SECRETARY OF THE ARMY
WASHINGTON

INFO MEMO

November 13, 2002, 4:00 p.m.

FOR: SECRETARY OF DEFENSE DepSec Action _____

FROM: Thomas E. White, Secretary of the Army Tom White NOV 19 2002

SUBJECT: Fiscal Year (FY) 2002 Statement of Assurance on Management Controls

- The Federal Managers' Financial Integrity Act (FMFIA) requires Department of Defense (DoD) and other Federal Agencies to assess their management controls and submit an annual Statement of Assurance. The Army's FY2002 Statement of Assurance is attached. The Army's management control program and the process used to conduct this evaluation are described at Tab A.

- The Army's management controls provide reasonable assurance, as specified in the FMFIA, with the exception of twelve material weaknesses identified in this report. Tab B-1 provides a list of the material weaknesses being reported. Tab B-2 provides a description of each uncorrected material weakness. Tab B-3 provides a description of a corrected material weakness.

- The Army Auditor General's independent assessment of our overall management control process is at Tab C.

COORDINATION: NONE

Attachments:
As stated

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TAB A

ARMY'S CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

TAB A

ARMY'S CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

Determination of Reasonable Assurance

The Army has an active, aggressive management control process that has been thoroughly institutionalized at all levels. Education of those in leadership positions and training of all commanders and managers is given high priority. Administration of the process stresses accountability for establishing effective management controls, for conducting formal evaluations of these controls, and for ensuring that management control deficiencies are reported and corrected. The U. S. Army Audit Agency (USAAA) routinely assesses the effectiveness of management controls in the course of every audit, explicitly addressing management control deficiencies in their reports as a means of ensuring managerial accountability. In addition, USAAA annually conducts a review of the Army management control process, to include preparation and support of the Secretary's annual statement, and publishes an independent assessment that is presented to the Secretary along with his annual statement. That independent assessment is included at Tab C of this annual statement.

The Army has periodically reassessed the effectiveness of its management control process and initiated improvements when needed. In addition, the Army's senior leadership has voiced strong support for an aggressive management control orientation, placing heavy emphasis on the importance of management controls and requiring the active involvement of major commanders in the process. The positive response of commanders and managers throughout the Army demonstrates their strong commitment to strengthening management controls as a means of promoting mission accomplishment and sound stewardship of public resources. Finally, to ensure that the Army's annual statement reflects a fair assessment of its management controls and discloses fully its management control deficiencies, the Army's Senior Level Steering Group (SLSG), representing all functional areas, conducts a final corporate review of this statement prior to its submission to the Secretary for approval and signature.

Guidelines and Objectives

The Army's management controls in effect during the fiscal year (FY) ending September 30, 2002, were evaluated in accordance with the Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government. These guidelines were issued by the Director of the Office of Management and Budget (OMB), in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act of 1982 (the Integrity Act). Included here is an evaluation of whether the Army's system of internal accounting and Administrative controls are in compliance with standards prescribed by the Comptroller General. The objectives of the Army's system of management controls are to provide management with reasonable assurance that:

-- Obligations and costs comply with applicable law;

-- Assets are safeguarded against waste, loss, unauthorized use, and misappropriation;

-- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained; and

-- Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

The following sections describe the Army's concept of reasonable assurance; how the Integrity Act has been implemented in the Army; how the Army's management control process functions to ensure that managers are trained and held accountable; and how management control deficiencies are identified, tracked through to correction, and reported.

The Army's Concept of Reasonable Assurance

The Army's concept of reasonable assurance recognizes that the cost of management controls should not exceed the expected benefits, and that these benefits consist of reductions in the risks of failing to achieve stated objectives. The expected benefits and related costs of management control measures should be addressed using managerial judgment. Furthermore, management control problems may occur and not be detected because of inherent limitations in any system of management controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, the projection of any evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or the degree of compliance with procedures may deteriorate. Therefore, our statement of reasonable assurance is provided within these limitations.

How the Integrity Act Has Been Implemented by the Army

Even before the Integrity Act, the Army's inherent complexity and discipline required a broad range of management control mechanisms to ensure accomplishment of basic missions. Army regulations and other formal directives define the standard actions that must be accomplished by Army commanders and managers. Standard organization structures for Army garrisons and tactical units serve to separate essential duties, pinpoint policy and oversight responsibility, and create checks and balances that reduce the risk of errors and omissions. Other common management control mechanisms include weekly staff meetings, quarterly review and analysis sessions and various in-process reviews and status briefings tailored for decision-making. Additional prevention and detection measures are provided by internal Army organizations performing extensive audits, inspections, investigations, and quality reviews of every Army activity. Confidence about the readiness posture of tactical unit personnel, equipment and training is derived from Unit Status Reports submitted by unit commanders and forwarded through channels to Headquarters, Department of the Army (HQDA). In a similar fashion, confidence about garrison functions is derived from

the Installation Status Report. These examples clearly illustrate that the Army's commitment to effective management controls has been, and continues to be, an inseparable element of day-to-day operations.

The Army's initial effort to implement the Integrity Act was a largely decentralized approach. Operating managers throughout the Army were provided with broad OMB Guidelines and Comptroller General Standards and were made responsible for assessing risk, identifying the controls to evaluate, and conducting these evaluations. This approach resulted in excessive workload and considerable confusion. In FY 1984, the Army's program was redirected to a highly centralized approach. HQDA functional proponents identified the management controls to be evaluated, and did so in the form of a checklist that also served as the required tool for conducting these evaluations. The HQDA functional proponents also conducted Army-wide risk assessments of their functional areas and, based on these assessments, determined the frequency for conducting these required evaluations. Based on their input, the Army's management control staff published these checklists in a series of Department of the Army Circulars and published a single Army-wide Management Control Plan listing the areas to be evaluated, the schedule for doing so, and the officials responsible for ensuring that these evaluations were conducted.

This more centralized approach continued unchanged for the most part through FY 1994, and was successful in standardizing the evaluation process throughout the Army. However, when the General Accounting Office (GAO) conducted its major review of Army financial management operations and controls in FY 1991-1992, it found numerous management control failures. While the audit report indicated that the Army had a good management control policy and program framework, they were often not being used by managers in the field. As a result of this and other audit reports, the Army initiated a self-assessment of its management control process. This included sessions with Army managers and an independent assessment by a private accounting firm. The result of this self-assessment confirmed the GAO's findings and pointed out several specific problems with the management control process: it was too heavily centralized, with HQDA making too many of the key decisions (e.g., what to evaluate, how to evaluate and when); it provided little flexibility to commanders and managers, and resulted in their having little sense of ownership of the process; and the checklists that identified the management controls to be evaluated were excessive in number and in length, were confusing in format and style, and were filled with questions about minor procedural requirements.

Based on this self-assessment, the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA (FM&C)) restructured the management control process effective October 1, 1994. This restructured process reduces workload and promotes ownership and accountability for effective management controls by limiting required evaluations to key management controls, by providing maximum flexibility to commanders and managers on how and when they conduct these evaluations, and by raising the level of responsibility for certifying these evaluations. HQDA functional proponents still determine which management controls must be evaluated, but they are now much more selective, thus allowing managers to focus their limited resources on higher priority areas. Key management controls that

must be evaluated are being identified in Army regulations, along with simple, streamlined checklists or other suggested evaluation methods. Commanders and managers develop their own management control plans to cover both the required evaluations and those additional areas that they choose to evaluate. They also determine which senior officials, generally Colonels or GS-15s and above, will be designated as the Assessable Unit Managers responsible for certifying these evaluations.

The Army's Management Control Process

The Army's approach to management control is based on the fundamental philosophy that all commanders and managers have an inherent management control responsibility. HQDA functional proponents are responsible for establishing sound management controls in their policy directives and for exercising effective oversight to ensure compliance with these policies. Commanders and managers throughout the Army are responsible for establishing and maintaining effective management controls to ensure that operations are effective and resources are protected and used appropriately. This philosophy is soundly rooted in the Integrity Act and OMB, DOD and Army policy. The Army's management control process supports commanders and managers in meeting these inherent responsibilities by providing two additional management control mechanisms: a process for periodically conducting detailed evaluations of key management controls and a process for developing and supporting an objective annual statement of assurance for the Secretary of the Army that fully discloses known material weaknesses.

In September 2001, a Management Control Steering Group was chartered by the OASA (FM&C) to assist the Army's management control staff. Composed of senior Management Control Administrators (MCAs) from throughout the Army, this Management Control Steering Group provides advice, identifies areas that need improvement and initiates or assists in implementing those improvements. After being in operation for only one year, this Steering Group has already completed a series of successful efforts, which are highlighted in the following sections.

The Army's management control policy and process are implemented and emphasized through four key components. First and foremost is leadership emphasis. Second is education and training to ensure that commanders and managers understand their management control responsibilities. Third is an evaluation process that clearly defines fundamental requirements and establishes accountability, while minimizing the workload burdens that ultimately detract from enthusiastic acceptance of Integrity Act objectives. Fourth, and the ultimate goal of the Integrity Act, is an effective process to detect, report and correct recurring management control deficiencies.

Leadership Emphasis

The Army's senior leadership has consistently demonstrated strong support for the management control process in two ways:

-- The Army's senior leadership has issued a series of memoranda emphasizing

the importance of effective management controls and sound stewardship of public resources. The most recent of these – developed by the new Management Control Steering Group – was signed jointly by the Secretary of the Army and the Chief of Staff, Army in February 2002 and was addressed to all major Army commanders.

-- Since FY 1996, at the direction of the Under Secretary of the Army, implementation of the management control process has been assessed on an annual basis. This assessment is conducted by a joint panel representing the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)), the Inspector General and the Auditor General, and results in Letters of Commendation from the ASA (FM&C) to deserving organizations.

Education and Training

Educating Army commanders and managers at all levels on the principles and practices of sound management control is central to achieving the objectives of the Integrity Act. It is a continuous process and potentially very expensive. General management control training courses developed by the US Department of Agriculture's Graduate School are offered to all Government managers, but obtaining training solely from external sources would be too expensive and would not address the specifics of the Army's management control process. Instead, the Army's management control staff implemented an Army-wide education and training effort to achieve a basic understanding of management controls and the components of the Army's management control process. This training is provided to the HQDA staff, commanders, managers and MCAs at all levels. The following is a summary of these education and training efforts:

Direct Training Assistance: The Army's management control staff has focused its efforts primarily on embedding management control instruction in the Army's education and training structure, rather than directly providing this instruction itself. This approach has yielded substantial benefits in terms of providing more comprehensive and cost-effective management control training, reaching a wider student population and increasing management's understanding of, and commitment to, effective management controls. Nevertheless, some direct training assistance is provided:

-- During FY 2002, the Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller), the Deputy Assistant Secretary of the Army (Financial Operations) and the management control staff made 25 presentations on the management control process to 1009 commanders and managers. In addition, the management control staff took the following actions to directly provide training and to enhance the ability of others to provide it:

-- Management Control Training Conference. To enhance the ability of MCAs to run their own programs and conduct their own training, the management control staff conducts an annual Management Control Training Conference. In August 2002, this conference provided over 130 MCAs from major commands (MACOM) and HQDA staff agencies with information on management control policies and procedures and a forum to discuss current issues and ideas for better program implementation. After the FY

2002 conference, the Management Control Steering Group, working with the Army Reserve Readiness Training Center, initiated an annual customer survey to ensure this training meets the needs of the management control community.

