DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
FINANCIAL MANAGEMENT AND COMPTROLLER

WASHINGTON DC 20310-0109

REPLY TO ATTENTION OF

FEB 10 2004

MEMORANDUM FOR SEE DISTRIBUTION

S: 13 August 2004

SUBJECT: FY 2004 Annual Statement of Assurance on Management Controls

This memorandum provides guidance for the preparation of your FY 2004 Statement of Assurance (separate guidance will be issued for HQDA staff agencies).

The Federal Managers' Financial Integrity Act requires that the Secretary of Defense submit an annual Statement of Assurance to the President and Congress. Annual statements from the heads of DOD Components support this statement. The Secretary of the Army's statement is supported, in turn, by annual statements from the MACOM Commanders and HQDA Principals. These annual statements are personal certifications as to the effectiveness of management controls.

Assertions that management controls provide reasonable assurance continue to receive attention from the Comptroller General, the Office of Management and Budget and the Under Secretary of Defense (Comptroller). Your statement should reflect accurately the status of management controls in your organization. Where appropriate, you should consider qualifying your statement by indicating those areas where you do not have reasonable assurance.

Your annual statement should include a cover memorandum, signed by you or your principal deputy, providing your assessment as to whether there is reasonable assurance that your management controls are in place and operating effectively. The balance of your annual statement provides support for your assertion and information on the material weaknesses you report. Detailed guidance on the preparation of your annual statement is enclosed.

The U.S. Army Audit Agency (USAAA) conducts an annual review in selected MACOMs and HQDA staff agencies to assess (1) efforts to execute the management control process and (2) the feeder statements that support the Secretary's annual statement (e.g., the rigor by which they are developed and the degree to which they represent an accurate assessment of management controls and a full disclosure of material weaknesses). This year, to minimize the burden on reporting organizations, on-site reviews of program execution will be conducted earlier (before the development of feeder statements) and on-site reviews of feeder statements will be conducted only as needed.

Due to recent realignments, certain functions / operations will be tasked and submitted differently in this year's annual statement cycle:

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- Management controls in U.S. Army South will be addressed in the statement from U.S. Army Forces Command.

Please note: To meet the 1 October deadline for the Army FY 2004 Statement of Assurance, we <u>must</u> have your statement by 13 August 2004; we cannot grant extensions. Last year, several feeder statements were received late, complicating efforts to develop the Army statement in a timely manner. Request you plan realistically and take whatever actions are necessary to ensure your statement is submitted on time.

Your statements should be addressed to the Assistant Secretary of the Army (Financial Management and Comptroller) and delivered to Room 3A322 in the Pentagon or mailed ATTN: SAFM-FOI, 109 Army Pentagon, Washington, DC 20310-0109. We will accept email submissions (i.e., PDF or Word files) but we must have the signed cover memorandum in a PDF file. We will accept advance copies by fax at (703) 614-3890 (DSN 224-3890), but we must receive a signed copy by mail or email.

Please confirm receipt of this memorandum. Our contacts for the annual statement process are (703) 693-2770
and (703) 693-2761

Ernest J. Gregory
Acting Assistant Secretary of the Army
(Financial Management and Comptroller)

Enclosure

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GUIDELINES FOR PREPARATION OF THE FY 2004 ANNUAL STATEMENT OF ASSURANCE

SCHEDULE

Below is the schedule for development and preparation of the Secretary of the Army's FY 2004 Statement of Assurance:

August 13:	Annual statements from MACOMs and separate-reporting FOAs due to OASA (FM&C)
August 27:	Annual statements from HQDA Principals due to OASA (FM&C)
September 13:	Draft Army statement delivered to HQDA staff agencies for coordination
September 17:	HQDA staff agency comments on draft Army statement due at OASA (FM&C)
September 22:	Senior Level Steering Group convened to review proposed Army statement.
October 1:	Final signed Army statement delivered to the Secretary of Defense.

