Navy, and SMA-Air Force; each of which is executed by its parent Military Service. The TMA received input from each parent Military Service and used that as the basis for the assessment of internal management controls over financial reporting for the SMA Consolidated FSRE.

There is currently no balance for Operating Materials and Supplies (OM&S) on the SMA Consolidated Balance Sheet. In FY 2009, TMA and the SMA components have established an OM&S workgroup to discuss issues related to the proper accounting treatment for OM&S, consistent with Federal Generally Accepted Accounting Principles (FED GAAP). The FY 2010 test plans for OM&S have addressed the purchasing process for pharmaceutical products within Military Treatment Facilities (MTFs). The OM&S Workgroup will gather data which will support either a "Purchase" or "Consumption" method of accounting. The Senior Assessment Team will withhold judgment as to whether a material weakness exists for OM&S until more data becomes available to support an accounting treatment consistent with FED GAAP.

Real Property was not an assigned implementation area for SMA this year, unlike previous years, and therefore an assessment of the effectiveness of the SMA Consolidated FSRE internal management controls over financial reporting was not conducted for Real Property. There is no Real Property on the SMA Consolidated Balance Sheet because the DoD Financial Management Regulation (FMR) establishes that medical facilities and equipment are exempt from the preponderant use policy, which otherwise applies when the preponderant user is not the owner or DoD component that purchased the asset (DoD FMR 7000.14R, Volume 4, Chapter 6, 060105 B 4 d). However, future change to the preponderant use policy could affect the medical facilities exemption. If so, the effectiveness of internal management controls over the Real Property implementation area, if reassigned to SMA, will require re-evaluation in light of any such policy change.

Other Assets was also not an assigned implementation area for SMA this year. Other Assets are immaterial and an assessment of the effectiveness of internal management controls over financial reporting for Other Assets was not conducted.

With respect to the Compilation focus area previously assigned, SMA Consolidated is subject to the DoD-identified significant deficiencies of Intragovernmental Eliminations and Other Accounting Entries (unsupported accounting adjustments) both of which were identified as material in the DoD Agency Financial Report for Fiscal Year 2009. Although the Compilation process is executed by Defense Financing and Accounting Service (DFAS), responsibility for the accuracy and integrity of financial data ultimately lies with the SMA components. Thus, the SMA components and TMA will work collaboratively with DFAS to implement corrective actions for the Compilation implementation area and these have been incorporated into the corrective action plans for Fund Balance with Treasury, Accounts Payable, and Accounts Receivable as presented in TAB G.

With respect to the American Recovery and Reinvestment Act of 2009 (ARRA), the execution of these funds is the responsibility of United States Army Corps of Engineers (USACE) and the Naval Facilities Engineering Command (NAVFAC), on behalf of SMA-Army and SMA-Navy respectively. SMA-Army, SMA-Navy and TMA will work collaboratively with USACE and NAVFAC and DFAS to support reasonable assurance associated with the execution of ARRA funds. Similarly, SMA-Army, SMA-Navy, and SMA-Air Force will work collaboratively with USACE, NAVFAC, U.S. Air Forces in Europe (USAFE), and DFAS to support reasonable assurance associated with the execution of Military Construction funds, including the proper transfer of Construction in Progress from the SMA component statements to the parent Military Service statements.

With respect to the Statement of Budgetary Resources (SBR), each SMA component has submitted corrective action plans for Fund Balance with Treasury (FBWT), Accounts Payable (A/P), and Accounts Receivable (A/R), which will largely address any material weaknesses in the SMA Consolidated SBR.

The assessment of the implementation areas was conducted in strict compliance with 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 SMA Consolidated FSRE's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively with the exception of four material weaknesses described in TAB G. These material weaknesses were found in the internal management controls over the reliability of financial reporting as of June 30, 2010. Other than the material weaknesses noted in TAB G and as indicated above, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting for the SMA Consolidated FSRE.

The SMA Consolidated FSRE material weaknesses are described in TAB G. TAB G-1 is a list of material weaknesses that still require corrective action. TAB G-2 is an individual narrative for each uncorrected material weakness listed in TAB G-1.

The attached memorandum from the TMA Acting Chief Financial Officer (CFO) to the USD(C), dated February 14, 2008 provided guidance that the material weakness for "Financial Reporting of Health Care Liabilities" identified in TAB G of the FY 2008 Annual Statement of Assurance actually belongs to the SMA components and their parent Military Departments. While the material weakness was presented and continues to be presented in the TMA Annual Statement of Assurance, the resolution of the material weakness requires financial system changes by the Military Departments and therefore the correction responsibility resides with the Military Departments and not TMA. TMA, as the responsible organization for submitting financial statements for the SMA Financial Statement Reporting Entity, will monitor the correction process for this material weakness and work collaboratively with SMA component leadership in this regard.

**(3) TMA:** TMA, in collaboration with the Uniformed Services University of the Health Sciences (USUHS), conducted an internal management controls assessment of the effectiveness of the TMA Consolidated FSRE's internal control over financial reporting for the following implementation areas: all material financial statement line items on the Balance Sheet and Statement of Budgetary Resources. The TMA Consolidated FSRE is comprised of the following three components: TMA-Financial Operations Division (TMA-FOD), TMA Contract Resource Management (TMA-CRM), and TMA-USUHS. With respect to Accounts Receivable, the FY 2009 independent audit of TMA-CRM identified Mandatory Agreements (for TRICARE) Retail Network Refunds (MARR) as a scope limitation. The collections process for MARR is still under development, to be

integrated with the collections process for the Voluntary Agreements for TRICARE Retail Network Refunds (VARR), and hence internal controls for this process could not be tested. Therefore, with respect to Accounts Receivable, this Statement of Assurance does not cover MARR or VARR.

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 an unqualified statement of assurance that the TMA Consolidated FSRE's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively. TAB H reflects the identification of no material weakness as of June 30, 2010 for the TMA Consolidated FSRE.

**(4) Internal Control over Financial Systems:** Lastly, an assessment of Internal Control over Financial Systems (ICOFS), was performed for all three of the above-mentioned FSREs: MERHCF, SMA, and TMA. This assessment was conducted in compliance with Part 1 Guidance for the Preparation of the FMFIA Annual Statement of Assurance for the Office of the Secretary of Defense (OSD) and the DoD Field Activities, as distributed by the Office of the Secretary of Defense, Office of Administration and Management, Director for Organizational and Management Planning on May 4, 2010. This assessment is presented at TAB C.

**(5) Other Observations:** Consistent with OUSD(C)-stated priorities for FY 2010, internal controls for material lines on the Statements of Budgetary Resources for MERHCF, SMA, and TMA have been reviewed. This review has contributed to the proven ability of MERHCF, SMA components, and TMA components to ensure effective and efficient use of funds. TMA continues to pursue a financial statement assertion based approach to ICOFR, which to date has successfully led to all financial statements for MERHCF and TMA-CRM being under independent audit.

My point of contact for this issue is Mr. David H. Fisher, TMA/OCFO (Management Control & Financial Studies), who can be reached at 703-681-4365 or by email at David.Fisher@tma.osd.mil.

  
Jack Trowbridge, COL, MS, USA  
Acting Chief Financial Officer

cc: OUSD (C)



**TAB F**  
**SERVICE MEDICAL ACTIVITY**  
**(FINANCIAL STATEMENT REPORTING ENTITY)**





OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
HEALTH AFFAIRS  
SKYLINE FIVE, SUITE 810, 5111 LEESBURG PIKE  
FALLS CHURCH, VIRGINIA 22041-3206

JUL 08 2010

TRICARE  
MANAGEMENT  
ACTIVITY

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (PERSONNEL AND  
READINESS)

SUBJECT: Annual Statement Required Under the Federal Managers' Financial  
Integrity Act of 1982

This memorandum supplements Annual Statement of Assurance (ASA) information previously provided. Due to the differences in reporting dates established by the Office of the Under Secretary of Defense (Comptroller) (OUSDC) and the Office of the Under Secretary of Defense (Personnel & Readiness) for the Internal Controls Over Financial Reporting (ICOFR) and Federal Managers' Financial Integrity Act (FMFIA) Annual Statements of Assurance, the ICOFR submission is being submitted separately from the FMFIA ASA.

The TRICARE Management Activity (TMA) supports three Financial Statement Reporting Entities (FSRE) under the Internal Control Over Financial Reporting (ICOFR) responsibility. The three FSREs are: (1) Medicare-Eligible Retiree Healthcare Fund (MERHCF); (2) Service Medical Activity (SMA); and (3) TMA. Each is addressed below.

As the TMA Management Control Senior Responsible Official, I recognize that TMA management is responsible for establishing and maintaining effective internal management controls to meet the objectives of the FMFIA. The review verified the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Areas of the MERHCF, SMA, and TMA outside of those discussed below were not reviewed. Therefore, I can provide no assurance on the areas that are not within the implementation areas described.