-- Management Control Web site. To more effectively communicate management control information to the total Army, the management control staff upgraded its Army management control homepage to ensure that accurate and easily accessible information is rapidly provided in a user-friendly manner to commanders and managers throughout the Army.

Education of Army Leadership: The management control staff strives to ensure that the management control message is included in the curricula of the Army's primary leadership schools, in an effort to make it a part of the professional development of every Army commander and manager. The following leadership schools include management control instruction:

-- Command and General Staff College. The Command and General Staff Officers Course is a ten-month program that prepares 1200 officers for duty as field grade commanders and principal staff officers at division and higher echelons.

-- Garrison Commanders' Course. Designed for Colonels assigned to command Army garrisons and for their civilian Executives Assistants, this course is presented four times a year.

-- General Officer Installation Command Course. Designed for Major Generals assigned to command Army installations, this course is taught four times a year and addresses the topic of management controls.

-- Army Comptrollership Program. This is a 14-month graduate level program for Army military and civilian resource managers at Syracuse University. In addition, management control training has been incorporated into the Professional Resource Management Course, a four-week professional development course for mid-level Army managers that is also taught at the University.

-- Professional Military Comptroller School (PMCS). This is a six-week course for mid-career and senior resource managers in DOD. This course is taught five times a year to over 200 students and develops their capacities to adapt the comptroller's role to the economic, political and social environment of their military organizations.

Training of Army Managers: In addition to direct training and efforts to improve leadership education, management control instruction has been incorporated into courses designed to train Army managers. These include:

-- Army Soldier Schools. Instruction in stewardship and management control has been incorporated in Army soldier schools to include the Officer and Warrant Officer Basic/Advanced courses, the Advanced Non-Commissioned Officer and First Sergeant courses, and the Combined Arms and Services Staff School.

-- Army Management Staff College. The Sustaining Base Leadership and Management Program is a 12-week resident course designed to provide advanced professional education to selected military and civilian managers across a wide range of functional areas. It is offered three times a year and trains approximately 450 managers and leaders who will advance to fill key positions.

-- Government Audit Training Institute (GATI). The management control staff has worked with GATI (a part of the US Department of Agriculture's Graduate School) to develop two courses that are tailored specifically to the Army's management control process. First, there is a basic one-day on-site course for managers; during FY 2002, this course was offered six times with149 Army students. In addition, there is a two-day course specifically designed to train MCAs; during FY 2002, this course was offered 9 times with 217 Army students.

-- Auditor Training. The USAAA has incorporated instruction on the Army's management control process into its training courses for both USAAA and Army Internal Review auditors, with separate courses provided for basic, intermediate and senior auditor levels.

-- Web-based Training. During FY 2002, the Management Control Steering Group, working with the Army Reserve Readiness Training Center, developed a series of web-based training modules that provide readily accessible instruction on various facets of the management control process. Initial customer response has been very favorable and efforts to expand and improve this method of training are ongoing.

Administration of the Management Control Process

A vital element in the Army's management control process is the Management Control Plan. This management tool defines the functional areas where key management controls must be evaluated, the five-year schedule for conducting these evaluations, the officials responsible for ensuring that these evaluations are conducted and for certifying the results. By pinpointing the responsibility for these evaluations, the Management Control Plan provides support for the assurances reflected in the Secretary of the Army's annual statement and the supporting annual statements from the Army's major components. Under the restructured management control process, the Army's major commands and their assessable unit managers have established their own Management Control Plans. While these plans will contain the same basic information and provide the same measure of accountability, commands and assessable unit managers can now achieve economies by developing their own schedules for conducting management control evaluations.

In order to streamline the management control process and reduce the workload associated with it, the required management control evaluations have become more selective, focusing on key management controls. HQDA functional proponents have revised their regulations to identify the key management controls that must be evaluated and to provide guidance on how evaluations may be conducted. The Army management control staff maintains an inventory of all required evaluations and makes this available Army-wide through its management control web site. Managers select

those evaluations that are applicable to their organization and choose how the evaluations will be done, using either a new streamlined checklist or some existing management review process. This approach ensures that key management controls are updated when policies are revised, that managers have the flexibility to conduct their evaluations in the most efficient manner, and that they can concentrate their scarce resources on highest priority areas.

Under the management control process, MACOMs and HQDA staff agencies segment themselves along organizational lines into assessable units, which must be headed by no less than a Colonel or GS-15 (at garrison/activity level, where the grade structure is lower, the Assessable Unit Manager may be the senior functional manager, regardless of grade). While most of the detailed work associated with a management control evaluation continues to be done by personnel at lower levels, the certification has been raised to a substantially higher level ensuring that mid-to-upper level managers are involved in, and accountable for, the evaluation of their management controls.

As indicated, USAAA plays an active role in this process. USAAA looks at the effectiveness of management controls during audits and annually conducts a review of the Army's management control process, resulting in an independent assessment from the Auditor General to the Secretary of the Army. In addition, based on its audit work, USAAA also identifies functions that it believes merit the identification of key management controls in Army Regulations. Finally, USAAA Program Directors identify potential Army material weaknesses for consideration by HQDA functional proponents and the Army's SLSG.

Management Control Weaknesses

The Army employs comprehensive means for detecting and correcting management control weaknesses, and for identifying and reporting those weaknesses that are considered material. In addition to external coverage of Army operations by the GAO and the DOD Inspector General, the Army scrutinizes itself through continuing and repetitive reviews by the USAAA, the Army Inspector General organization, installation-level Internal Review and Inspector General operations, a broad array of specialized functional review groups, and other standard evaluations. Army systems and procedures have been in place for many years to record, monitor and achieve resolution of all detected deficiencies, most of which involve management control weaknesses.

In determining which management control weaknesses should be reported as material by the Army, HQDA functional proponents consider all sources of information to include: their overall awareness of the situation in their areas of responsibility; the views of major field commanders as expressed in their supporting annual statements; DOD systemic material weaknesses identified by the OSD staff; all significant audit and inspection reports; and suggestions by the DOD Inspector General, Army Auditor General and Army Inspector General on reports or findings which they believe merit serious consideration for reporting as Army material weaknesses. In addition, the Army uses special sessions of its SLSG to conduct both a mid-year review of selected and potential Army material weaknesses and a final corporate review of the Army statement

prior to submitting the statement to the Secretary for approval and signature. This Steering Group functions as the Army's Senior Management Council, an approach recommended by OMB that the Army strongly supports and has integrated into its management control process.

Ultimately, however, the Army's final determination on material weaknesses reflects its management judgment, as intended by the Integrity Act. The Army is fully aware of and acknowledges its management control problems, both in the DOD Inspector General's semiannual report to Congress and in various audit and inspection reports (subject to the formal resolution of disagreement process). The omission of any such problem in the Secretary's annual statement simply reflects a difference of opinion on the relative materiality of the problem.

In the 19 reporting years since inception of the Army's management control process, Army commanders and managers have reported 1318 material weaknesses to the Secretary. These were the weaknesses remaining after a filtering and value-added reporting process from line managers up through each higher echelon of management. After aggregating similar problems and weeding out lesser issues, the Army reported 227 material weaknesses to DOD. Only 10 of these remain open. Summary details follow:

Open material weaknesses at September 30, 2001	9
Plus: new material weaknesses identified in FY 2002	3
Less: material weaknesses corrected in FY 2002	2
Open material weaknesses at September 30, 2002	10

Management Control Accomplishments

Army commands and activities have taken numerous actions and initiatives to strengthen and improve management controls in a range of functional areas. The following examples drawn from their feeder statements:

US Army, North Atlantic Treaty Organization (USA, NATO). The Deputy Chief of Staff, G8 (Resource Management) took action to enhance management controls and improve command oversight for the Government Travel Card program. USA, NATO issued written notification to all cardholders who were over 30 days past due and eliminated the cards of those who traveled infrequently or were slow to pay their account balance. This resulted in prompt identification of possible card misuse and significantly contributed to reducing the USA, NATO delinquency rate from 11 percent down to only 2.4 percent. The card contractor recognized this effort by naming USA, NATO's Agency Program Coordinator (APC) as APC of the month in the Federal Government.

US Army, Europe and Seventh Army (USAREUR). The Deputy Chief of Staff for Resource Management established a revised approval policy for purchases and services to ensure high-level visibility of command expenditures. In this initiative,

USAREUR: established procedures and developed reports for use in reconciling expired year funding agreements with the US Army Corps of Engineers and contracts with the contracting office; monitored activity progress through on-site visits and accounting reports to ensure reconciliation procedures were being performed; performed document reviews with budget activities to ensure financial regulatory requirements were met; reviewed random samples of obligation documents to rate activities and ensure corrective actions were taken; formalized financial management procedures through the publication of numbered budget execution standards; provided tools to more effectively access accounting data for research and reconciliation purposes and initiated automated tools to minimize human error; and conducted monthly reviews to ensure mismatches were sent to subordinate commands for verification and correction.

Eighth US Army (EUSA). The 19th Theater Support Command (TSC) aggressively implemented measures to prevent the accruing of a significant amount of detention charges for commercial containers in Korea. These measures included identifying and using additional DoD storage space at several locations and the trans-loading of cargo from commercial containers to DoD-owned containers. EUSA estimates these measures avoided $109,000 in commercial detention charges. The 19th TSC continues to refine its procedures for the management of commercial containers, with the goal of eliminating all detention charges.

US Army Materiel Command (AMC). The Deputy Chief of Staff, G-8 (Resource Management) collaborated with the Office of Command Procurement to identify purchase card delinquencies throughout AMC, as well as respond to various internal/external audits inquiries regarding the program. During FY 2002, AMC virtually eliminated purchase card delinquency and used available reporting mechanisms to avoid instances of purchase card fraud. Although external audits of AMC sites revealed some questionable purchase card transactions, there were no reported instances of fraud.

US Army Training and Doctrine Command (TRADOC). Fort Eustis improved cash and sales accountability and customer transaction history through the use of Morale, Welfare, and Recreation (MWR) automated management information systems. The Director of Community Activity has continued to field and upgrade various MWR management information systems throughout the MWR activities on Fort Eustis. These systems accurately capture and maintain financial, sales and customer information to assist in the business operation. To date, such systems have been implemented in support of clubs, outdoor recreation, museum gift shops, veterinary services, bowling centers, automotive skills center, gyms and fitness centers, golf course, child care centers, youth activities and lodging. Fort Eustis also used these automated systems as a means for evaluating the management controls in their MWR activities.

US Army Military Academy (USMA). The Office of the Dean devised a standard operating procedure covering the use of Gift Dollars for use within USMA academic programs and coordinated that procedure with the Staff Judge Advocate for compliance with laws and regulations. The Office of the Dean routinely conducted meetings and independent assessments with the academic departments, the Gift Fund Office and the

Association of Graduates throughout the year to ensure that all rules and regulations were being followed. Routine implementation and oversight of these management controls has created a command climate that is conducive to good stewardship of both appropriated and gift dollars.

US Army Intelligence and Security Command (INSCOM). HQ INSCOM implemented an aggressive staff inspection program that inspects its major subordinate organizations at least every two years. The INSCOM management control process emphasizes review of management controls as a part of an organization's day-to-day operations. Key management controls are evaluated during these staff inspections. Due to the sensitive nature of our Special Access Programs, the management controls for these programs are inspected annually. INSCOM emphasis on imbedding the management control process within the organization inspection is accomplished in coordination with the Office of the Inspector General, which treats these as special emphasis areas in its inspections.