STRUCTURE OF THE STATEMENT

The Statement of Assurance will consist of the following sections:

- The cover memorandum
- TAB A How the Assessment was Conducted
- TAB A-1 The Basis for Reasonable Assurance
- TAB A-2 Other Information Required
- TAB A-3 Management Control Program and Related Accomplishments
- TAB B Material Weaknesses
- TAB B-1 List of Material Weaknesses
- TAB B-2 Uncorrected Material Weaknesses
- TAB B-3 Corrected Material Weaknesses

COVER MEMORANDUM

Signature. The head of the reporting organization or their principal deputy must sign the cover memorandum. This memorandum provides their assessment as to whether they have reasonable assurance that the organization's management controls are in place and operating effectively.

Types of Statements. This statement of assurance must take one of three forms:

- An **unqualified** statement of assurance ("I have reasonable assurance that..."). Each unqualified statement must have a firm basis for that position, and this basis must be described clearly in Tab A.

- A **qualified** statement of assurance ("I have reasonable assurance that ...., except for....."). The material weaknesses in management controls that preclude an unqualified statement should be cited in the cover memorandum.

- A statement of **no** assurance ("I do not have reasonable assurance that ....").

The Army and DOD have submitted qualified statements since FY 1993. A qualified statement is nothing more than an objective recognition that management controls need improvement. Reporting organizations should give serious consideration to submitting qualified statements where appropriate.

TAB A HOW THE ASSESSMENT WAS CONDUCTED

Purpose. The purpose of the Statement of Assurance is to provide an **objective** assessment of management controls and to report any material weaknesses in those management controls. In TAB A, the organization must describe how its assessment of management controls was conducted (i.e., how it reached a determination that its management controls provided reasonable assurance) and provide support for that assessment.

Reasonable Assurance. Reasonable assurance refers to a satisfactory level of management confidence that management controls are in place and operating as intended. Reasonable assurance is a management judgment that recognizes there are acceptable levels of risk that cannot be avoided because the cost of absolute control would exceed the benefits derived.

Content of TAB A. TAB A consists of the following three sections:

TAB A-1, The Basis for Reasonable Assurance. A reporting organization may base its determination of reasonable assurance on a wide variety of factors, to include:

- Establishment of sound policies and specific required actions in regulations and other directives.
- Prevention and detection measures, such as internal or external audits, inspections, investigations and quality control reviews.
- General knowledge of command operations derived from weekly staff meetings, status reports, periodic review and analysis sessions and other forms of command oversight.
- Various functional management reviews, such as: program evaluations (e.g., computer security reviews) and system reviews (e.g., financial system reviews).
- Actions taken to mitigate or eliminate risk as part of a command risk management program.
- Annual performance plans and reports.
- Management control evaluations conducted in accordance with the organizations Management Control Plan.

TAB A-2, Other Information Required. TAB A must also provide specific information on:

- Leadership Emphasis. This section summarizes leadership efforts in support of your management control process, to include leadership correspondence on the importance of effective management controls and senior leadership bodies (e.g., councils or committees) used to advise on management control issues.

- Training. This section summarizes management control training conducted. Indicate the type of training (e.g., provided by USDA, HQDA management control staff or in-house staff) and the total number receiving each type of training.

- Execution. This section summarizes the most significant management control accomplishments within your organization, to include improvements both in administering the management control program and in enhancing the effectiveness of management controls in functional processes and programs. Be selective and ensure that these accomplishments are related directly to management controls. Submit accomplishments in the following format:

TAB A-3, Management Control Program and Related Accomplishments. This section highlights the most significant management control program and related accomplishments achieved during FY 2004 by your organization. Use this section to identify other management improvements that are not specifically part of your management control program but relate directly to the protection of government property, efficiency of your operations, conservation of resources, improvements in responsiveness to external customer needs or enforcement of laws and regulation. Each accomplishment needs to contain both a Description of the Issue and Accomplishment section. Use simple, concise bullet-style descriptions when describing your accomplishments. This information may be extracted from information reported elsewhere in your Statement of Assurance report.