(1) **MERHCF**: TMA conducted an internal management controls assessment of the effectiveness of the MERHCF internal management controls over financial reporting for the following implementation areas: all material financial statement line items on the Balance Sheet, Statement of Budgetary Resources, Statement of Net Cost, and Statement of Changes in Net Position. With respect to Accounts Receivable, the fiscal year (FY) 2009 independent audit of MERHCF identified Mandatory Agreements (for TRICARE) Retail Network Refunds (MARR) as a scope limitation. The collections process for MARR is still under development, to be integrated with the collections process for the Voluntary Agreements for TRICARE Retail Network Refunds (VARR), and hence

internal controls for this process could not be tested. Therefore, with respect to Accounts Receivable, this Statement of Assurance does not cover MARR or VARR.

The assessment of the implementation areas was conducted in strict compliance with the Office of Management and Budget (OMB) Circular A-123, Appendix A, as directed by Department of Defense (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 MERHCF's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively with the exception of one material weakness described in TAB D. This material weakness was found in the internal management controls over the reliability of financial reporting as of June 30, 2010. Other than the material weakness noted in TAB D, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal management controls over financial reporting for the MERHCF.

The MERHCF material weakness is described in TAB D. TAB D-1 is a list of the material weakness that still requires corrective action. TAB D-2 is an individual narrative for the uncorrected material weakness listed in TAB D-1.

**(2) SMA:** In addition, an internal management controls assessment of the effectiveness of the SMA Consolidated FSRE's internal management controls over financial reporting was conducted for the following implementation areas: all material financial statement line items on the Balance Sheet and Statement of Budgetary Resources. The SMA Consolidated FSRE is comprised of the following three components: SMA-Army, SMA-Navy, and SMA-Air Force; each of which is executed by its parent Military Service. The TMA received input from each parent Military Service and used that as the basis for the assessment of internal management controls over financial reporting for the SMA Consolidated FSRE.

There is currently no balance for Operating Materials and Supplies (OM&S) on the SMA Consolidated Balance Sheet. In FY 2009, TMA and the SMA components have established an OM&S workgroup to discuss issues related to the proper accounting treatment for OM&S, consistent with Federal Generally Accepted Accounting Principles (FED GAAP). The FY 2010 test plans for OM&S have addressed the purchasing process for pharmaceutical products within Military Treatment Facilities (MTFs). The OM&S Workgroup will gather data which will support either a "Purchase" or "Consumption" method of accounting. The Senior Assessment Team will withhold judgment as to whether a material weakness exists for OM&S until more data becomes available to support an accounting treatment consistent with FED GAAP.

Real Property was not an assigned implementation area for SMA this year, unlike previous years, and therefore an assessment of the effectiveness of the SMA Consolidated FSRE internal management controls over financial reporting was not conducted for Real Property. There is no Real Property on the SMA Consolidated Balance Sheet because the DoD Financial Management Regulation (FMR) establishes that medical facilities and equipment are exempt from the preponderant use policy, which otherwise applies when the preponderant user is not the owner or DoD component that purchased the asset (DoD FMR 7000.14R, Volume 4, Chapter 6, 060105 B 4 d). However, future change to the preponderant use policy could affect the medical facilities exemption. If so, the effectiveness of internal management controls over the Real Property implementation area, if reassigned to SMA, will require re-evaluation in light of any such policy change.

Other Assets was also not an assigned implementation area for SMA this year. Other Assets are immaterial and an assessment of the effectiveness of internal management controls over financial reporting for Other Assets was not conducted.

With respect to the Compilation focus area previously assigned, SMA Consolidated is subject to the DoD-identified significant deficiencies of Intragovernmental Eliminations and Other Accounting Entries (unsupported accounting adjustments) both of which were identified as material in the DoD Agency Financial Report for Fiscal Year 2009. Although the Compilation process is executed by Defense Financing and Accounting Service (DFAS), responsibility for the accuracy and integrity of financial data ultimately lies with the SMA components. Thus, the SMA components and TMA will work collaboratively with DFAS to implement corrective actions for the Compilation implementation area and these have been incorporated into the corrective action plans for Fund Balance with Treasury, Accounts Payable, and Accounts Receivable as presented in TAB G.

With respect to the American Recovery and Reinvestment Act of 2009 (ARRA), the execution of these funds is the responsibility of United States Army Corps of Engineers (USACE) and the Naval Facilities Engineering Command (NAVFAC), on behalf of SMA-Army and SMA-Navy respectively. SMA-Army, SMA-Navy and TMA will work collaboratively with USACE and NAVFAC and DFAS to support reasonable assurance associated with the execution of ARRA funds. Similarly, SMA-Army, SMA-Navy, and SMA-Air Force will work collaboratively with USACE, NAVFAC, U.S. Air Forces in Europe (USAFE), and DFAS to support reasonable assurance associated with the execution of Military Construction funds, including the proper transfer of Construction in Progress from the SMA component statements to the parent Military Service statements.

With respect to the Statement of Budgetary Resources (SBR), each SMA component has submitted corrective action plans for Fund Balance with Treasury (FBWT), Accounts Payable (A/P), and Accounts Receivable (A/R), which will largely address any material weaknesses in the SMA Consolidated SBR.

The assessment of the implementation areas was conducted in strict compliance with 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 SMA Consolidated FSRE's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively with the exception of four material weaknesses described in TAB G. These material weaknesses were found in the internal management controls over the reliability of financial reporting as of June 30, 2010. Other than the material weaknesses noted in TAB G and as indicated above, the internal management controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting for the SMA Consolidated FSRE.

The SMA Consolidated FSRE material weaknesses are described in TAB G. TAB G-1 is a list of material weaknesses that still require corrective action. TAB G-2 is an individual narrative for each uncorrected material weakness listed in TAB G-1.

The attached memorandum from the TMA Acting Chief Financial Officer (CFO) to the USD(C), dated February 14, 2008 provided guidance that the material weakness for "Financial Reporting of Health Care Liabilities" identified in TAB G of the FY 2008 Annual Statement of Assurance actually belongs to the SMA components and their parent Military Departments. While the material weakness was presented and continues to be presented in the TMA Annual Statement of Assurance, the resolution of the material weakness requires financial system changes by the Military Departments and therefore the correction responsibility resides with the Military Departments and not TMA. TMA, as the responsible organization for submitting financial statements for the SMA Financial Statement Reporting Entity, will monitor the correction process for this material weakness and work collaboratively with SMA component leadership in this regard.

**(3) TMA:** TMA, in collaboration with the Uniformed Services University of the Health Sciences (USUHS), conducted an internal management controls assessment of the effectiveness of the TMA Consolidated FSRE's internal control over financial reporting for the following implementation areas: all material financial statement line items on the Balance Sheet and Statement of Budgetary Resources. The TMA Consolidated FSRE is comprised of the following three components: TMA-Financial Operations Division (TMA-FOD), TMA Contract Resource Management (TMA-CRM), and TMA-USUHS. With respect to Accounts Receivable, the FY 2009 independent audit of TMA-CRM identified Mandatory Agreements (for TRICARE) Retail Network Refunds (MARR) as a scope limitation. The collections process for MARR is still under development, to be

integrated with the collections process for the Voluntary Agreements for TRICARE Retail Network Refunds (VARR), and hence internal controls for this process could not be tested. Therefore, with respect to Accounts Receivable, this Statement of Assurance does not cover MARR or VARR.

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 an unqualified statement of assurance that the TMA Consolidated FSRE's internal management controls over financial reporting implementation areas as of June 30, 2010, were operating effectively. TAB H reflects the identification of no material weakness as of June 30, 2010 for the TMA Consolidated FSRE.

**(4) Internal Control over Financial Systems:** Lastly, an assessment of Internal Control over Financial Systems (ICOFS), was performed for all three of the above-mentioned FSREs: MERHCF, SMA, and TMA. This assessment was conducted in compliance with Part 1 Guidance for the Preparation of the FMFIA Annual Statement of Assurance for the Office of the Secretary of Defense (OSD) and the DoD Field Activities, as distributed by the Office of the Secretary of Defense, Office of Administration and Management, Director for Organizational and Management Planning on May 4, 2010. This assessment is presented at TAB C.

**(5) Other Observations:** Consistent with OUSD(C)-stated priorities for FY 2010, internal controls for material lines on the Statements of Budgetary Resources for MERHCF, SMA, and TMA have been reviewed. This review has contributed to the proven ability of MERHCF, SMA components, and TMA components to ensure effective and efficient use of funds. TMA continues to pursue a financial statement assertion based approach to ICOFR, which to date has successfully led to all financial statements for MERHCF and TMA-CRM being under independent audit.