US Army Forces Command (FORSCOM). FORSCOM developed a software program which evolved into the Combined Operations Police Suite (COPS), an Army-wide, web-based suite of 13 Military Police applications. These COPS applications facilitate centralized administration, reporting and hardware and software maintenance, resulting in significant savings in manpower and dollars by eliminating client/server hardware and software at each Provost Marshal site.

US Army Space and Missile Defense Command (SMDC). The Deputy Chief of Staff for Operations and Plans continued to aggressively implement the SMDC Organizational Inspection Program in FY 2002. Command inspections were conducted at the Office of the National Missile Defense TRADOC Systems Manager at Fort Belvoir, Virginia and the US Army Space Command and Battle Lab West, both in Colorado Springs, Colorado. All findings and observations discovered during the inspection were addressed in accordance with Army and SMDC policy guidance.

US Army Criminal Investigation Command (USACIDC). The USACIDC developed an automated system to monitor special agent misconduct/inquiry actions. When fully operational, the system will maintain an audit trail of specific actions related to misconduct/inquiries and will assist in tracking the timeliness of administrative actions in compliance with CIDC Regulation 195-1, Army Criminal Investigation Operational Procedures. In addition, the USACIDC took the initiative to refine its Force Protection Program to improve internal and external aspects and compliance with DOD and Army policy requirements. Enhancements included publishing a command operations order to provide basic guidance and establishing and activating a Force Protection Committee and Working Group to better structure and integrate staff efforts.

US Army Test and Evaluation Command (USATEC). The USATEC established and staffed a new Office of the Deputy Chief of Staff for Technology. This initiative will improve management controls by uniting the efforts of three subordinate activities, eliminate duplication and assure more efficient use of command resources. This new

office is responsible for planning, developing, coordinating and managing instrumentation, modeling and simulation; and formulating and promulgating test and evaluation policy and procedures.

US Army South (USARSO). USARSO increased its command emphasis on management of the Government Travel Card Program by: using weekly reviews and status reports to focus on delinquent accounts for appropriate follow-up and formal notification to commanders; issuing a command policy letter requiring that commanders and managers ensure travel claims are filed promptly, split disbursement is used for payment, cards not in use are deactivated and appropriate disciplinary action is taken; and continuing to include the Travel Card Program as a priority / high visibility item in the command's Review and Analysis presentation.

The Army National Guard's (ARNG). The ARNG continued to use its Senior Level Steering Group (SLSG) as the cornerstone for efforts to identify and resolve material weaknesses and to foster and promote a Guard-wide management control philosophy and process. The ARNG uses the SLSG to: assess progress in correcting previously reported material weaknesses; consider other problem areas for possible reporting; and identify major areas of vulnerability and take proactive measures – such as establishing sound policies and strengthening management controls – to reduce the level of risk before these vulnerable areas become material problems. The SLSG is chaired by a General Officer and consists of senior ARNG leaders from a range of functional areas that affect both the Air and Army Guard. The SLSG periodically reviews the performance and effectiveness of the ARNG management control process and identifies areas for improvement to ensure that the process remains a proactive, relevant and effective as a tool for managers at all levels tool to safeguard scarce resources.

DOD Systemic Material Weaknesses

The Office of the Secretary of Defense (OSD) is reporting eight DOD systemic management control material weaknesses in FY 2002. These DOD systemic material weaknesses and the Army material weaknesses that are related are:

Financial Management Systems and Processes: One Army material weakness is related to this DOD systemic weakness.

-- Financial Reporting of General Equipment (page B2-5)

Information Assurance: One Army material weakness is related to this DOD systemic weakness:

-- Information Systems Security (page B2-9)

Environmental Liability: Two Army material weaknesses are related to this DOD systemic weakness:

-- Pollution Prevention (page B3-2)
-- Management of Unexploded Ordnance (page B2-6)

Management of Munitions and Explosives: Two Army material weaknesses are related to this DOD systemic weakness.

-- Management of Unexploded Ordnance (page B2-6)

Personnel Security Investigations Program: No Army material weaknesses are related to this DOD systemic weakness. While the Army is concerned about the impact of this systemic weakness on its day-to-day operations, corrective action lies at OSD with the Defense Security Service.

Real Property Infrastructure: No Army material weaknesses are related to this DOD systemic weakness.

DOD Card Program Management: One Army material weakness is related to this DOD systemic weakness:

-- Army Purchase Card Program (page B2-3)

In addition, the Army is working closely with OSD to address problems of card misuse and delinquency on the Travel Card Program and to aggressively implement solutions. As this program operates under a single DOD task order and policy directive, and these corrective actions are mostly DOD-wide in nature, the Army believes the single DOD systemic weakness is most appropriate.

Contracting for Services: No Army material weaknesses are related to this DOD systemic weakness.

TAB-B

MATERIAL WEAKNESSES

TAB B-1

MATERIAL WEAKNESSES LISTING

TAB B-1
UNCORRECTED MATERIAL WEAKNESSES LISTING

IDENTIFIED DURING FY 2002:

TITLE	YEAR FIRST REPORTED	CORRECTION DATE: PER LAST ANNUAL STATEMENT	CORRECTION DATE: PER THIS ANNUAL STATEMENT	PAGE
In-Transit Visibility (ITV) Policies/Standards	FY 2002	N/A	TBD	B2-1
Line-of-Duty (LOD) and Incapacitation (Incap) Pay	FY 2002	N/A	FY 2004	B2-2
Army Purchase Card Program	FY 2002	N/A	FY 2003	B2-3

IDENTIFIED DURING PRIOR FYs:

TITLE	YEAR FIRST REPORTED	CORRECTION DATE: PER LAST ANNUAL STATEMENT	CORRECTION DATE: PER THIS ANNUAL STATEMENT	PAGE
Standard Procurement System Interface to Computerized Accounts Payable System	FY 2001	FY 2002	FY 2004	B2-4
Financial Reporting of General Equipment	FY 1999	FY 2002	FY 2003	B2-5
Management of Unexploded Ordnance	FY 1998	Phase I – TBD Phase II – TBD	Phase I – TBD Phase II – TBD	B2-6
Manpower Requirements Determination System	FY 1997	FY 2002	FY 2005	B2-7
Financial Reporting of Equipment In-Transit	FY 1996	FY 2002	FY 2005	B2-8

TAB B-1
UNCORRECTED MATERIAL WEAKNESSES LISTING

IDENTIFIED DURING PRIOR FYs: (Continued)

TITLE	YEAR FIRST REPORTED	CORRECTION DATE PER LAST ANNUAL STATEMENT	CORRECTION DATE PER THIS ANNUAL STATEMENT	PAGE
Information System Security	FY 1996	FY 2003	FY 2003	B2-9
Automated Mobilization System	FY 1988	FY 2002	FY 2003	B2-10

TAB B-1
CORRECTED MATERIAL WEAKNESSES LISTING

TITLE	YEAR FIRST REPORTED	CORRECTION DATE PER LAST ANNUAL STATEMENT	CORRECTION DATE PER THIS ANNUAL STATEMENT	PAGE
Customer Service Call Center Call Backlog	FY 1999	FY 2002	FY 2002	B3-1A
Pollution Prevention	FY 1998	FY 2002	FY 2002	B3-2

TAB B-2

UNCORRECTED MATERIAL WEAKNESSES

UNCORRECTED MATERIAL WEAKNESS

AICO-02-001

Title and Description of Materiel Weakness: In-transit Visibility (ITV) Policies/Standards. Both the Army and Joint Staff perspectives are that the ITV program lacks DoD level policy that identifies standards, uniformity and consensus in objectives, equipment standards, and functional requirements. The Army has taken the lead in the Outside Continental US (OCONUS) area of responsibility (AOR) in deploying and successfully using Automatic Identification Technology (AIT) to obtain in-transit visibility of materiel and personnel in both peacetime and contingency operations. However, the issue exists that there is no joint doctrine to mandate AIT for ITV or hardware/software standards to ensure interoperability. During the current operation, US Central Command (CENTCOM) identified a warfighter requirement for information available only through use of AIT and specifically requested Radio Frequency Identification (RFID) AIT implementation in the AOR for all services.

To support the Army's concept of operations, we require visibility of the entire supply chain (foxhole to the supplier). This requires tracking the container/pallet as well as having "in-the-box" visibility. This "in-the-box" visibility is key to Army logistics transformation requirements that reduce the logistics footprint by placing a premium on distribution of limited available assets to the unit whose need is most critical to the mission. This "in-the-box" visibility facilitates redistribution of parts to higher priority units from both CONUS and OCONUS assets.

Historically, the Air Force and Navy, as the primary transporters of materiel and equipment in theater, are only concerned with tracking those items at the container or pallet level. This tracking can be done at a low technology level and without the infrastructure investment. RFID technology enhances "in-the-box" visibility of container and pallet shipments moving throughout the DoD transportation system. RFID has been used in support of Somalia, Haiti, Battlefield Distribution Demonstration, and most currently, Operation Joint Endeavor. As stated in USCINCENT Message, 311340Z Jul 02, the Combatant Commander, CENTCOM, will require all air pallets, containers, and commercial sustainment moving to/from the theater and intra-theater movements to be tagged with RFID at origin for asset and ITV tracking in the Combined/Joint Operations Area (CJOA).

The Army G-4 recommended solution to the ITV materiel weakness is for DoD to establish policy that identifies uniform standards, objectives and functional requirements. We also recommend the J-4 continue the ITV Working Group meetings, consisting of representatives from each of the Services and that they expand the scope of the ITV Work Group to address and define the Service requirements.

Functional Category: OSD - Supply Operations
Army - Supply Activities

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: Not Applicable.

Targeted Correction Date in Last Year's Report: Not Applicable.

Current Target Date: To Be Determined.

Reasons for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

Appropriation(s):	FY 02	FY 03	FY 04	FY 05	Cost-To-Complete	Total
OMA	None	TBD				

Validation Process: Validation of corrective actions will be accomplished by the US Army Audit Agency (USAAA).

Results Indicators: Corrective actions will improve the capability to see timely and accurate information concerning unit strategic deployments, sustainment cargo, intra-theater moves, and CONUS non-unit cargo movements.

Source(s) Identifying Weakness: USCINCENT Message, 311340Z Jul 02, Subject: OEF Joint Logistics Information Requirements.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
Aug 02	J-4 convened a JTAV Work Group to determine what the services are doing to comply with the CENTCOM Combatant Commanders requirement for ITV in the CENTCOM AOR.
10/02	Defense Supply Center Philadelphia identified key Class I subsistence prime vendors and taken action to modify contracts to contain an RF protocol requiring them to generate and affix RF tags to all containerized shipments to CENTCOM.
10/02	CENTCOM identified 18 Aerial Ports of Debarkation (APODs) requiring RFID read/write capability and 13 Seaport of Debarkation (SPODs) requiring read only capability. One of the APODs already has read/write

A. Completed Milestones: (Continued)

Date:	Milestone:
	capability; five others have read only capability. JCS, J-4 and CENTCOM provide classified listing of sites to Office of Primary Responsibility (OPR) on request.

B. Planned Milestones (Fiscal Year 2003):

Date:	Milestone:
11/02	Army and Navy with TC-AIMS II revised fielding plans pending outcome of TC-AIMS II Milestone III decision. Execute as approved.
TBD	Army coordination with PM GATES to implement a file level transfer of data from GATES to government owned RF tag write software. Start initial efforts to modify client software.
TBD	Army take appropriate actions based on the conclusions and findings of J-4 Work Group.