Title of Accomplishment

Issue	*(briefly describe the problem or challenge involved)*
Accomplishment	*(describe the management control accomplishment in a few brief bullet statements brief bullet statements)*

TAB B MATERIAL WEAKNESSES

Material Weakness Criteria. Identifying and correcting deficiencies in management controls is an ongoing responsibility of commanders and managers at all levels. Whether a problem merits reporting, as a material weakness, is a management judgment. There are two essential criteria for a material weakness:

- It involves a deficiency in management controls (i.e., they are not in place; they are in place but are not being used; or, they are in place and used, but are inadequate).
- It warrants the attention of the next level of command, because that next level must take action or because it must be aware of the problem.

It is usually clear whether a problem involves a deficiency in management controls or whether the next level of command must take corrective action. Whether the next level of command should be made aware of a weakness is a more subjective judgement. The following factors should be considered in making this judgment:

- Actual or potential loss of resources (e.g., magnitude, sensitivity, frequency of loss).
- Current or probable Congressional / media interest (adverse publicity).
- Unreliable information causing unsound management decisions.
- Diminished credibility or reputation of Army management.
- Violation of statutory or regulatory requirements.
- Impact on information security.
- Impaired fulfillment of essential mission or provision of Government services.

Sources for Material Weaknesses. Many sources can be used to identify potential material weaknesses, to include: audit or inspection findings, criminal investigation results, management control evaluations, functional management review processes, and management's general knowledge of operational problems. Audit and inspection reports often will recommend reporting specific problems as material weaknesses. These recommendations should be given careful consideration, but the determination to report a material weakness is ultimately a management judgment.

DOD Systemic Material Weaknesses. DOD identifies Systemic Material Weaknesses that affect a significant number of DOD Components and have the potential to impact adversely on DOD's overall operations. The Systemic Material Weaknesses reported by DOD in FY 2003 were:

Financial Management Systems and Processes

Management of Information Technology and Assurance
Environmental Liabilities
Personnel Security Investigations Program
Management of Real Property (Facilities)
Contracting for Services
Government Card Program Management
Valuation of Plant, Property and Equipment on Financial Reports
Valuation of Inventory on Financial Reports

Complete descriptions of these Systemic Material Weaknesses are contained in the DOD Performance and Accountability Report for FY 2003. This report can be viewed at: http://www.dod.mil/comptroller/par/index.html (click on "Part I - Management Discussion and Analysis" and scroll down to page 19).

Problems Identified by USAAA. USAAA has noted shortcomings in material weaknesses, to include cryptic or inadequate descriptions and problems addressed in a piecemeal (not a systemic) approach. Each HQDA reporting organization should consider material weaknesses from its subordinate elements and from MACOM feeder statements as input for the possible identification and development of broader Army-wide material weaknesses.

Content of TAB B. TAB B consists of the following four sections:

- TAB B-1, List of Material Weaknesses. This section should provide separate listings for uncorrected and corrected material weaknesses. Each listing should indicate the title of the weakness and the fiscal year it was identified, beginning with the most recent weaknesses and working back.

- TAB B-2, Uncorrected Material Weaknesses. This section includes separate descriptions of each uncorrected material weakness, with weaknesses in the same sequence as the listing in TAB B-1.

- TAB B-3, Corrected Material Weaknesses. This section includes separate descriptions of each corrected material weakness, with weaknesses in the same sequence as the listing in TAB B-1.

Instructions and format requirements for material weaknesses are attached.

MATERIAL WEAKNESS FORMAT

Local ID #: _____

Title and Description of Material Weakness:

Functional Category:

Pace of Corrective Action:

Year Identified:

Original Target Date:

Target Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):

Component/Appropriation:

Validation Process:

Results Indicators:

Source(s) Identifying Weakness:

Major Milestones in Corrective Action:

A. Completed Milestones:

Date: Milestone:

B. Planned Milestones (Fiscal Year 2005):

Date: Milestone:

C. Planned Milestones (Beyond Fiscal Year 2005):

Date: Milestone:

OSD or HQDA Action Required:

Point of Contact:

ATTACHMENT

INSTRUCTIONS FOR MATERIAL WEAKNESSES FORMAT

Material weaknesses should not exceed three pages in length.