My point of contact for this issue is Mr. David H. Fisher, TMA/OCFO (Management Control & Financial Studies), who can be reached at 703-681-4365 or by email at David.Fisher@tma.osd.mil.

  
Jack Trowbridge, COL, MS, USA  
Acting Chief Financial Officer

cc: OUSD (C)



**FINANCIAL STATEMENT REPORTING ENTITY:  
SERVICE MEDICAL ACTIVITY**

**TAB F-1**

**LISTS OF ALL UNCORRECTED AND CORRECTED  
MATERIAL WEAKNESSES**

**Uncorrected Material Weaknesses Identified During the Period**

None

**Uncorrected Material Weaknesses Identified During Prior Periods**

<b>Functional Category</b>	Financial Reporting—Fund Balance with Treasury
<b>Organization</b>	TRICARE Management Activity (TMA) for FSRE, Service Medical Activity (SMA) Executing Organizations: Army Medical Command (MEDCOM), Navy Bureau of Medicine and Surgery (BUMED), and Air Force Medical Service (AFMS)
<b>Title</b>	Accounting and Reconciliation for Treasury Index (TI) 97-0130 Defense Health Program (DHP), TI 97-0150 Operations and Maintenance Recovery Act, TI 97-500 Military Construction (MILCON), and TI 97-0501 MILCON Recovery Act at a Limit Level
<b>Year First Reported</b>	FY 2008
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2010
<b>Per This Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2017
<b>Page #</b>	Tab F-2, Page 1

<b>Functional Category</b>	Financial Reporting—Accounts Receivable
<b>Organization</b>	TMA for FSRE, Service Medical Activity (SMA) Executing Organizations: MEDCOM, BUMED, and AFMS
<b>Title</b>	Proper Accounting/Reporting for Medical Service Accounts (MSA), Third Party Collection (TPC), and Medical Affirmative Claims (MAC) on an “As-Rendered Basis”
<b>Year First Reported</b>	FY 2007
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2012
<b>Per This Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2017
<b>Page #</b>	Tab F-2, Page 7

<b>Functional Category</b>	Financial Reporting—Accounts Payable
<b>Organization</b>	TMA for FSRE, Service Medical Activity (SMA) Executing Organizations: MEDCOM, BUMED, and AFMS
<b>Title</b>	DoD Accounts Payable Systemic Weakness
<b>Year First Reported</b>	FY 2007
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2015
<b>Per This Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2017
<b>Page #</b>	Tab F-2, Page 13

<b>Functional Category</b>	Financial Reporting—Health Care Liabilities
<b>Organization</b>	TMA for FSRE, Service Medical Activity (SMA) Executing Organizations: MEDCOM, BUMED, and AFMS
<b>Title</b>	Proper Financial Reporting/Accounting for all Health Care Costs and the Reconciliation to Medical Expense and Performance Reporting System\Expense Assignment System IV (MEPRS EAS IV) Data
<b>Year First Reported</b>	FY 2006
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2015
<b>Per This Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2017
<b>Page #</b>	Tab F-2, Page 17

**Corrected Material Weaknesses Identified During All Periods**

None

**Note: The SMA is pursuing a financial statement approach to assertion, as approved by the Office of the Under Secretary of Defense (Comptroller). The three SMA Components, each of which relies on the financial systems and procedures of its parent Line Service, will assert to their Balance Sheets and Statements of Budgetary Resources on separate schedules. Dates in the SMA Consolidated Corrective Action Plan reflect Corrective Action Plans submitted to the Assistant Secretary of Defense for Health Affairs (TRICARE Management Activity) by Army Medical Command, Navy Bureau of Medicine and Surgery, and Air Force Medical Service for the three SMA Components: SMA-Army, SMA-Navy, and SMA-Air Force. Dates for SMA Consolidated milestones are based on when all three SMA Components are expected to complete corrective action.**

**FINANCIAL STATEMENT REPORTING ENTITY:  
SERVICE MEDICAL ACTIVITY**

**TAB F-2**

**UNCORRECTED MATERIAL WEAKNESSES  
STATUS OF CORRECTIVE ACTIONS**

**Uncorrected Material Weaknesses Identified During the Period**

None

**Uncorrected Material Weaknesses Identified During Prior Periods**

<b>Title and Description of Issue</b>	<u>Accounting and Reconciliation for Treasury Index (TI) 97-0130 Defense Health Program (DHP), TI 97-0150 Operations &amp; Maintenance Recovery Act, TI 97-500 Military Construction (MILCON), and TI 97-0501 MILCON Recovery Act at a Limit Level</u>
<b>Functional Category</b>	Financial Reporting – Fund Balance with Treasury (FBwT)
<b>Organization</b>	TRICARE Management Activity (TMA) for FSRE, Service Medical Activity (SMA) Executing Organizations: Army Medical Command (MEDCOM) Navy Bureau of Medicine and Surgery (BUMED) Air Force Medical Service (AFMS)
<b>Senior Official In Charge</b>	COL Jack Trowbridge, Medical Service, U.S. Army, Acting Chief Financial Officer, TRICARE Management Activity
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2008 <u>Original Targeted Correction Date:</u> 2 <sup>nd</sup> Qtr, FY 2010 <u>Targeted Correction Date in Last Year’s Report:</u> 4 <sup>th</sup> Qtr, FY 2010 <u>Current Target Date:</u> 4 <sup>th</sup> Qtr, FY 2017
<b>Reason for change in date</b>	Revised date reflects delay in Defense Finance and Accounting Service-Indianapolis (DFAS-IN) development of Detail Voucher Database for Other Defense Organizations.
<b>Validation Indicator</b>	Limit level disbursement and collection data will be reconciled to Treasury on a timely basis. Disbursement and collection data can be traced back to supporting documentation. Suspense balances will be cleared on timely basis and reported to the proper appropriation/program. Validation will be consistent with the segment assertion schedule for the SMA Consolidated Balance Sheet, per DoD Financial Improvement Business Rules.
<b>Results Indicator (Impact)</b>	Disbursements and collections are traced to supporting documentation, and suspense balances are reduced to an acceptable level.

<b>Source(s) identifying Weakness</b>	<p>SMA A-123 Risk Assessment, FY 2008 – FY 2010</p> <p>“Auditability Assessment of the Defense Intelligence Agency Fund Balance with Treasury and Appropriations Received,” (D-2008-003, October 16, 2007)</p> <p>“Adequacy of Procedures for Reconciling Fund Balance with Treasury at the National Geospatial-Intelligence Agency,” (D-2008-044, January 31, 2008)</p> <p>“Controls over Collections and Returned Checks at Defense Finance and Accounting Services, Indianapolis Operations,” (D-2009-057, February 27, 2009)</p> <p>“Defense Finance and Accounting Service Indianapolis Compilation of Other Defense Organizations General Fund Financial Data,” (D-2009-044, January 23, 2009)</p>																		
<b>Major Milestones to Include Progress to Date</b>	<p>A. <u>Completed Milestones:</u></p> <table border="0"> <thead> <tr> <th data-bbox="337 745 487 777"><u>Date:</u></th> <th data-bbox="673 745 820 777"><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="337 819 487 850"><b><u>SMA-Army</u></b></td> <td></td> </tr> <tr> <td data-bbox="337 892 487 924">Completed</td> <td data-bbox="673 892 1518 997">Reconciled disbursements and collections data in the Pile File in the Cash Management Report (CMR) at a limit level to the Treasury account for TI 97-0130 Defense Health Program.</td> </tr> <tr> <td data-bbox="337 1039 487 1071">Completed</td> <td data-bbox="673 1039 1518 1144">Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0500 MILCON.</td> </tr> <tr> <td data-bbox="337 1186 487 1218">Completed</td> <td data-bbox="673 1186 1518 1291">Reconciled the disbursements and collections data in the CMR U-File to the FBwT amounts reported in the Defense Departmental Reporting System (DDRS).</td> </tr> <tr> <td data-bbox="337 1333 487 1365">Completed</td> <td data-bbox="673 1333 1518 1396">Identified suspense amounts reported in the Other Defense Organization financial statements.</td> </tr> <tr> <td data-bbox="337 1438 487 1470">Completed</td> <td data-bbox="673 1438 1518 1543">Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0150 Operations &amp; Maintenance Recovery Act.</td> </tr> <tr> <td data-bbox="337 1585 487 1617">Completed</td> <td data-bbox="673 1585 1518 1690">Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0501 MILCON Recovery Act.</td> </tr> <tr> <td data-bbox="337 1732 487 1764">Completed</td> <td data-bbox="673 1732 1518 1795">Initiated General Fund Enterprise Business System (GFEBs) system implementation and planning for Waves 3 through 8.</td> </tr> </tbody> </table>	<u>Date:</u>	<u>Milestones:</u>	<b><u>SMA-Army</u></b>		Completed	Reconciled disbursements and collections data in the Pile File in the Cash Management Report (CMR) at a limit level to the Treasury account for TI 97-0130 Defense Health Program.	Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0500 MILCON.	Completed	Reconciled the disbursements and collections data in the CMR U-File to the FBwT amounts reported in the Defense Departmental Reporting System (DDRS).	Completed	Identified suspense amounts reported in the Other Defense Organization financial statements.	Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0150 Operations & Maintenance Recovery Act.	Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0501 MILCON Recovery Act.	Completed	Initiated General Fund Enterprise Business System (GFEBs) system implementation and planning for Waves 3 through 8.
<u>Date:</u>	<u>Milestones:</u>																		
<b><u>SMA-Army</u></b>																			
Completed	Reconciled disbursements and collections data in the Pile File in the Cash Management Report (CMR) at a limit level to the Treasury account for TI 97-0130 Defense Health Program.																		
Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0500 MILCON.																		
Completed	Reconciled the disbursements and collections data in the CMR U-File to the FBwT amounts reported in the Defense Departmental Reporting System (DDRS).																		
Completed	Identified suspense amounts reported in the Other Defense Organization financial statements.																		
Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0150 Operations & Maintenance Recovery Act.																		
Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0501 MILCON Recovery Act.																		
Completed	Initiated General Fund Enterprise Business System (GFEBs) system implementation and planning for Waves 3 through 8.																		