C. Planned Milestones (Beyond Fiscal Year 2003): To Be Determined.

Status of Participating Functional Organizations: Army – Supply activities and OSD functional elements to be determined.

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UNCORRECTED MATERIAL WEAKNESS

AICO-02-002

Title and Description of Material Weakness: Line-of-Duty (LOD) and Incapacitation (Incap) Pay. Neither DoD nor the Army has established policy guidance, including effective management controls, for the processing of LOD and Incap pay. Army policy guidance in this area was previously published in AR 135-381, Incapacitation of Reserve Component (RC) Soldiers (for Incap pay) and AR 600-8-1, Army Casualty Operations / Assistance / Insurance (for LOD pay). However, guidance provided in AR 600-8-1, dated 18 Sep 1986, on LOD pay, was deleted when the AR was revised in 20 Oct 1994. Currently, Army activities must use the obsolete edition of AR 600-8-1 for processing LODs. A new AR 600-8-4 is needed to update and/or provide LOD policy, command instructions, principles of support and standards of service; HQDA mandated operational tasks for field execution; and mobilization guidance. Also, AR 135-381, dated 1 Jun 1990, requires a complete revision to update policies and procedures, and reflect legislative changes introduced in 1999. Both of these regulations have not been revised and published, in part, due to multi-level coordination requirements that have been ongoing for eight years.

Due to LOD policy not being included in AR 600-8-4, in recent demobilizations the ARNG has experienced active army personnel insisting LOD's were not needed, impacting soldiers who attempt to receive medical treatment and/or benefits from the Veterans Administration after separation but cannot because they are unable to document their service-related injuries. The old regulation (AR 600-8-1) does not address all of the new categories of soldiers and their respective status nor does it provide for automation of the LOD forms (which is badly needed). Until the new regulation (AR 600-8-4) is published, differences in interpretation as to what's needed or required will continue. Failure to correct this material weakness will result in continued problems in the processing LOD & Incap pay; an increased number of soldiers dunned by medical care providers; and more frequent Inspector General investigations and congressional inquiries into late payment/unpaid medical bills and the lack of due process. All these problems would be exacerbated in the event of a significant mobilization.

Functional Category: OSD – Resource Management

Pace of Corrective Action:

Year Identified: FY 2002

Original Target Correction Date: Not Applicable.

Targeted Correction Date in Last Year's Report: Not Applicable.

Current Target Date: FY 2004

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account:

			($000s)			
Appropriation(s)	**FY 02**	**FY 03**	**FY 04**	**FY 05**	**Cost-To-Complete**	**Total**
OMA	TBD					
NGPA	TBD					

Validation Process: The Army National Guard (ARNG) will verify that adequate Army policy guidance in these areas has been published.

Results Indicators: Up-to-date, timely and effective procedures for processing LOD & Incap pay. Fewer soldiers dunned by medical care providers, including reducing the number of Inspector General investigations and congressional inquiries into late and unpaid medical bills or the lack of due process.

Source Identifying Weakness: Army National Guard staff and State assessments, and Internal Review audits.

Major Milestones in Corrective Actions:

A. Completed Milestones:

Date:	**Milestone:**
11/93	**LOD:** ARNG provided comments on the Reserve Component (RC) portions of the draft AR 600-8-4.
04/94	ARNG sent official regulation request change (DA Form 2028).
09/96	ARNG representatives meet with HQDA to address AR 600-8-4 publication.
03/97	AR 600-8-4 underwent major revision due to statutory changes related to soldier medical/duty status (FY 1997 National Defense Authorization Act).
09/97	Pending rewrite of AR 600-8-4, authority granted to State Adjutants General to approve informal LOD and function as reviewing authority for formal LOD investigations for ARNG soldiers.
08/98	Publication of AR 600-8-4 delayed due to personnel shortages in HQDA G-1.

A. Completed Milestones: (Continued)

Date:	Milestone:
07/00	Coordination and review of revised draft AR 135-381 and DA Pamphlet (PAM) begins with ARNG and USAR (OCAR).
08/01	AR 135-381 reorganized with updated information on policy qualifications & legislative changes; coordination of revised AR & DA PAM started.
06/02	Work group reviewed AR 600-8-4 and determined that the RC should have a separate chapter.
07/02	ARNG and US Army Reserve (USAR) developed policies, procedures and mandated tasks.
09/02	As a stopgap measure, ARNG placed AR 600-8-1, dated 18 Sep 1986 on its website for States to use until new guidance is issued.
08/99	**Incap Pay**: Statutory requirements results in revisions and testing of new Claim forms delaying revisions to AR 135-381.
07/00	Coordination of new draft AR 135-381 and DA Pamphlet (PAM) begin review with the ARNG and the USAR (OCAR).
08/01	AR 135-381 reorganized with updated information on policy qualifications; coordination of revised AR & DA PAM began.
08/01	OTJAG unable to review draft AR 135-381 and DA PAM for legal sufficiency until after Department of Defense Directive (DODD) 1244.2, Reserve Components Incapacitation Benefits, is published.
09/02	OTJAG re-initiated its legal review of draft AR 135-381.

B. Planned Milestones (FY 2003):

Date:	Milestone:
TBD	**LOD Pay**: New AR 600-8-4 published.
TBD/03	**Incap Pay**: G-1 coordinate with OSD (P&R) publication for guidance (DoDD 1244.2).

B. Planned Milestones (FY 2003): (Continued)

Date:	**Milestone:**
TBD/03	**Incap Pay:** Revised AR 135-381 published.

C. Planned Milestones (Beyond FY 2003):

Date:	**Milestone:**
09/04	ARNG issues guidance on LOD and Incap pay based on revised ARs 600-8-4 and 135-381.

Status of Participating Functional Organizations:

Office of the Under Secretary of Defense (Personnel & Readiness)
Office of the Deputy Chief of Staff, G-1
Office of The Judge Advocate General

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UNCORRECTED MATERIAL WEAKNESS

AICO-02-003

Title and Description of Material Weakness: Army Purchase Card Program. GAO identified a lack of adherence by Navy activities to established purchase card internal controls. Although no substantial instances of fraud, waste and abuse were identified, an environment existed that could have easily fostered fraud. As a result, the GAO expanded its audit to review Army and other DoD component activities, and found similar problems.

The Army has positively addressed every GAO finding pertaining to the Army Purchase Card Program. To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA(ALT)) has aggressively sought to establish positive controls in areas where weaknesses were found.

Functional Category: OSD - Contract Administration
Army – Acquisition

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: Not Applicable.

Targeted Correction Date in Last Year's Report: Not Applicable.

Current Target Date: FY 2003

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

				($000s)		
Appropriation(s)	**FY02**	**FY03**	**FY04**	**FY05**	**Cost-To-Complete**	**Total**
TBD						

Validation Process: The USAAA will validate the effectiveness of corrective actions in resolving the material weakness.

Results Indicators: The Army has addressed every GAO finding and all have been positively addressed in the Army Purchase Card Program.

Source(s) Identifying Weakness: GAO audit report dated June 27, 2002, "PURCHASE CARDS: Control Weaknesses Leave Army Vulnerable to Fraud, Waste and Abuse," (GAO-02-732).

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
05/02	OASA(ALT) memo directed heads of contracting activities to issue purchase cards on an as needed basis, and ensure authorization controls are properly used and cards cancelled when appropriate.
06/02	Canceled 1700 accounts that were inactive or fell outside the mandated span of control limits. Continuing to review accounts with DoD for possible cancellation.
06/02	Participated in the DoD charge card task force to identify and strengthen internal control weaknesses.
07/02	Vice Chief of Staff Army memo issued directing Army commanders to provide adequate resources for Purchase Card Program coordinators to ensure a system of strong internal controls.
07/02	Prepared and issued a Standard Operating Procedure for the Purchase Card Program.
08/02	Communicated the Secretary of the Army plan to improve purchase card program to Deputy Secretary of Defense.
08/02	Requested USAAA perform an audit on the implementation of corrective actions based on the above direction and guidance provided to the field.
09/02	Supported DoD's "data mining" effort in identifying and investigating questionable card transactions. Part of an ongoing effort with the Inspector General, DoD, USAAA, and Defense Criminal Investigative Service to evaluate data mining software for effectiveness in identifying questionable card transactions.

B. Planned Milestones (Fiscal Year 2003):

Date:	Milestone:
TBD/03	USAAA validation.

C. Planned Milestones (Beyond Fiscal Year 2003): Not Applicable.

Status of Participating Functional Organizations: Not Applicable.

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UNCORRECTED MATERIAL WEAKNESS

AICO-01-001

Title and Description of Material Weakness: Standard Procurement System (SPS) interface to Computerized Accounts Payment System (CAPS). SPS was intended to be fielded as a paperless contract writing system using electronic data feeds to create electronic images of contracts viewable by paying offices and to populate CAPS data fields to effect payments. Army contracting offices currently use SPS to write contracts for vendors at Army posts, camps and stations with the Defense Finance and Accounting Service (DFAS) using CAPS to process payment information for most of these contracts. The Army is experiencing numerous problems getting these systems to work together effectively. Reliable electronic data feeds from contracting offices to CAPS paying offices has not been established to support timely and accurate payments of contractors in accordance with 5 Code of Federal Regulations Part 1315 (Prompt Payment).

Use of contract images posted in the Electronic Document Access for use by DFAS paying offices has not yet proven reliable, requiring the contracting offices to forward printed copies of the contracts to the paying office. Furthermore, the electronic data file of contract information created by the SPS interface program has been only sporadically successful, requiring manual entry of vendor payment data upon receipt of the paper contract when the electronic data feed fails. This problem has directly contributed to the late payment interest penalties of about $470,000 in FY 2001 by the Army. In many of these cases where the SPS interface failed, the paper contract is received well after goods and services are provided and accepted to the government. If not corrected, Army contracting offices will be required to forward paper contracts to paying offices increasing the likelihood of erroneous contractor payments, and unnecessary interest payments. In addition, contracting and paying personnel will not meet the goal of paperless contracting, resulting in other inefficiencies in processing these payments.

To correct this problem, the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) (OASA (AL&T)) and DFAS entered into a Memorandum of Agreement (MOA) to address data migration and interface requirements for information from SPS to CAPS.

Functional Category: OSD - Contract Administration
Army – Acquisition

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2002

Targeted Correction Date in Last Year's Report: Not Applicable.

Current Target Date: FY 2004

Reason for Change in Date(s): Progress has been made towards achieving MOA Certifications. However, the pace has been extremely slow. DFAS and Army have looked at the process and have determined that a revised approach is warranted. Originally, the certification schedule tested Army sites and DFAS payment offices in no particular order. There are several sites and payment offices where testing and certification was performed with little or no issues. There were other contracting sites and payment offices that were tested and retested with the same or worse results. With the revised approach, DFAS and Army will concentrate on one payment office and the testing and certification of a selected contracting office. Once the contracting office is certified, then the next selected contracting office will be tested and certified with same payment office. The testing and certification process will continue in this fashion for a month. DFAS and Army will review the results and determine if the revised testing/certification procedure is successful or will there be a need for further alteration to the testing method. The schedule is contingent on the SPS Program Office delivering to the Army SPS 4.2 version 2 in September 2003. The new version will replace the current SPS-CAPS interface, which is a contributing factor inhibiting the Army from consistently passing data from SPS to CAPS. Upon government acceptance, the Army will deploy the new version and begin the process of converting sites from the old interface to the new XML-Defense Electronic Business Exchange (DEBX) interface.