Local ID #: Indicate your local identification number for the material weakness.

Title and Description of Material Weakness. The title should be short and concise. The description should be written in non-technical terms that would permit a member of the general public to understand the management control problem, its cause and its adverse impact.

Functional Category. Cite one of the broad DoD functional categories shown below:

Research, Development, Test, and Evaluation
Manufacturing, Maintenance, and Repair
Communications / Intelligence / Security
Personnel and/or Organization Management
Comptroller and/or Resource Management
Property Management
Support Services
Other (Primarily Transportation)
Procurement
Major Systems Acquisition
Contract Administration
Force Readiness
Supply Operations
Information Technology
Security Assistance

If more than one category is involved, cite the primary category first. This will assist us in routing your material weakness to the appropriate HQDA office (if it involves a functional area other than your own).

Pace of Corrective Action:

Year Identified: The FY the weakness first was reported.

Original Target Date: The FY for correction when first reported.

Target Date in Last Year's Report: The FY for correction in last year's report. If this is a new weakness, enter "N/A."

Current Target Date: The current FY for correction. If this is a new weakness, enter "N/A."

Reason for Change in Date(s): If the Current Target Date is later than the Target Date in Last Year's Report, explain what caused this change. If these two dates are the same or if both show N/A, enter "N/A."

Component/Appropriation: The Component is "Army." Identify the appropriation(s) associated with correction of this material weakness.

For Army-level material weaknesses only, identify by appropriation and fiscal year any amounts in the funded program/budget for correction of the material weakness, as follows:

Appropriation	FY 04	FY 05	FY 06	FY 07	Cost-to-Complete	Total

(Show amounts in thousands of dollars ($K). Funds prior to FY 2004 do not need to be included. If no funds are shown, provide an explanation.)

Validation Process: The effectiveness of corrective actions must be validated before a material weakness is closed (this is important especially when corrective actions focus on policy changes). Indicate the method that will be used to validate that corrective actions have resolved the material weakness and the date this will occur. For any Army-level material weakness, validation must be accomplished by the USAAA.

Results Indicator: Describe the quantitative and/or qualitative measure that will show the material weakness has been corrected. This section should answer the question "How will you know when the material weakness has been corrected?"

Source(s) Identifying Weakness: List the primary source(s) that identified the material weakness (e.g., management control evaluations, external audit or inspection reports, local inspector general or internal review findings). For audit/inspection reports, cite the report title, report number and date.

Major Milestones in Corrective Action: Indicate the major milestones – the primary corrective actions – taken or planned to correct the material weakness. DOD policy requires that corrective action be validated before a material weakness is reported as closed and that this validation process be listed as the final milestone.

For Army-level material weaknesses only, show milestone dates only for March or September (e.g., 3/04 or 9/04). These are based on the "as of" dates for the annual statement (end of September) and mid-year (end of March). Using these semi-annual milestone dates will reduce the need to explain minor slips in milestones.

A. Completed Milestones:

Date: Milestone:

B. Planned Milestones (Fiscal Year 2005):

Date: Milestone:

C. Planned Milestones (Beyond Fiscal Year 2005):

Date: Milestone:

OSD or HQDA Action Required:

For MACOM statements: If correction of this material weakness requires action by a HQDA staff agency, indicate the office and the action you believe it should take; include a Point of Contact with phone number or email address, if possible. That HQDA office will be tasked to provide a response as to whether it agrees with the MACOM assessment and what action it has taken or will take. If the material weakness is being reported for information only, indicate "N/A."

For HQDA statements: If correction of this material weakness requires action by OSD or by another HQDA staff agency, indicate the office and the action you believe it should take; include a Point of Contact with phone number or email address, if possible. If you are reporting the material weakness for information only, indicate "N/A."

Point of Contact: The name, office symbol, and telephone number of the individual in your organization who can respond to inquiries about this material weakness.