<b><u>SMA-Navy</u></b>	
Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI9 7-0130 Defense Health Program.
Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0500 MILCON.
Completed	Reconciled the disbursements and collections data in the CMR U-File to the FBwT amounts reported in DDRS.
Completed	Identified suspense amounts reported in the Other Defense Organization financial statements.
Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0150 Operations & Maintenance Recovery Act.
Completed	Reconciled disbursements and collections data in the Pile File in the CMR at a limit level to the Treasury account for TI 97-0501 MILCON Recovery Act.
<b><u>SMA-Air Force</u></b>	
Completed	The AFMS reconciled Appropriations Received via Funding Authorization Documents (FADs) that are electronically transmitted to the AFMS by the Assistant Secretary of Defense (Health Affairs) (ASD(HA))/TMA via the Program Budget and Accounting System (PBAS), to ascertain that amounts were accurately loaded/reflected in the Air Force accounting system. The reconciliation also included tracing FAD amounts issued via PBAS by the AFMS Chief Financial Officer (AF/SG8Y) to each Operating Agency Code (MAJCOM/installation) and Operating Budget Account Number (Medical Treatment Facility/funds holders at the installation level), to ascertain that amounts were accurately loaded/reflected in the Air Force accounting system. The AFMS ensured that all FADs (source documents) for open and expired appropriations were on hand.
Completed	The AFMS assessed material weaknesses for the Statement of Budgetary Resources material line items to ascertain those items are appropriately addressed in corrective action initiatives (such as the revised Air Force tri-annual review process and implementation of new program explained in the Accounts Payable (A/P) section below).



C. <u>Planned Milestone Beyond Fiscal Year 2011</u>	
<u>Date:</u>	<u>Milestones:</u>
<b><u>SMA-Army</u></b>	
4 <sup>th</sup> Qtr, FY 2012	Reconcile the SOT detail to the Disbursements Offices' Statement of Accountability.
4 <sup>th</sup> Qtr, FY 2012	Reconcile SOT detail to the Other Defense Organization (ODO) Detail Disbursements Database.
4 <sup>th</sup> Qtr, FY 2012	Evaluate data quality for the ODO Detail Disbursements Database.
4 <sup>th</sup> Qtr, FY 2012	Sustain audit readiness and validate, consistent with assertion schedule for SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA-Navy</u></b>	
4 <sup>th</sup> Qtr, FY 2013	Perform decomposition of transactional structure and system posting logic of General Ledger Account Codes (GLACs) contained within Standard Accounting and Reporting System—Field Level (STARS-FL).
4 <sup>th</sup> Qtr, FY 2013	Investigate the unposted disbursements and collections reported in the suspense limits and post amounts to proper limits.
4 <sup>th</sup> Qtr, FY 2013	Reconcile the SOT detail to the summary SOT data used to create the Pile File.
4 <sup>th</sup> Qtr, FY 2013	Reconcile Appropriation in PBAS to Treasury. Reconcile apportioned PBAS at a facility level to the Medical Treatment Facilities (MTFs) financial records for TI 97-0130, TI 97-0150, TI 97-0500, and TI 97-0501 funding.
4 <sup>th</sup> Qtr, FY 2013	Query and validate disbursements and collections in IDARRS or other applicable DFAS databases to Treasury Trial Balance reconciliation for all active non-cancelled TI 97-0130, TI 97-0150, TI 97-0500, and TI 97-0501 accounts for all TMA/SMA limits.
4 <sup>th</sup> Qtr, FY 2013	Query and validate disbursements and collections in IDARRS or other applicable DFAS databases to transactions in the field-level

	financial records contained within STARS-FL for all active non-cancelled TI 97-0130, TI 97-0150, TI 97-0500, and TI 97-0501 accounts for all TMA/SMA limits.
4 <sup>th</sup> Qtr, FY 2013	Research and define document population and universe based on initial query in IDARRS or other applicable DFAS databases for Navy feeder systems.
4 <sup>th</sup> Qtr, FY 2013	Perform control attribute testing of the defined universe to determine the sufficiency of retained documentation and the Components' document retention policy.
4 <sup>th</sup> Qtr, FY 2013	Reconcile the SOT detail to the Disbursements Offices' Statement of Accountability.
4 <sup>th</sup> Qtr, FY 2013	Reconcile SOT detail to the Other Defense Organization (ODO) Detail Disbursements Database.
4 <sup>th</sup> Qtr, FY 2013	Evaluate data quality for the ODO Detail Disbursements Database.
4 <sup>th</sup> Qtr, FY 2013	Sustain audit readiness and validate, consistent with assertion schedule for the SMA Consolidated Balance Sheet, per DoD Financial Improvement Business Rules.
<b><u>SMA-Air Force</u></b>	
On-going	The Air Force is currently fielding its new accounting system, Defense Enterprise Accounting and Management System (DEAMS). DEAMS is being developed to address current accounting deficiencies, facilitate audit trails, provide automated functionality to record A/P, revenue, expenses, advances and prepayments, and other financial reporting capabilities.
4 <sup>th</sup> Qtr, FY 2017	Sustain audit readiness and validate, consistent with assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA- Consolidated</u></b>	
4 <sup>th</sup> Qtr, FY 2017	Sustain audit readiness and validate, consistent with assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.

<b>Title and Description of Issue</b>	<u>Proper Accounting/Reporting for Medical Service Accounts (MSA), Third Party Collections (TPC), and Medical Affirmative Claims (MAC) on an “As Rendered” Basis</u>
<b>Functional Category</b>	Financial Reporting — Accounts Receivable
<b>Organization</b>	TMA for FSRE Service Medical Activity (SMA) Executing Organizations: Army Medical Command (MEDCOM) Navy Bureau of Medicine and Surgery (BUMED) Air Force Medical Service (AFMS)
<b>Senior Official In Charge</b>	COL Jack Trowbridge, Medical Service, U.S. Army, Acting Chief Financial Officer, TRICARE Management Activity
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2007 <u>Original Targeted Correction Date:</u> 4 <sup>th</sup> Qtr, FY 2009 <u>Targeted Correction Date in Last Year’s Report:</u> 4 <sup>th</sup> Qtr, FY 2012 <u>Current Target Date:</u> 4 <sup>th</sup> Qtr, FY 2017
<b>Reason for change in date</b>	Implementation date for Accounts Receivable Corrective Actions has been currently rescheduled due to issues related to system changes for TPC data output reports.
<b>Validation Indicator</b>	All medical receivables/billings will be recognized on an “as-rendered basis” for MSA, TPC, and MAC.
<b>Results Indicator (Impact)</b>	Medical Receivables are recorded and reported in accordance with FedGAAP.
<b>Source(s) identifying Weakness</b>	SMA A-123 Risk Assessment, FY 2007 “Military Treatment Facilities: Improvements Needed to Increase DoD Third-Party Collections,” (Government Accountability Office (GAO) 04-322R, Feb 2004) “Outpatient Third Party Collection Program,” (draft of a proposed report) Inspector General of the Department of Defense (IG DoD), April 13, 2007
<b>Major Milestones to Include Progress to Date</b>	A. <u>Completed Milestones:</u>  <u>Date:</u> <u>Milestones:</u>  <u>SMA-Army</u>  Completed On May 2, 2008, the Office of the Assistant Secretary of Defense (Health Affairs) issued the Defense Health Program Accounts Receivable Policy. The Service Components implemented the policy during 1 <sup>st</sup> Qtr, FY 2009.