Component/Appropriation/Account Number:

			($000s)			
Appropriation(s)	**FY02**	**FY03**	**FY04**	**FY05**	**Cost-To-Complete**	**Total**
OMA	$25	$50	$75			$150

Validation Process: The US Army Audit Agency will review the effectiveness of these corrective actions in resolving the material weakness.

Results Indicators: This process will update the payment and accounting system and provide timely and accurate payment to the vendor. Additionally, the process allows contracting personnel to realize processing efficiencies.

Source(s) Identifying Weakness: Accounting and commercial accounts offices.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	**Milestone:**
04/01	DFAS established a working group task force with representatives from OASA (ALT), OASA (FM&C) and SPS Program Management Office to address problems encountered and to coordinate a Paperless Contracting MOA between Army and DFAS.

A. Completed Milestones: (Continued)

Date:	Milestone:
11/01	Paperless Contracting MOA signed between Army and DFAS.
12/01	Initial implementation of the Paperless Contracting Memorandum of Agreement between Army contracting Offices and DFAS.
06/02	SPS Version 4.2, Increment 1 fielding begins. This version will include enhancements that are expected to facilitate the Army payment process. Deployment to continue through 2nd Quarter FY 03.
07/02	SPS Version 4.2, Increment 2 awarded with Adapter. The Adapter will replace SPS Interface to CAPS. Delivery to Government is scheduled for early 3rd Quarter FY 2003.

B. Planned Milestones (Fiscal Year 2003):

Date:	Milestone:
03/03	SPS Version 4.2, Increment 1 Army deployment complete.
04/03	Adapter delivered to Government. Test & acceptance performed.
08-09/03	Adapter with SPS v4.2, Increment 2 available for Army deployment.
09/03	Deployment starts.

C. Planned Milestones (Beyond Fiscal Year 2003):

Date:	Milestone:
03/04	Adapter deployed and operational.
05/04	USAAA validation.

Status of Participating Functional Organizations: Not Applicable.

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UNCORRECTED MATERIAL WEAKNESS

AICO-99-001

Title and Description of Material Weakness: Financial Reporting of General Equipment (formerly titled "Financial Reporting of Real Property and General Equipment"). The Army does not currently meet Federal Accounting Standards for the financial reporting of Real Property and General Equipment. In November 1995, the Federal Accounting Standards Board issued the Federal Accounting Standard Number 6, Accounting for Property, Plant and Equipment (PP&E). This Standard identifies four categories of PP&E, to include Real Property and General Equipment, and requires Federal agencies to present fairly the cost and depreciation of these assets in their financial statements.

To meet the requirements of this Standard, the Army implemented the Defense Property Accountability System (DPAS), a new CFO-compliant system for reporting Real Property and General Equipment. DPAS will replace or interface with existing non-compliant systems and bring the Army into compliance with Federal Accounting Standards.

Failure to meet this standard for financial reporting does not mean the Army lacks property accountability. However, the Army's inability to identify an item's acquisition date and cost prevents the computation of depreciation and the determination of value for financial reporting. This inability to accurately report the financial value of Real Property and General Equipment, in turn, has been a major factor in the Army's failure to obtain an unqualified audit opinion on its annual financial statements.

Note: This material weakness has been restructured to treat the General Equipment and Real Property portions separately. In FY 2002, the Army completed implementation of the automated Defense Property Accountability System that should resolve the problems associated with financial reporting of General Equipment. We intend to close out this material weakness in FY 2003, after the US Army Audit Agency (USAAA) has validated the effectiveness of our corrective actions. The Office of the Assistant Chief of Staff for Installation Management is studying possible actions to correct the real property problem and intends to report it as a separate Army material weakness in FY 2003.

Functional Category: OSD - Comptroller/Resource Management
Army - Financial Management

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2001

Targeted Correction Date In Last Year's Report: FY 2002

Current Target Date: FY 2003

Reason for change in Date(s): Awaiting USAAA validation of Army corrective actions.

Component/Appropriation/Account Number:

			($000s)			
Appropriation(s)	**FY 02**	**FY 03**	**FY 04**	**FY 05**	**Cost-To-Complete**	**Total**
None						

Validation Process: USAAA will validate the effectiveness of corrective actions.

Results Indicators: The Army will be substantially closer to receiving an unqualified audit opinion on its annual financial statements. In addition, the Army will benefit from DPAS implementation through: improved management oversight and accountability of PP&E; improved management access to PP&E information and operating results; and standardized property book accounting throughout the Army.

Source(s) Identifying Weakness: Management Review (Army Equipment Working Group and Army Integrated Process Team for Real Property). Audits of Army financial statements performed by USAAA (USAAA 97-149), Army's Principal Financial Statements for Fiscal Year 1996 -- Financial Reporting of Real Property and USAAA 99-192, Army's Principal Financial Statements for Fiscal Year 1998 -- Financial Reporting of Army General Equipment Financial Statements).

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	**Milestone:**
04/99	Initiated fielding of DPAS to TDA and installation property books.
09/00	Activated Logistics Support Activity Weblog web site for FY 00 equipment reporting.
07/01	Office of the Deputy Chief of Staff, G-4 mandated that General Equipment residing in MTOE property books be transferred to the TDA or installation property books utilizing DPAS.
09/01	Completed implementation of DPAS for General Equipment reporting on September 30, 2001 except for two sites in EUSA.
09/01	Incorporate corrected PP&E values (Army Working Capital Fund and General Fund) into FY 01 financial statements.
04/02	Completed 100 percent fielding of DPAS for General Equipment to all TDA and Installation property books containing General Equipment.

B. Planned Milestones (Fiscal Year 2003):

Date:	**Milestone:**
TBD/03	USAAA to validate the Army's implementation of DPAS.

C. Planned Milestones (Beyond Fiscal Year 2003): None.

Status of Participating Functional Organizations:

Defense Finance and Accounting Service--Support Assured.
Defense Logistics Agency, DPAS Program Office--Support Assured.
Army, Office of the Deputy Chief of Staff G-4--Support Assured.

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UNCORRECTED MATERIAL WEAKNESS

AICO-98-003

Title and Description of Material Weakness: Management of Unexploded Ordnance (UXO) and Munitions Constituents (MC). Recent reports identified systemic deficiencies in the management of UXO and MC throughout the Department of Defense (DoD). The US Army Audit Agency (USAAA) addressed this issue in their report on "Formerly Used Defense Sites" and their audit of the "Defense Environmental Restoration Account." Neither DoD nor the Army have an effective, integrated and proactive UXO and MC management program that addresses the full life cycle perspective of ranges, land withdrawals, and munitions manufacture, use, demilitarization, and disposal. In addition, there is no consensus among DoD, the Army and environmental regulators as to cleanup standards or preferred cleanup techniques. Without a program to focus and address these issues, the Army's access to military ranges may be at serious risk of being restricted by outside entities such as environmental regulatory agencies, as in the case of the Massachusetts Military Reservation.

Action will focus on preserving the Army's ability to train our soldiers and to accomplish necessary weapons systems and materiel testing, to reduce risks from UXO and MC, and to manage UXO and MC cleanup expenditures by developing innovative technologies and an effective, integrated and proactive UXO and MC management program to address life cycle concerns. All investments necessary to develop, mature and exploit technologies to address UXO and MC will be approved and prioritized by the Army's Environmental Technology Technical Council and executed in accordance with the Army's new Investment Strategy Policy. Program management initiatives will follow policy, guidance, and funding guidelines as they are developed by OSD.

Functional Category: OSD – Property Management
– Force Readiness
Army – Force Readiness

Pace of Corrective Action:

Year Identified: FY 1998

Original Targeted Correction Date: Phase One – FY 1999
Phase Two – To Be Determined.

Targeted Correction Date in Last Year's Report: To Be Determined.

Current Target Date: Phase One – To Be Determined.
Phase Two – To Be Determined.

Reason for Change in Date(s): Phase One - EPA withdrew support of the DoD Range Rule as originally written and staffed, which followed OMB brokered

agreements. OMB requested DoD formally withdraw the Range Rule, which was done on 16 November 2000. DoD is completing final coordination of a new Munitions Response Directive, which will provide the policy driver required for this program.

Phase Two –To Be Determined.

Component/Appropriation/Account Number:

	($Millions)			
Appropriation(s)	**FY 02**	**FY 03-07**	**Cost-To-Complete**	**Total**
BRAC	$15.2	$47.3	TBD	TBD
FUDS (OE)	$39.0	$163.0	TBD	TBD
DERA	$10.0	$40.0	TBD	TBD
Range XXI	$3.0	$38.3	TBD	TBD
RDT&E	$20.0	$47.0	TBD	TBD
MMR	$35.9	$229.6	TBD	TBD

Validation Process: USAAA will validate final corrective actions.

Results Indicators: Correction will result in a comprehensive management program that includes an accurate inventory of Army ranges, improved management of individual ranges, new and enhanced UXO technologies, and improved management techniques at FUDS and BRAC sites.

Source(s) Identifying Weakness: Defense Science Board Task Force report, "Unexploded Ordnance (UXO) Clearance, Active Range UXO Clearance, and Explosives Ordnance Disposal (EOD) Programs (April 1998); DoD, Inspector General (DODIG) Evaluation report, "Evaluation of the Disposal of Munitions Items," (Report 97-213, September 5, 1997); General Accounting Office (GAO) Report, "Unexploded Ordnance – A Coordinated Approach to Detection and Clearance is Needed," (GAO/NSIAD-95-197, September 1995); DODIG Evaluation report, "Review of Policies & Procedures Guiding the Cleanup of Ordnance on Department of Defense Lands," (November 22, 1994); Environmental Protection Agency, "Military Munitions Rule: Hazardous Waste Identification and Management; Explosives Emergencies; Manifest Exemption for Transport of Hazardous Waste on Right-of-Ways on Contiguous Properties; Final Rule," (62 FR 6221, February 12, 1997); Department of Defense "Range Rule Regulatory Impact Analysis, Final Report," (July 3, 1996); and GAO Report "Natural Resources: Defense and Interior Can Better Manage Land Withdrawn for Military Use," (NSIAD-94-87, April 4, 1994).

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	**Milestone:**
09/98	Transitioned from OEESC to the OEESCM. Established the OEESCM subcommittees: Acquisition and Production; Stockpile Management and Demilitarization; Range and Munitions Use (RMUS); and Range Response (RRS). Developed OEESCM Strategic Plan to address the spectrum of issues related to military munitions and military ranges.
03/99	Included in the Program Objective Memorandum (POM) the development process requirements needed to address issues related to UXO management such as requirements for a comprehensive range inventory.
08/00	Developed and implemented program for range sustainment. Army Range Sustainment Integration Council (ARSIC) stood up in 07/00. Framework for Army Range Sustainment Plan completed.
08/00	Began Army Range Inventory with Army Advance Range Survey (AARS) training sessions for all Major Army Commands (MACOMs). Survey and Army Range Inventory Management Plan sent to MACOMs. Phase I completed; Phases II & III expected to be completed by end of FY02.
08/01	Developed and obtained approval of RMUS and RRS portions of the OEESCM Munitions Action Plan (MAP).
11/01	Created MDEP for Munitions response on Other than Operational Ranges; Munitions Response on Operational Ranges; and Studies.