Completed	SMA Executing Organizations performed a decomposition of the Treasury Report on Receivables to determine what AR data are being reported in DDRS on a quarterly basis.
Completed	Issued policy memorandum implementing OASD(HA) guidance. Identified databases that support outstanding medical bills for TPOC, MSA, and MAC.
Completed	SMA Executing Organizations gathered billing data to record the bills in the core accounting systems and the Treasury Report on Receivables (TROR).
Completed	Issued revisions to policy for clarification on recording and reporting of medical public A/R.
Completed	The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) addressed a preliminary policy for the Allowance of Doubtful Accounts.
<b><u>SMA-Navy</u></b>	
Completed	On May 2, 2008, the Office of the Assistant Secretary of Defense (Health Affairs) issued the Defense Health Program Accounts Receivable Policy. The Service Components implemented the policy during 1 <sup>st</sup> Qtr, FY 2009.
Completed	SMA Executing Organizations performed a decomposition of the Treasury Report on Receivables to determine what A/R data are being reported in DDRS on a quarterly basis.
Completed	Based on successfully implemented systems change requests in TPC and other systems, SMA Executing Organizations gathered billing data from MSA, TPC, and MAC to determine if the outstanding bills were either recorded in the core accounting systems or were reported on the Monthly Report on Debt (MDR)/Treasury Report on Receivables (TROR).
Completed	SMA-Navy developed an Accounts Receivable Reporting Tool that allows the Command to record A/R when services are rendered. The Tool has been tested and is currently in the implementation and training phase at test sites within Navy Medicine.
<b><u>SMA-Air Force</u></b>	
Completed	Performed a decomposition of the Treasury Report on Receivables to determine what A/R data are being reported in

		<p>DDRS. Collaborated extensively with DFAS-Colorado, DFAS-Indiana (DFAS-IN), and DFAS-Limestone to obtain all Forms 7184, <i>Selected Balances for Accrual Reporting</i>, that impact financial data. During this period, it was found that not all Forms 7184 were being provided, which impedes the ability to reconcile all of the A/R.</p>
	Completed	<p>Collaborated with the Air Force Audit Agency (AFAA) and the Defense Debt Collection Management Office (DCMO) at DFAS-IN to reconcile approximately \$30M in debt owed to the AFMS, which is pursued and reported on our financial statements by DCMO. For the first time ever, DCMO was able to extract the medical debt records for the AFMS to validate that the debt actually belongs to the AFMS. Preliminary findings indicate that some of the debt reported by DCMO on AFMS financial statements is attributable to SMA–Army and, thus, validation efforts are being continued to achieve resolution.</p>
	Completed	<p>Continued efforts to review and cleanse A/R data with emphasis on accounts that are older than 180 days, derived from the Composite Health Care System (for inpatient billing) and the Third Party Outpatient Collections System (for outpatient billing). A part-time systems programmer full-time equivalent (FTE) was gained to assist with ongoing refining of system queries and validation of data.</p>
	Completed	<p>Partnered with the Air Force Legal Operations Agency (AFLOA) to review claims that are older than 270 days in order to determine whether legal action may be pursued against third party insurance payers. Policy is being drafted for AFMS Medical Treatment Facilities (MTF) that will direct that claims in those categories be forwarded for review and disposition by attorneys. Any claims for which legal action will be pursued will be properly classified as such within AFMS financial statements.</p>
	Completed	<p>Collaborated with the Air Force’s Financial Management systems office to acquire or develop a medical billing and A/R module within the Air Force DEAMS. In March 2010, AFMS representatives met with the DEAMS Program Management Office (PMO) to refine medical A/R requirements and to view a demonstration of a potential A/R systems solution. This endeavor will continue until further notice.</p>
	Completed	<p>Conducted a “pilot” between one of its MTFs and one Third Party Insurance company that enables the insurance company to remit payment to the AFMS electronically via CASHLINK, a</p>

	<p>U.S. Treasury-owned program. CA\$HLINK minimizes manual processing of collections and creates an electronic audit trail for the collection. We have also implemented Pay.gov (the next generation of CA\$HLINK) at select MTFs and are moving toward implementing it at all AFMS MTFs worldwide. We are also collaborating with the U.S. Treasury to implement both Paper Check Conversion–Over the Counter (PCC-OTC), which will enable MTFs to deposit checks received directly from their facility in lieu of trips to the bank and Treasury General Account Deposit Reporting Network (TGANet), which enables an electronic audit trail for the check deposits. In addition to the summary deposit information currently required on the paper SF 215, TGAnet collects sub-total accounting information that can feed Air Force accounting systems as well as the Treasury's central accounting system. The goal is to facilitate the COVER assertions by automated electronic means.</p> <p>Completed</p> <p>Engaged in trending medical collections stemming from healthcare services rendered in order to arrive at an allowance for doubtful accounts. A comparative analysis of the two main and distinct sources of collections (insurance companies and self-pay patients) will be conducted to determine the relevant allowance for each source. This process will enable the AFMS to use reasonably accurate allowance percentages.</p>														
	<p><b>B. <u>Planned Milestones for FY 2011:</u></b></p> <table border="0"> <thead> <tr> <th data-bbox="332 1144 649 1186"><u>Date:</u></th> <th data-bbox="649 1144 1537 1186"><u>Milestones:</u></th> </tr> </thead> <tbody> <tr> <td colspan="2" data-bbox="332 1218 1537 1260"><b><u>SMA-Army</u></b></td> </tr> <tr> <td data-bbox="332 1291 649 1333">4<sup>th</sup> Qtr, FY 2011</td> <td data-bbox="649 1291 1537 1396">Policies and procedures will be in place and operating for compensating controls, pending full deployment of GFEBs. Future actions include periodic testing and evaluation.</td> </tr> <tr> <td colspan="2" data-bbox="332 1438 1537 1480"><b><u>SMA-Navy</u></b></td> </tr> <tr> <td data-bbox="332 1512 649 1554">4<sup>th</sup> Qtr, FY 2011</td> <td data-bbox="649 1512 1537 1585">TMA will evaluate the posting of A/R into the core general ledgers of STARS-FL.</td> </tr> <tr> <td data-bbox="332 1617 649 1659">4<sup>th</sup> Qtr, FY 2011</td> <td data-bbox="649 1617 1537 1732">SMA Executing Organizations will implement FedGAAP compliant subsidiary ledgers that support outstanding medical bills for TPC, MSA, and MAC.</td> </tr> <tr> <td data-bbox="332 1764 649 1806">4<sup>th</sup> Qtr, FY 2011</td> <td data-bbox="649 1764 1537 1837">TMA will provide a policy for SMA Executing Organizations to estimate the Allowance for Doubtful Accounts.</td> </tr> </tbody> </table>	<u>Date:</u>	<u>Milestones:</u>	<b><u>SMA-Army</u></b>		4 <sup>th</sup> Qtr, FY 2011	Policies and procedures will be in place and operating for compensating controls, pending full deployment of GFEBs. Future actions include periodic testing and evaluation.	<b><u>SMA-Navy</u></b>		4 <sup>th</sup> Qtr, FY 2011	TMA will evaluate the posting of A/R into the core general ledgers of STARS-FL.	4 <sup>th</sup> Qtr, FY 2011	SMA Executing Organizations will implement FedGAAP compliant subsidiary ledgers that support outstanding medical bills for TPC, MSA, and MAC.	4 <sup>th</sup> Qtr, FY 2011	TMA will provide a policy for SMA Executing Organizations to estimate the Allowance for Doubtful Accounts.
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	<p>4<sup>th</sup> Qtr, FY 2011</p> <p>4<sup>th</sup> Qtr, FY 2011</p> <p>4<sup>th</sup> Qtr, FY 2011</p> <p><b><u>SMA-Air Force</u></b></p> <p>4<sup>th</sup> Qtr, FY 2011</p>	<p>SMA-Navy will assess the materiality of MSA/MAC to apply proposed corrective actions against those areas.</p> <p>SMA-Navy will continue sustainment of the TPC A/R Tool.</p> <p>Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.</p> <p>All efforts in FY 2011 will entail ongoing discovery and corrective actions that center on the five financial assertions (COVER).</p> <p>Continue performing decomposition of the Treasury Report on Receivables to determine what A/R data are being reported in DDRS.</p> <p>Continue validation efforts of debt report by DCMO.</p> <p>Issue AFMS policies/revise AFMS regulations to clarify medical billing procedures.</p> <p>Continue to review historical data to arrive at a reasonable Allowance for Doubtful Accounts.</p> <p>Continue efforts to review and cleanse A/R data with emphasis on accounts that are older than 180 days.</p> <p>Continue efforts to implement collections programs (e.g., Pay.gov, PCC-OTC, TGA.net, etc.) to streamline collection of payments, minimize manual processes, and establish automated audit trails.</p>
	<p>C. <u>Planned Milestone Beyond FY 2011:</u></p> <p><u>Date:</u>                      <u>Milestones:</u></p> <p><b><u>SMA-Army</u></b></p> <p>4<sup>th</sup> Qtr, FY 2012</p> <p>4<sup>th</sup> Qtr, FY 2012</p>	<p>Migrate and resolve reconciliations via GFEBs.</p> <p>Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.</p>