B. Planned Milestones (Fiscal Year 2003):

Date:	**Milestone *(Phase One)*:**
10/02	Army develops implementation and execution policy and guidance (UXO(C)) Corrective Action Plan.
12/02	Publish DoD Directive on Munitions Response.

C. Planned Milestones (Beyond Fiscal Year 2003):

Date:	**Milestone *(Phase Two)*:**
08/03	Develop and publish implementing instructions and guidance for DoD Directive on Munitions Response
TBD	USAAA conducts validation.
TBD	Army develops technologies acquisition plan.

Status of Participating Functional Organization: Based on the scope, this weakness has been designated a DoD systemic weakness. The Office of the Secretary of Defense (OSD) has designated the Office of the Under Secretary of Defense for Acquisition and Technology and the Office of the Deputy Under Secretary of Defense for Environmental Security as the proponent for this action.

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UNCORRECTED MATERIAL WEAKNESS

AICO-97-004

Title and Description of Material Weakness: Manpower Requirements Determination System. The Army has not established effective manpower programs for managing and controlling Tables of Distribution and Allowances (TDAs) workload, organizations and manpower staffing, including reductions in force. The current system for manpower requirements determination lacks the ability to link workload, manpower requirements and dollars. Thus, the Army is not capable of rationally predicting future manpower requirements based on workload. As a result, managers at all levels do not have the information needed to improve work performance, improve organizational efficiency, and determine and support staffing needs, manpower budgets, and personnel reductions.

Functional Category: OSD - Personnel/Organizational Management, Force Readiness
Army - Personnel

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 2000

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2005

Reason for Change in Date(s): In a March 27, 2002 memorandum from the Deputy Assistant Secretary (Force Management, Manpower and Resources), USAMAA was directed to suspend manpower studies of those organizational headquarters under review by the Realignment Task Force (RTF). The purpose was to minimize turbulence in those organizations.

There are currently three sub-plans in this material weakness that are awaiting completion (1) Inclusion of TDA manpower requirements in TAA; (2) Formal certification and quality assurance of manpower requirements determination processes; and (3) Army Workload and Performance System – Depot Maintenance Board of Directors. Completion of the majority of the corrective sub-plans has greatly improved the management and control of the manpower requirements determination process within the Department of the Army and contributed significantly toward correcting the material weakness. The Army stated in its most recent report to Congress on civilian workforce management that it was not able to provide certification that its civilian work force is managed solely on the basis of the workload required to carry out the functions and activities of the

Department, and the funds made available to the Department for each fiscal year. As a result of this report, Headquarters, Department of the Army (HQDA) reassessed the progress to date and the status of the sub-plans remaining to be completed toward resolving the weakness as it was originally defined.

The Army documents civilian and military manpower requirements and authorizations in its manpower and organizational management information systems. In some cases, the difference between requirements and authorizations documented in these systems is 50 percent or less; overall the ratio of authorizations to requirements in the Army is 80 percent. There is some internal debate as to the degree unfunded requirements are met with contractor resources; are otherwise unfilled; or simply are low priority or stale requirements that ought not be resourced. There is also some question as to whether the complete requirement has been fully captured in the Army's manpower and organizational management information systems, given the lack of solid accounting and validation of the workload performed by the contractor workforce. In addition, there is sensing among the senior HQDA leadership that missions are not being validated and there is no process in place that allows approval and prioritization of resources at HQDA level. Based on these preceding factors, it was concluded that the existing sub-plans would not continue to play a substantive role in correcting the material weakness and that further milestones on these plans would not be pursued as corrective actions. The corrective actions reflected below refocus the material weakness plan and include revising the Army Contractor Manpower Reporting Application, improving the rigor of Army's implementation of Section 129a of Title 10, US Code, and the Federal Activities Inventory Reform Act; centralizing and standardizing the documentation of the Army's Generating Force; defining the linkages between the Operating and Generating Forces to improve both requirements and resourcing decisions in the Total Army Analysis process; and developing doctrine to more accurately define and quantify the Generating Force structure. These actions will provide the analytic support and validation and prioritization of missions and requirements necessary to provide leadership with information needed to make near-term and out-year resourcing decisions.

Component/Appropriation/Account Number:

			($000s)			
Appropriation(s)	**FY 02**	**FY 03**	**FY 04**	**FY 05**	**Cost-To-Complete**	**Total**
None						

Validation Process: For FY03 and beyond the ODCS, G-1, and US Army Audit Agency (USAAA) will validate corrective actions.

Results Indicators: Staffing levels of Army organizations will be based on workload associated with valid prioritized missions. Manpower requests contained in Army budget submissions and the dollars required to support the requested level of

manpower will be logically developed from specific workload requirements, which directly derive from missions directed or approved by higher headquarters and approved by HQDA.

Sources Identifying Weakness: Numerous USAAA audits and GAO reports published between 1992 and 1997.

Major Milestones in Corrective Action:

(**NOTE**: Army was cognizant of shortcomings in implementing its requirements determination processes prior to the declaration of this as a materiel weakness in FY 97. Due to the refocus in FY 02 in the material weakness plan corrective milestone actions have been revised accordingly to correct this weakness.)

A. A. Completed Milestones:

Date:	Milestone:
07/02	Established working group to develop a coordinated position that establishes HQDA management and control of the TDA - Generating Force Structure.
Monthly FY 02-03	Working group meets to resolve issues and develop an implementation plan that gains control of the TDA - Generation Force Structure

B. B. Planned Milestones (Fiscal Year 2003):

Date:	Milestone:
Monthly FY 02-03	Working group meets to resolve issues and develop an implementation plan that gains control of the TDA - Generation Force Structure

C. C. Planned Milestones (Beyond Fiscal Year 2003):

Date:	Milestone:
10/03	Issue interim change to AR 570-4, Manpower Management, to reflect policy change in approval authority for determining manpower requirements.
09/04	Project and strategically analyze workload for peacetime and wartime and link to Operating Force inputs.

C. Planned Milestones (Beyond Fiscal Year 2003): (Continued)

Date:	Milestone:
09/04	Ensure accurate documentation of HQDA validated and approved manpower requirements in TDAs.
09/05	Include contractor requirements in Generating Force manpower requirements.
09/05	Prioritize and approve all Generating Force manpower requirements.
09/05	Validate and approve Department of the Army missions.
09/05	Include TDA requirements in the Total Army Analysis process.
09/05	DCS, G-1and USAAA jointly complete validation of corrective actions.

Status of Participating Functional Organizations: Functional organizations participating in the correction of this weakness are internal to the Army.

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UNCORRECTED MATERIAL WEAKNESS

AICO-96-001

Title and Description of Material Weakness: Financial Reporting of Equipment In Transit (formerly titled "In-Transit Equipment Visibility"). Systems interface and logistics process problems cause a significant portion of the in-transit records displayed by the Continuing Balance System-Expanded (CBS-X) to be invalid. The US Army Audit Agency (USAAA) Audit Report AA 96-156 showed that as of July 31, 1995 about 69 percent of the in-transits sampled in CBS-X were invalid. The equipment involved had been received and reported as on-hand by the receiving units, but the receipt transactions did not close out the shipment (in-transit) records. As a result, the Army did not have reliable data on the value of equipment in-transit, and the value of in-transits reported on the Army's financial statements was misstated by a significant but unknown amount. Also, units periodically experienced unnecessary delays when requisitioning equipment because invalid in-transit records caused requisitions to be rejected. This error made it difficult to gain visibility over the total number of major items, determine maintenance requirements, and redistribute equipment.

Functional Category: OSD - Supply Operations
Army - Supply Activities

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2005

Reason for Change in Date(s): During initial validation of corrective actions USAAA found additional problems that must be corrected before closure can be recommended.

Component/Appropriation/Account Number:

			($000s)			
Appropriation(s)	**FY 02**	**FY 03**	**FY 04**	**FY 05**	**Cost-To-Complete**	**Total**
TBD						

Validation Process: Validation will be conducted by the Office of the Deputy Chief of Staff, G-4 (ODCS, G-4) and USAAA.

Results Indicators: Corrective actions will reduce the error rate of in-transit asset data to an acceptable level and will improve asset data accuracy in Logistics Integrated Data Base (LIDB), thus improving asset reporting and document closure procedures.

Source(s) Identifying Weakness: General Accounting Office (GAO) Code 918805, Office of the Secretary of Defense (OSD) Case 9276-C, "FINANCIAL MANAGEMENT: Army Lacks Accountability and Control Over Equipment", September 1993; USAAA Audit AA 96-156, "Financial Reporting of Equipment In Transit", June 1996.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
03/96	U.S. Army Materiel Command (USAMC), per request of ODCS, G-4, establishes a Total Package Fielding (TPF) Improvement Product Team (IPT) to review and investigate problems with TPF process and causes of in-transit document closure failures. DCS G-4 hosted In-Process Reviews (IPRs) to develop potential milestones and "plan of attack" (to include CBS-X Improvement Plan).
09/96	ODCS, G-4 drafted action plan for correcting in-transit visibility problems identified by USAAA. USAMC meets with Information Systems Command Software Development Center-Lee (ISSDCL), Logistics Support Agency (LOGSA), Combined Arms Support Command, and ODCS, G-4 to identify and resolve SARSS-O/CBS-X interface problems. ODCS, G-4 meets with LOGSA and ODCS, G-3 to resolve outstanding problems concerning DODAAC/UIC assignment alignment.
03/97	ODCS, G-4 and LOGSA meet to resolve problems and increase priority of Engineering Change Proposal.
08/97	System Change Request for LSSC work written by USAMC.
02/98	Study begun by LOGSA for using Logistics Intelligence File (LIF) rather than CBS-X to track in-transits.
09/98	Initial work on feasibility of using LIF instead of CBS-X to track in-transits completed.
08/99	USAMC begins open TPF document scrub.
03/00	USAMC completes open TPF document scrub deleting all invalid documents from CBS-X.
09/00	ODCS, G-4 and USAMC begins process of deleting invalid documents from CCSS and LIF. Sets new policy and develops

A. Completed Milestones: (Continued)

Date:	Milestone:
	in-transit closure requirements for new web-based property book system and WLMP.
05/01	Scrub of open TPF documents in LIF and CCSS completed. USAAA begins validation process of corrective actions.
07/01	USAAA stops validation process when it became apparent that additional work is required to complete TPF and non-TPF documents scrub.
09/01	ODCS, G-4 hosts meeting with USAMC, LOGSA, and USAAA to determine additional work required to close weakness. LOGSA began producing reports necessary for completing remaining document scrubs required by USAAA.
11/01	USAMC completed the scrub of remaining TPF documents. ODCS, G-4 met with USAMC and USAAA to determine best way to scrub 6,000 non-TPF bad documents.

B. Planned Milestones (Fiscal Year 2003):

Date:	Milestone:
10/02	Army will begin non-TPF document scrub. ODCS, G-4 will provide USAAA information on how it plans to prevent future in-transit document closure problems from occurring.
10/02	ODCS, G-4 will direct USAMC and LOGSA to work with CASCOM to determine why in-transit document follow-up system does not work and recommend fixes.
10/02	ODCS, G-4 to issue policy message directing materiel fielders to close TPF and non-TPF documents upon handoff to units.
01/03	Web-based Property Book initial fielding begins with projected completion in December 2004.
02/03	Initial fielding of Logistics Modernization Program (LMP) begins.

C. Planned Milestones (Beyond Fiscal Year 2003):

Date:	**Milestone:**
12/03	LMP fielding completed to USAMC.
06/05	Records scrubs completed. Prevention policy issued.
07/05	USAAA validation of records to restart.
08/05	Validation completed. Material weakness closed.

Status of Participating Functional Organizations: Functional organizations participating in the correction of this weakness are internal to the Army. Their actions are described in the weakness.

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UNCORRECTED MATERIAL WEAKNESS

AICO-96-002

Title and Description of Material Weakness: Information Systems Security. There is wide spread recognition that the Army's unclassified automated information systems and telecommunications networks have been attacked and successfully penetrated by unauthorized personnel. These intrusions have led to the identification of systemic deficiencies in systems and network security design and implementation; incident response, containment, and implementation of countermeasures; Information Systems Security (INFOSEC) education, training, awareness; and professional development.

The decisiveness, effectiveness, and potential safety of the Warfighter in attaining national security objectives is at risk because sustaining base information systems and networks have proven to be highly vulnerable to malicious attack. Not only is the information processed and transmitted throughout the Army's systems vulnerable to compromise and exploitation by hostile forces, but also control of the information systems and networks themselves could easily be lost to hostile forces during a national crisis.

Army INFOSEC policy and procedures for managing risk to our information systems, networks, and even our intelligent weapon systems are outdated and must be brought into line with evolving Department of Defense (DoD) and national practices.

To correct these weaknesses, Army leadership has, in the Command and Control (C2) Protect Program Management Plan, outlined the measures that Army leadership will undertake to ensure the Army's portion of the Defense Information Infrastructure is adequately protected. The C2 Protect Program Management Plan is designed to manage and control the growth of C2 Protect initiatives, is in consonance with the Army Enterprise Strategy, and supports the Defense Information Warfare efforts. It had been developed to address the identified weakness, and had been formally signed by the Office of the Deputy Chief of Staff, G-3, (ODCS ,G-3), the Chief Information Officer/G-6 (CIO/G-6), and the ODCS, G-2.

Functional Category: OSD - Communications/Intelligence/Security
Army - Intelligence Activities

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: FY 2003

Current Target Date: FY 2003

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

	($000s)					
Appropriation(s)	**FY02**	**FY03**	**FY04**	**FY05**	**Cost-To-Complete**	**Total**
None						

Validation Process: The CIO/G-6 and the US Army Audit Agency (USAAA) will validate corrective actions at a date yet to be determined.

Results Indicators: There should be an improved ability of the Army to detect attempted intrusions and penetrations through the use of automated detection software, and improved training of Army's systems and network administrators and security personnel. In addition, improvements in our incident report system should result in a significant increase in the number of detected and reported incidents, and a corresponding decrease in the number of systems that are penetrated. Assessments of these incidents will show the effectiveness of trained administrators, and improvements in our detection and reporting systems.

Source(s) Identifying Weakness: General Accounting Office (GAO) report, Information Security – Computer Attacks at Department of Defense Pose Increasing Risks, GAO/AIMD Report 96-84 and USAAA Management Control Review draft report August 1996.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	**Milestone:**
09/96	Army Central React Capability (Army Computer Emergency Response Team (ACERT)) established.
09/97	CIO/G-6, in conjunction with ODCS, G-2, ODCS, G-3, the Assistant Secretary of the Army (Acquisition, Logistics and Technology), and the Major Army Commands (MACOM), developed a Future Year C2 Protect Resourcing Plan for the total force. The resourcing plan, for the total force, provides near, mid, and long term C2 protection requirements developed by the C2 Protect and Information Operations Councils of Colonels.
09/98	Network Enterprise and Technology Command (NETCOM) leveraged the Army Network Support Operations Center infrastructure to establish the ability to monitor the operational status of security routers located at Army Nonsecure Internet Protocol Router Network (NIPRNet) gateways (World-wide Monitoring).

A. Completed Milestones: (Continued)

Date:	Milestone:
09/99	Developed and delivered a phased Security in Depth plan to the Army Chief Information Officer (CIO) and the Vice Chief of Staff, Army (VCSA) 1st QTR FY99. Upgraded technology and security of all Army Domain Name Services 2nd QTR FY 99, identified all DoD Research and Engineering Network and Tri-Service Infrastructure Management Program Office connections to Army networks to determine security vulnerability and required gateway protections in 3rd QTR FY 99. Developed an Army-wide plan to secure all local area networks (LAN), wide area networks (WAN) and Enterprise networks 4th QTR FY 99.
11/00	CIO/G-6 implemented DoD's mandated Information Assurance Vulnerability Alert Compliance Verification process which validates that corrective security actions were implemented.
01/01	Initiated a Biometrics Program to review and evaluate, acquire, and integrate state-of-the-art biometrics technologies into sustaining base and digitized tactical force to enhance information systems security identification and authentication measures.
01/01	Information Assurance (IA) Web Server installed at the Strategic and Advanced Computing Center put all IA Office web sites onto one server and supported them with a relational database. Conducted vulnerability assessments on 54 combat systems.
06/01	Established resident training for System Administrator and Network Manager Security instruction at "School House" in Ft Shafter, HI.

Note: FY 02 milestones were pushed back due to the reorganization and activation of NETCOM.

B. Planned Milestones (Fiscal Year 2003):

Date:	Milestone:
01/03	Continue to maintain and update IA requirements documents and integrate IA measures into Army life-cycle acquisition programs. Also develop contract standards for technology and information technology personnel.

B. Planned Milestones (Fiscal Year 2003): (Continued)

Date:	**Milestone:**
01/03	As part of the Network Security Improvement Program, continue to expand, enhance, and execute a Security-in-Depth strategy for Army information systems to secure all LAN, WAN, and enterprise systems by FY 03. Fortify perimeter security and continuing defense in-depth strategy to achieve the Deputy Secretary of Defense's objectives for Networked Information Systems Security.
02/03	USAAA will continue to conduct Phase IV of its cycle of reviews and new-look audits.
02/03	Develop Predictive IA automated tools and automated risk management strategy.
09/03	CIO/G-6, along with ODCS, G-3 and ODCS, G-2, to rescind current AR 380-19, Information Systems Security and replace with AR 25-XX, Information Assurance. AR 25-XX is draft and in the staffing process and is scheduled for release by late FY 03.

C. Planned Milestones (Beyond FY 2003):

Date:	**Milestone:**
Ongoing	Identify, evaluate, and acquire Software Tools.
Ongoing	Continue the implementation of IA tactics, training and procedures across the full military operations spectrum.

Status of Participating Functional Organizations: Functional Organizations participating in the correction of this weakness are internal to the Army and their support is assured.

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UNCORRECTED MATERIAL WEAKNESS

AICO-88-010

Title and Description of Material Weakness: Automated Mobilization System. Army mobilization exercises in 1976, 1978, & 1980 highlighted that the capability did not exist within the Reserve Component structure (Army National Guard (ARNG) and Army Reserve (USAR)) for maintaining mobilization essential data, and the ability to rapidly respond to mobilization requirements was lacking. Managers at mobilization stations and transportation agencies did not have access to timely and accurate information necessary for the mobilization decision-making process. These mobilization needs were to be originally satisfied through the Continental Army Management Information System initiated in 1979. In August 1986 the Army restructured its Reserve Component Automation System (RCAS) and in February 1988 the RCAS project effort was assigned to the Chief, National Guard Bureau (NGB). RCAS will satisfy the automation requirements of the Reserve Component for day-to-day operations and will significantly enhance their mobilization preparedness and mobilization execution capability. It provides timely and accurate data that can be accessed by Army systems and activities involved in the decision-making mobilization process for the Reserve Component.

Functional Category: OSD - Force Readiness
Army - Mobilization

Pace of Corrective Action:

Year Identified: FY 1988

Original Targeted Correction Date: FY 1990

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2003

Reason for Change in Date(s): To maximize the delivery of RCAS functionality, the final Increment, # 8, will include developed functionality requiring testing & fielding in FY03. Milestone (MS) IIIg was modified from 4th Qtr, FY02 to 2nd Qtr, FY03.

Component/Appropriation/Account Number:

($000s)

Appropriation	FY 02	FY 03	FY 04	FY 05	Cost To Complete	Total
OMAR	$8,894	$8,826	N/A	N/A	N/A	$24,366
OMNG	$13,601	$15,246	N/A	N/A	N/A	$41,483
OPA	$88,698	$68,603	N/A	N/A	N/A	$255,203

Note: FY03 includes cost to complete system acquisition & begin transition to the sustaining phase.

Validation Process: Involves field and functional proponents' input; benefits analysis; independent verification and validation; technical test and evaluation; operational testing; field participation in the evaluation process; RCAS has an established and approved Acquisition Program Baseline which details the Army and DoD Major Automated Information Systems Review Council (MAISRC) review cycle for each incremental release. Defense Acquisition Executive Summary (DAES) Quarterly Reports are submitted to the MS Decision Authority providing updated status. In addition, periodic General Officer Steering Committee meetings are held to monitor the progress.

Results Indicators: The Army will be able to more effectively plan and execute mobilization of Army Reserve and Army National Guard (ARNG) contingency forces.

Source(s) Identifying Weakness: GAO audit report, "General Management Review of the Reserve Components," November 1988.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
3/88	Effect interim actions and controls to resolve the immediate deficiencies: a. Place management control of RCAS program with the Chief, NGB; b. New charter approved by the Secretary of the Army and forwarded to Congress; c. Army Reserve General Officer assigned as RCAS Program Manager.
09/89	Develop an automated information system to satisfy long-range permanent needs for mobilization, administration, and management requirements of the ARNG and for USAR day-to-day operations: a. Complete Functional Description; b. Issue draft request for proposal.
09/89	Army MAISRC Milestone I & DoD MAISRC Milestone I.
09/91	Army MAISRC Milestone II.
03/92	DoD MAISRC Milestone II.
02-03/95	Red Team reviewed the program at the request of Chief, NGB and recommended changes to the overall program to contain cost in 1996 and leverage new technology. The team recommended changes to the direction of the overall program including moving from an x-terminal to a personal computer base, removing multi-level security requirements, providing a separate system for classified data and centralizing data at State Area Commands and Major USAR Commands.

A. Completed Milestones: (Continued)

Date:	Milestone:
09/95	Validation Assessment Team formed to validate recommendations and perform necessary contracting actions to effect program restructure. Revised program was briefed and approved by the General Officer Steering Committee and the DoD MAISRC.
03/96	Awarded contract Modification/Proposal.
09/96	Received Overarching Integrated Process Team (OIPT) MAISRC approval to field Increment 1 for Commercial off-the-shelf (COTS) hardware and software and Wide Area Network telecommunications.
03/98	Received OIPT MAISRC fielding approval for MS IIIb for Database servers, Software Pilot project, some Logistics functionality and Government off the shelf (GOTS) software.
03/00	MS Decision point for Increment 3 MS IIIc covering Force Authorization, Training and Security functionality.
09/00	Completed fielding of Increment 3.
03/01	Completed hardware fielding 18 months ahead of schedule
09/01	MS Decision Review IIId for Increments 4 / 5 completed on Personnel, Mobilization Planning, Force Authorization, Training Management (GOTS), and Occupational Health (COTS functionality). Approved fielding of Increments 4/5 pending DoD Chief Information Officer (CIO) Certification of Increments 4/5 (Certification received Jul '01). Fielding of Increments 4/5 started.
09/01	MS Decision MS IIIe point for Increment 6 on Safety, Force Modernization, Logistics (GOTS), and Mobilization Planning functionality.
09/02	MS IIIf fielding decision for Increment 7 on Mobilization Planning, Safety, Logistics (GOTS) functionality.