	<p><b><u>SMA-Navy</u></b> N/A</p> <p><b><u>SMA-Air Force</u></b></p> <p>On-going</p> <p>4<sup>th</sup> Qtr, FY 2017</p> <p><b><u>SMA- Consolidated</u></b></p> <p>4<sup>th</sup> Qtr, FY 2017</p>
	<p>The Air Force is currently fielding its new accounting system, DEAMS. DEAMS is being developed to address current accounting deficiencies, facilitate audit trails, provide automated functionality to record A/P, revenue, expenses, advances and prepayments, and other financial reporting capabilities. DEAMS is also slated to address medical receivables within a distinct medical billing and A/R module.</p> <p>Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.</p> <p>Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules:</p>



<u>SMA-Air Force</u>	
Completed	In FY 2010, mandated use of Business Sales Code (BSC) on all Reimbursable MIPRs to facilitate Trading Partner reconciliations. The BSC associates the intergovernmental Trading Partner (performing activity) with the MIPR within the Air Force's General Accounting and Finance System (GAFS). Use of the BSC serves to identify the agency the purchases are being made from (the A/P side) to match against the agency selling the items (the A/R side). This procedure will help identify business partners and reduce the need for unsupported intragovernmental trading partner eliminations. Implementation of the BSC is an interim solution until the Air Force's new ERP is able to completely absorb the Air Force/DHP General Funds execution.
Completed	Completed a re-write of the Tri-Annual Review (TAR) process in March, 2010, and implemented the Financial Management Suite (FMSuite) system—an Air Force financial management dashboard. FMSuite provides web-enabled visibility into open but dormant financial documents and allows for Open Document Analysis (ODA). The AFMS TAR is now conducted via FMSuite. FMSuite provides financial managers at all levels with continuity when employee turnover occurs—a significant capability that enables insight to obligations in order to efficiently manage them throughout their lifecycle. The program improves the ability to share information, allows users to electronically store information affecting their financial documents (including uploading copies of relevant supporting documents that are viewable by all users), and among other capabilities, can generate deobligation correspondence. FMSuite provides significantly improved visibility into the transactions posted in GAFS.
Completed	Completed audit of segment of A/P: Requested audit of contract labor A/P to assess the financial reporting of medical contract labor A/P as part of the efforts to achieve auditable financial statements. Contract labor comprises a substantial portion of A/P. Received AFAA Results of Audit report, <i>Service Medical Activity – Air Force Contract Labor Accounts Payable (Project F2009-FB3000-0089.000)</i> . The AFAA reviewed 410 contract labor A/P transactions and concluded that 3 of 4 areas reviewed require corrective actions.
Completed	The AFMS personnel maintained sufficient documentary support for contract labor A/P. Proper documentary support allows AFMS personnel to substantiate the accuracy, completeness, and timeliness of data submitted to the DFAS for financial statement reporting. STATUS: CLOSED, sustainment.



3 <sup>rd</sup> Qtr, FY 2012	Account Payable has systemic weaknesses across the three Line Services. SMA-Army will follow the lead of DOD with respect to recommended changes in systems and financial policy prescribed by the Line Service and support DFAS functions.
1 <sup>st</sup> Qtr, FY 2013	Sustain audit readiness and validate consistent with assertion schedule for SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA-Navy</u></b>	
4 <sup>th</sup> Qtr, FY 2015	Sustain audit readiness and validate consistent with assertion schedule for SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA-Air Force</u></b>	
On-going	The Air Force is currently fielding its new accounting system, DEAMS. DEAMS is being developed to address current accounting deficiencies, facilitate audit trails, provide automated functionality to record A/P, revenue, expenses, advances and prepayments, and other financial reporting capabilities.
4 <sup>th</sup> Qtr, FY 2017	Sustain audit readiness and validate consistent with assertion schedule for SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA- Consolidated</u></b>	
4 <sup>th</sup> Qtr, FY 2017	Sustain audit readiness and validate consistent with assertion schedule for SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules:.

**Legend:**

- \* Many of the A/P systems and related disbursements systems are owned by either the Service Line or DFAS. SMA executing components have no command and control over future changes made in these systems. SMA Executing Organizations will follow the lead and the timeline established by the Service Line components.

<b>Title and Description of Issue</b>	<u>Proper Financial Reporting Accounting for all Health Care Costs and the Reconciliation to Medical Expense and Performance Reporting System\Expense Assignment System IV (MEPRS-EAS IV) Data.</u>
<b>Functional Category</b>	Financial Reporting — Health Care Liabilities
<b>Organization</b>	TMA for FSRE Service Medical Activity (SMA) Executing Organizations: Army Medical Command (MEDCOM) Navy Bureau of Medicine and Surgery (BUMED) Air Force Medical Service (AFMS)
<b>Senior Official In Charge</b>	COL Jack Trowbridge, MS, USA Acting Chief Financial Officer, TRICARE Management Activity
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2006  <u>Original Targeted Correction Date:</u> Line Service Timeline *  <u>Targeted Correction Date in Last Year's Report:</u> 4th Qtr, FY 2015 *  <u>Current Target Date:</u> 4 <sup>th</sup> Qtr, FY 2017 *
<b>Reason for change in date</b>	Implementation schedule for Parent Service next-generation financial system ERP solutions.
<b>Validation Indicator</b>	All eligible program costs will be reported accurately in a timely fashion in accordance with MEPRS guidelines.
<b>Results Indicator (Impact)</b>	All eligible MEPRS costs will be reconciled to the respective core financial systems.
<b>Source(s) Identifying Weakness</b>	SMA A-123 Risk Assessments, External Audit of Medicare Eligible Retiree Health Care Fund (MERHCF) for FY 2009 and proceeding years.
<b>Major Milestones to Include Progress to Date</b>	A. <u>Completed Milestones:</u> N/A  <u>Date:</u> <u>Milestones:</u>  <b><u>SMA-Army</u></b>  Completed                      GFEBs fielded to first SMA-Army location in January 2010.  Completed                      Wave 2 GFEBs field deployment initiated in April, 2010.  Completed                      GFEBs system implementation and planning for Waves 3 through 8 scheduled for 4 <sup>th</sup> Qtr, FY 2010. Additional tasks are enumerated below and will continue on a long term solution path.  <b><u>SMA-Navy:</u></b> N/A

	<p><b><u>SMA-Air Force</u></b></p> <p>Completed</p> <p>Requested audit of actuarial liability to determine whether Air Force personnel maintained sufficient documentary support for data entered into the Military Personnel Data System. Proper documentary support demonstrates the accuracy, completeness, and timeliness of data submitted to the Defense Manpower Data Center for eventual use in the actuarial liability calculation. Received AFAA Results of Audit report, <i>Service Medical Activity – Air Force Actuarial Liability: Military Personnel Demographic Data (Project F2009-FB3000-0088.000)</i>. The AFAA audit team identified no discrepancies requiring corrective action.</p>
	<p>B. <u>Planned Milestones for Fiscal Year 2011:</u></p> <p><u>Date:</u>                      <u>Milestones:</u></p> <p><b><u>SMA-Army:</u></b> N/A</p> <p><b><u>SMA-Navy</u></b></p> <p>4<sup>th</sup> Qtr, FY 2011                      The Navy continues implementation of information technology (IT) solutions for the core financial systems (i.e., Navy ERP).</p> <p><b><u>SMA-Air Force</u></b></p> <p>4<sup>th</sup> Qtr, FY 2011                      Identify other variables that comprise the healthcare actuarial liability to review and validate data and develop corrective action plans as needed.</p>
	<p>C. <u>Planned Milestones Beyond FY 2011:</u></p> <p><u>Date:</u>                      <u>Milestones:</u></p> <p><b><u>SMA-Army</u></b></p> <p>2<sup>nd</sup> Qtr, FY 2012                      Line Service (Army) for MEDCOM completes implementation of IT solutions for the core financial system GFEBS.</p> <p>2<sup>nd</sup> Qtr, FY 2012                      MEDCOM mapping of medical systems requirements into the Line Services IT solutions.</p> <p>2<sup>nd</sup> Qtr, FY 2012                      MEDCOM monitors data integrity/data conversion issues.</p> <p>2<sup>nd</sup> Qtr, FY 2012                      MEDCOM reconciliation of MEPRS EAS IV data.</p>

2 <sup>nd</sup> Qtr, FY 2012	Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA-Navy</u></b>	
4 <sup>th</sup> Qtr, FY 2014	SMA-Navy mapping of medical systems requirements into the Line Navy ERP IT solution.
4 <sup>th</sup> Qtr, FY 2014	SMA-Navy monitors data integrity/data conversion issues.
4 <sup>th</sup> Qtr, FY 2014	SMA-Navy reconciliation of MEPRS EAS IV data.
4 <sup>th</sup> Qtr, FY 2015	Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA-Air Force</u></b>	
On-going	The Air Force is currently fielding its new accounting system, DEAMS. DEAMS is being developed to address current accounting deficiencies, facilitate audit trails, provide automated functionality to record A/P, revenue, expenses, advances and prepayments, and other financial reporting capabilities.
4 <sup>th</sup> Qtr, FY 2017	Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.
<b><u>SMA- Consolidated</u></b>	
4 <sup>th</sup> Qtr, FY 2017	Sustain audit readiness and validate, consistent with the assertion schedule for the SMA Consolidated Balance Sheet and Statement of Budgetary Resources, per DoD Financial Improvement Business Rules.

- \* Each of the three Line Services (Army, Navy, and Air Force) are currently committed to their core financial system solutions (i.e., GFEBS, Navy ERP and DEAMS). The Line Services provide timelines for these solutions, consistent with the DoD targeted correction date for the DoD Financial Management Systems and the Processes Systemic Weakness.



**FINANCIAL STATEMENT REPORTING ENTITY:  
SERVICE MEDICAL ACTIVITY**

**TAB F-3**

**CORRECTED MATERIAL WEAKNESSES**

**Corrected Material Weaknesses Identified During All Periods**

None



**TAB G**  
**MILITARY RETIREMENT TRUST FUND**  
**(FINANCIAL STATEMENT REPORTING ENTITY)**





UNDER SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-4000

JUL -9 2010

PERSONNEL AND  
READINESS

MEMORANDUM FOR DIRECTOR OF ADMINISTRATION AND MANAGEMENT

SUBJECT: Annual Statement of Assurance as Required Under the Federal Managers' Financial Integrity Act

As Under Secretary of Defense for Personnel and Readiness, I recognize my responsibility for establishing and maintaining effective internal controls in the Office of the Under Secretary of Defense for Personnel and Readiness (OUSD (P&R)) to meet the objectives of the Federal Financial Managers' Integrity Act (FMFIA). I am able to provide a qualified statement of reasonable assurance that the OUSD (P&R) internal controls meet the objectives of the FMFIA overall programs, administrative and operational, with the exception of material weaknesses described in TAB B. TAB B-1 is the two material weaknesses that still require corrective actions and TAB B-2 contains individual narratives for each uncorrected weakness listed in TAB B-1. These material weaknesses were found in the internal controls 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 controls were operating effectively and no other material weaknesses were found in the design or operations of the internal controls.

TAB A provides additional information on how the P&R Components within the OUSD (P&R) conducted the assessment of internal controls for the FMFIA overall process, in accordance with Circular No. A-123, "Management's Responsibility for Internal Control."

TAB C includes all signed Memorandums of Assurance from the P&R Assistant Secretaries of Defense and Deputy Under Secretaries of Defense.

Certified financial statements as of April 20, 2010 for the Military Retirement Fund are attached to this memorandum at TAB D. The Department of Defense Office of the Actuary reviewed the actuarial liability portion of the financial statements and notes for the Military Retirement Fund. The actuarial liability is comprised of the military retirement pension portion and accounts payable.

TAB E includes the DoD Education Activity (DoDEA) Statement of Assurance. DoDEA's managers were responsible and held accountable for implementation and integration of appropriate management controls through a well-defined reporting process and the judicious use of performance standards. Implementation of a management control process involved a number of steps and phases which assisted managers in fulfilling their responsibilities and providing a reasonable assurance of compliance with

the internal accounting and administrative control standards prescribed by the Comptroller General.

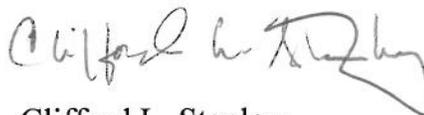
The DoDEA Statement of Assurance includes detailed reports from each of the DoDEA functional areas. These reports highlighted reasonable assurance of internal controls and an overall decrease in levels of risk assigned to each assessable unit.

TAB F includes the Defense Human Resources Activity (DHRA) Statement of Assurance. The basis of determining the reasonable assurance status of DHRA was based on the commitment of the leadership and the proactive efforts of DHRA managers and employees to integrate management controls as part of their daily responsibilities. DHRA managers develop and implement policies, procedures, and processes that are continuously monitored throughout the year to ensure maximum accountability and effectiveness. DHRA management periodically conducts self-assessments of operations and programs to ensure compliance with the President's Management Agenda and Strategic Plans affecting Personnel and Readiness.

TAB G includes the TRICARE Management Activity (TMA) Statement of Assurance. TMA has institutionalized an internal controls program by creating and maintaining a TMA Managers Internal Controls Program (MICP) Workgroup; developing a robust internal controls education program; and creating and maintaining a MICP Knowledge Center. TMA also made several improvements to their MIC program throughout FY 2010 including: the development and implementation of automated Assessable Unit Manager Training; creation of a CIO MIC policy; and implementation of tri-annual reviews.

TAB G also contains the Uniformed Services University of the Health Sciences (USUHS) Statement of Assurance. Over the past year, USUHS was able to increase MIC awareness throughout the component. This increased awareness led to several additional self-imposed controls and internal reviews as well as heightened situational awareness regarding changes in policy. USUHS is quantitatively tracking these steps to determine overall effectiveness.

TMA has additional MIC responsibilities under the Internal Control Over Financial Reporting (ICOFS) for three Financial Statement Reporting Entities (FSREs): Medicare-Eligible Retiree Health Care Fund (MERHCF), Service Medical Activity (SMA), and TRICARE Management Activity (TMA). The ICOFS report will be submitted under separate cover due to testing of applicable internal controls, consistent with Comptroller ICOFS guidance.



Clifford L. Stanley

DEPARTMENT OF DEFENSE  
OFFICE OF THE ACTUARY



April 20, 2010

REPLY TO DOD OFFICE OF THE ACTUARY

o 4040 N. Fairfax Drive, Suite 308  
Arlington, VA 22203

MEMORANDUM FOR RECORD

SUBJECT: Confirmation of Actuarial Liability Information in Military Retirement Fund  
Fiscal Year 2010 Second Quarter Financial Statements

1. This memo is in connection with the completion of the Military Retirement Fund's financial statements and note schedules as of March 31, 2010.
2. We have reviewed the actuarial liability portion of the financial statements and found no material errors or omissions. We concur that the information that the Office of the Actuary submitted to the Director of Accounting Services is accurately reflected in the financial statements and note schedules.
3. As of the Fiscal Year 2010 Second Quarter Financial Statements, the Office of the Actuary is no longer required to submit confirmation of the actuarial liability to the Director of Accounting Services and the OSD-Comptroller offices. The confirmation will still be completed quarterly and retained as an MFR, but solely for audit support if the need arises.

A handwritten signature in black ink, appearing to read "Joel Sitrin".

Joel Sitrin, ASA, MAAA \*  
Chief Actuary

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\* Meets the qualification standards of the American Academy of Actuaries to render the actuarial opinion referenced above.

DEPARTMENT OF DEFENSE  
OFFICE OF THE ACTUARY



August 13, 2010

REPLY TO DOD OFFICE OF THE ACTUARY

o 4040 N. Fairfax Drive, Suite 308  
Arlington, VA 22203

MEMORANDUM FOR RECORD

SUBJECT: Confirmation of Actuarial Liability Information in Military Retirement Fund  
Fiscal Year 2010 Third Quarter Financial Statements

1. This memo is in connection with the completion of the Military Retirement Fund's financial statements and note schedules as of June 30, 2010.
2. We have reviewed the actuarial liability portion of the financial statements and found no material errors or omissions. We concur that the information that the Office of the Actuary submitted to the Director of Accounting Services is accurately reflected in the financial statements and note schedules.
3. As of the Fiscal Year 2010 Second Quarter Financial Statements, the Office of the Actuary is no longer required to submit confirmation of the actuarial liability to the Director of Accounting Services and the OSD-Comptroller offices. The confirmation will still be completed quarterly and retained as an MFR, but solely for audit support if the need arises.

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Joel Sitrin, ASA, MAAA \*  
Chief Actuary

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\* Meets the qualification standards of the American Academy of Actuaries to render the actuarial opinion referenced above.

**TAB H**  
**CHEMICAL AND BIOLOGICAL DEFENSE PROGRAM**  
**(FINANCIAL STATEMENT REPORTING ENTITY)**





ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

JUL 19 2010

MEMORANDUM FOR DIRECTOR, ADMINISTRATION AND MANAGEMENT

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

As the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)), I recognize that my principal staff assistants and I are responsible for establishing and maintaining effective internal controls to meet the objectives of the FMFIA. I have reviewed my mission and administrative controls.

The document at TAB A provides information on how my office conducted the assessment of internal controls for the FMFIA process in accordance with 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 OUSD(AT&L) internal controls during the past year.

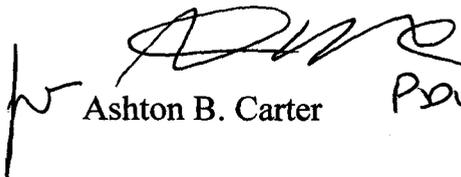
OUSD(AT&L) identified one new material weakness for Review of Defense Technical Information Center Internal Controls this year; this weakness is listed in TAB B-1 and described in TAB B-2. One systemic weakness identified in prior periods for Internal Controls over Contingency Contracting is uncorrected. This systemic weakness, first reported by OUSD(Comptroller) in the FY 2009 Agency Financial Report, is listed in TAB C-1 and described in TAB C-2. The systemic weakness for DoD Services Contracting has been corrected, as described in TAB C-3. Other than the uncorrected material and systemic weaknesses, the internal controls were operating effectively and no other weaknesses were found in the design or operation of the internal management controls. Therefore, I am able to provide a qualified statement of reasonable assurance that the OUSD(AT&L) internal controls meet the objectives of FMFIA with the exception of the one uncorrected material weakness and the one uncorrected systemic weakness.

In August 2010, I will complete an assessment of the effectiveness of the Chemical and Biological Defense Program's (CBDP) internal control over financial reporting for the following implementation areas: Fund Balance with Treasury (FBWT), Compilation, Appropriations Received, Military Equipment, General Property, Other Assets, Accounts Receivable, Accounts Payable, and Other Liabilities. The assessment of the implementation areas is being 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 (SAT), which is maintaining complete records of the assessment documentation.

Based on the evaluation completed to date, I have previously identified and am monitoring two ongoing weaknesses: FBWT Incomplete General Ledger Accounts and FBWT Forced Accounting Entries. The identified material weaknesses are procedural and have not affected the prudent oversight of the finances of the CBDP. Currently, I am able to provide a qualified statement of reasonable assurance that the CBDP's internal controls over financial reporting implementation areas as of June 30, 2010, are operating effectively with the exception of two identified weaknesses, which are listed at TAB D-1 and described at TAB D-2.

My points of contact are Steve Tkac, at 703-699-0153, or Steve.Tkac@osd.mil, and Bob Leach, at 703-699-0167, or Bob.Leach@osd.mil.

  
Ashton B. Carter PDVSD(ATHL)

Attachments:  
As stated

**FINANCIAL STATEMENT REPORTING ENTITY:  
CHEMICAL AND BIOLOGICAL DEFENSE PROGRAM**

**TAB H-1**

**LISTS OF ALL UNCORRECTED AND CORRECTED  
MATERIAL WEAKNESSES**

**Uncorrected Material Weaknesses Identified During the Period**

None

**Uncorrected Material Weaknesses Identified During Prior Periods**

<b>Functional Category</b>	Financial Reporting, Fund Balance With Treasury (FBWT)
<b>Organization</b>	OUSD(AT&L), NCB
<b>Title</b>	Fund Balance With Treasury (FBWT), Incomplete General Ledger Accounts
<b>Year First Reported</b>	FY 2008
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2010
<b>Per This Annual Statement</b>	3 <sup>rd</sup> Qtr, FY 2011
<b>Page #</b>	Tab H-2, Page 1

<b>Functional Category</b>	Financial Reporting, Fund Balance With Treasury (FBWT)
<b>Organization</b>	OUSD(AT&L)NCB
<b>Title</b>	Fund Balance With Treasury (FBWT), Forced Accounting Entries
<b>Year First Reported</b>	FY 2008
<b>Per Last Annual Statement</b>	4 <sup>th</sup> Qtr, FY 2010
<b>Per This Annual Statement</b>	3 <sup>rd</sup> Qtr, FY 2011
<b>Page #</b>	Tab H-2, Page 3

**Corrected Material Weaknesses Identified During All Periods**

None



**FINANCIAL STATEMENT REPORTING ENTITY:  
CHEMICAL AND BIOLOGICAL DEFENSE PROGRAM**

**TAB H-2**

**UNCORRECTED MATERIAL WEAKNESSES  
STATUS OF CORRECTIVE ACTIONS**

**Uncorrected Material Weaknesses Identified During the Period**

None

**Uncorrected Material Weaknesses Identified During Prior Periods**

<b>Title and Description of Issue</b>	<u>Fund Balance With Treasury (FBWT), Incomplete General Ledger Accounts.</u> Significant elements of the financial statements are developed from sources other than the general ledger.				
<b>Functional Category</b>	Financial Reporting, FBWT				
<b>Organization</b>	OUSD(AT&L), ATSD(NCB)/DATSD(CBD&CD)				
<b>Senior Official In Charge</b>	Hon. Andrew C. Weber, Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs (ATSD(NCB))				
<b>Pace of Corrective Actions</b>	<u>Year Identified:</u> FY 2008 <u>Original Targeted Correction Date:</u> 4 <sup>th</sup> Qtr, FY 2010 <u>Targeted Correction Date in Last Year's Report:</u> 4 <sup>th</sup> Qtr, FY 2010 <u>Current Target Date:</u> 3 <sup>rd</sup> Qtr, FY 2011				
<b>Reason for Change in Date</b>	Required reconciliation database delayed due to legacy system data imports. All transaction data had not yet been populated in the Indianapolis Detailed Audit Retrieval and Research System (IDARRS).				
<b>Validation Indicator</b>	Defense Finance and Accounting Service (DFAS), in coordination with the Chemical and Biological Defense Program (CBDP), is developing a database with all transactions at the detail level. CBDP will perform monthly reconciliations when detail transactions are available in current DoD financial systems.				
<b>Results Indicator (Impact)</b>	Reduced unsupported accounting entries for FBWT.				
<b>Source(s) Identifying Weakness</b>	Ongoing audit of FY 2007 financial statements in coordination with CBDP and DFAS.				
<b>Major Milestones to Include Progress to Date</b>	A. <u>Completed Milestones:</u>  <table border="0"> <tr> <td><u>Date</u></td> <td><u>Milestone</u></td> </tr> <tr> <td>Completed</td> <td>Finalized database at transaction level.</td> </tr> </table>	<u>Date</u>	<u>Milestone</u>	Completed	Finalized database at transaction level.
<u>Date</u>	<u>Milestone</u>				
Completed	Finalized database at transaction level.				

	Completed	Gained access to IDARRS at DFAS-IN.
	B. <u>Planned Milestones for 4<sup>th</sup> Qtr, FY 2010 and FY 2011:</u>	
	<u>Date</u>	<u>Milestone</u>
	4 <sup>th</sup> Qtr, FY 2010	Build reconciliations for all CDBP limits.
	4 <sup>th</sup> Qtr, FY 2010	Train staff and test reconciliation procedures.
	3 <sup>rd</sup> Qtr, FY 2011	Provide complete reconciliations monthly.
	3 <sup>rd</sup> Qtr, FY 2010	Issue reconciliation procedures; add staffing.
	3 <sup>rd</sup> Qtr, FY 2011	Validate that FBWT variance is less than 3%.
	C. <u>Planned Milestones Beyond FY 2011:</u> N/A	

<b>Title and Description of Issue</b>	<u>Fund Balance With Treasury (FBWT), Forced Accounting Entries</u> . Significant elements of the financial statements are developed from sources other than the general ledger.										
<b>Functional Category</b>	Financial Reporting, FBWT										
<b>Organization</b>	OUSD(AT&L), ATSD(NCB)/DATSD(CBD&CD)										
<b>Senior Official In Charge</b>	Hon. Andrew C. Weber, Assistant to the Secretary of Defense for Nuclear and Chemical and Biological Defense Programs (ATSD(NCB))										
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	3 <sup>rd</sup> Qtr, FY 2011      Validate that FBWT variance is less than 3%.
	C. <u>Planned Milestones Beyond FY 2011</u> : N/A

**FINANCIAL STATEMENT REPORTING ENTITY:  
CHEMICAL AND BIOLOGICAL DEFENSE PROGRAM**

**TAB H-3**

**CORRECTED MATERIAL WEAKNESSES**

**Corrected Material Weaknesses Identified During All Periods**

**None**



Office of the Secretary of Defense and DoD Field Activities