B. Planned Milestones (Fiscal Year 2003):

Date:	**Milestone:**
03/03	MS IIIg – fielding decision for Increment 8 on Mobilization, Force Management, Safety, Occupational Health Management, and Military and Civilian Personnel functionality).
03/03	Full Operational Capability – System Sustainment
TBD/03	USAAA validation.

C. Planned Milestones (Beyond Fiscal Year 2003): Not Applicable.

Status of Participating Functional Organizations:

Chief, NGB: Support Assured
Director, ARNG: Support Assured
Chief, USAR: Support Assured
ODCS, G4: Support Assured
ODCS, G-6: Support Assured

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TAB B-3

CORRECTED MATERIAL WEAKNESSES

CORRECTED MATERIAL WEAKNESS

AICO-99-003

Title and Description of Material Weakness: Customer Service Call Center Call Backlog. Statistical reporting information for the Customer Service Call Center reveals as many as 75 percent of the 25,000 calls per month made to its 1-800 number are not fielded by a contact representative. Reasons for this failure stem from under-resourcing for the volume of customers utilizing this avenue for service and lack of standard call center information technology necessary for efficient operations. The net effect is large volumes of customers receive no service. Total volume of calls attempted and those handled is recorded by the supporting software application but insufficient information is available to determine the volume of true customers not receiving service as the system records redials as multiple customers. This function was established in the 1997 Concept Plan for Reorganization of Army Reserve Personnel Center (ARPERCEN) into the Army Reserve Personnel Command (AR-PERSCOM). Specifically the Call Center was established: to use "the capability of the automated phone system and a 1-800-number philosophy, and calls will be directed to customer service representatives (action officers) who will be empowered to take specific actions. This approach mirrors industry standards in the customer service arena." The advantages specified include "a 1-800-number philosophy that supports empowerment, customer support and increased efficiency."

Functional Category: OSD - Personnel
Army - Personnel

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2002

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2002

Reason for Change in Date (s): Not Applicable.

Component/Appropriation/Account Number:

($000s)

Appropriation	FY 02	FY 03	FY 04	FY 05	Cost-To-Complete	Total
OMAR	$2,237					$4,361
OPA						$854

Validation Process: US Army Audit Agency (USAAA) will validate the effectiveness of corrective actions.

Results Indicators: Total number of customers serviced within the Call Center will increase dramatically; level of service provided will exceed customer expectations; and customers will not have to find sources of information other than the Call Center. The goal is to service 100% of all inquiries, 30% through personal service, and 70% through self-service options. The performance indicators will be based on the number of calls offered, answered, abandoned, deflected and final disposition along with the number of times IVR and web site applications are accessed.

Source(s) Identifying Weakness: The Customer Contact Office (CCO), formerly under the Office of the Deputy Chief of Staff, G-1, Administration, and Logistics (DCSPAL). Memorandum, ARPC-RM, 19 April 1999, subject: The Army Reserve Personnel Command (AR-PERSCOM).

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
10/00	Developing self-service capabilities through integrated voice response (IVR) and internet. (Ongoing)
01/01	Implement self-service Evaluations IVR.
05/01	Implement computer telephony integration (CTI)/IVR hardware, software, and consulting services to support prioritization and intelligent routing of calls to minimize human intervention and maximize service.
05/01	Integrate CTI/IVR capabilities with existing systems to maximize systems, solutions and return on investment by improving responsiveness of the Call Center agent and new system development integrating CTI/IVR self-service capabilities (e.g. obtain documents, information, etc.).
08/01	Draft of the Customer Relationship Management (CRM) Strategy was presented to the AR-PERSCOM Commander on 22 August 2001.
11/01	Continue reviews of business processes, identifying/evaluating new technology, cost and resources in coordination with Chief, Information Office (CIO) and Information Support Activity (ISA)-St. Louis.
01/02	Prepared written plan documenting business processes and voice capabilities, alternatives, costs, productivity enhancing

A. Completed Milestones: (Continued)

Date:	Milestone:
	technology, and prioritized phased approach for implementation.
03/02	Ensured there are sufficient resources to accomplish the milestones for FY 2002.
05/02	Further Business Process Reengineering (BPR) and custom integration of client/server, CTI/IVR, knowledge management technologies in soldier management directorates across AR-PERSCOM.
Ongoing	The Call Center has reduced the average number of Customer Service Calls going unanswered for 75 to 23 percent.
Ongoing	Continue development of self-service capabilities through IVRs and the Internet.
09/02	USAAA conducted final validation of corrective actions. Validation report issued 25 September 2002.

B. Planned Milestones (Fiscal Year 2003): Not Applicable.

C. Planned Milestones (Beyond Fiscal Year 2003): Not Applicable.

Status of Participating Functional Organizations: Functional organizations participating in the correction of this weakness are internal to the Army.

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MATERIAL WEAKNESS

AICO-98-004

Title and Description of Material Weakness: Pollution Prevention. Army environmental quality policies, plans, and programs exist at all management levels. However, there remains widespread recognition that the Army's pollution prevention program in particular is not effectively integrated into all Army mission areas. The Inspector General, DoD report referenced below indicates a systemic problem in the DoD acquisition program. To address this concern, pollution prevention must be an integral part of the Army's acquisition and systems engineering processes and all Army organizations must plan, program, budget, and execute their portion of the Army pollution prevention program. An inability to perform these responsibilities properly has resulted in a failure to identify pollution prevention requirements and exploit opportunities to resolve those requirements. These opportunities could reduce costs associated with weapon system acquisition, logistics, training, occupational health, safety, and environmental contamination and restoration.

For example, IG, DoD found that the compliance audit process does not include procedures for oversight and follow-up of pollution prevention program deficiencies. They also found opportunities for potential operational cost savings, reduced health risks, and reduced hazardous waste streams. As a consequence, future costs and potential liabilities associated with environmental compliance and restoration are likely to increase if these issues are not addressed and resolved.

Pollution prevention practices contribute to reducing costs in operations, training, logistics, acquisition, weapons system and materiel management, research, development, test, and evaluation. For example, the Army Oil Analysis Program reduced maintenance costs by reducing the number of times that oil is changed from a vehicle. This reduces the purchasing requirements of new oil and reduces the waste oil stream. All Army commands and development agencies either have not recognized the benefits of practicing pollution prevention or have not placed a high priority on pollution prevention.

Actions have, and will, focus on total Army integration of pollution prevention and how Army communities can improve long-term cost avoidance through pollution prevention. The Assistant Secretary of the Army (Installations and Environment) (ASA(I&E)) will formulate a pollution prevention "Total Ownership Cost (TOC) Reduction" initiative for consideration by the TOC Directorate of the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). This program will involve installation managers, scientists, engineers, weapon system developers, program managers, maintainers, trainers, and logisticians.

Full integration of pollution prevention into the Army's acquisition and system engineering processes for all Army Acquisition Category (ACAT) I systems would begin

in FY03. Pollution prevention costs need to be identified and validated. Finally, the Army Acquisition Corps needs to be trained in the consideration of pollution prevention.

Functional Category: Major System Acquisition; Research, Development, Test, and Evaluation; Manufacturing, Maintenance, and Repair.

Pace of Corrective Action:

Year Identified: FY 1998

Original Targeted Correction Date: FY 2001

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2002

Reason for Change in Date(s): Not Applicable.

Component/Appropriation/Account Number:

			($000)			
Appropriation(s)	**FY 02**	**FY 03**	**FY 04**	**FY 05**	**Cost-To-Complete**	**Total**
None						

Validation Process: U.S. Army Audit Agency (USAAA) will validate completion of this corrective action.

Results Indicators: Alignment of resources during Program Objective Memorandum formulation with policy and guidance to address pollution prevention requirements. Development of an initiative(s) to support pollution prevention-driven weapon system Total Ownership Cost reduction. Documentation of compliance with pollution prevention aspects of DoD policies, Executive Orders, and Federal and State regulations.

Source(s) Identifying Weakness: IG, DoD Report 99-242 Hazardous Material Management for the Black Hawk Helicopter Program, August 23, 1999. IG, DoD Report 99-221, Hazardous Material Management for the T-45 Undergraduate Jet Pilot Training System, July 21 1999. IG, DoD Report 99-209, Data Supporting the DoD Environmental Line Item Liability on the FY 1998 Financial Statements. (No weapon system disposal costs); July 9,1999. IG, DoD Report 99-177, Hazardous Material Management for the C/KC-135 Stratotanker Aircraft, June 4 1999. IG, DoD Report 98-001, Evaluation of the Department of Defense Pollution Prevention Program, October 30, 1997. IG, DoD Report 99-160, Hazardous Material Management on the Grizzly Program, May 17 1999. IG, DoD Report 98-185, Financial Management of the RAH-66 Comanche Helicopter Program, August 6, 1998. IG, DoD Report 97-009, Strategies for Improving DoD Environmental Compliance Assessment Programs, October 1996.

USAAA, Environmental Training, Audit Report 99-295. USAAA, Affirmative Procurement Program, Audit Report 99-235, 20 Apr 99. USAAA Report 98-3, Eliminating Hazardous Materials in Weapon Systems Program Executive Officer for Ground Combat Support Systems. USAAA Report 98-24, Eliminating Hazardous Material in Weapon Systems Program Executive Officer for Tactical Wheeled Vehicles. USAAA Report 98-251, Reusing Tank-Automotive Items. USAAA Report 97-114, Managing the Army's Pollution Prevention Program. USAAA Report 97-115, Eliminating Hazardous Materials in Weapon Systems Program Executive Officer for Aviation and U. S. Army Aviation and Troop Command. USAAA Report 97-116, Environmental Budget Process.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
08/97	Established the Environmental Technology Technical Council and Army Investment Strategy Policy addressing environmental quality technology RDT&E critical requirements.
09/99	Reviewed and revised compliance audit processes to better address pollution prevention requirements and ensure a systemic, quality-based approach to environmental management.
03/00	Re-evaluated the role of the "Environmental Quality Control Committee" and proposed to change to "Energy and Environmental Policy Board" (Co-Chaired by the Under Secretary of the Army (USA) and Vice Chief of Staff of the Army (VCSA)).
04/00	Completed implementation actions for an Affirmative Procurement Program as recommended by the USAAA. Full implementation will occur as Army technical and procurement personnel implement Federal Acquisition Regulation Case 1998-015.
05/00	Completed "Pollution Prevention (P2) in Acquisition Process" Study. Prepared reports addressing (1) Environmental Policy and (2) System Engineering Environmental Methodology Evaluation/Proof of Concept.

A. Completed Milestones: (Continued)

Date:	Milestone:
06/00	Adjusted Program Objective Memorandum FY 02-07 to better focus on environmental goals.
06/00	Conducted Senior Environmental Leadership Conference (SELC). Developed a SELC Campaign Plan for USA/VCSA approval.
12/00	As part of Operations under the SELC Campaign Plan, "must fund" environmental management policies were linked to the Army Planning, Programming, Budgeting, and Execution System (PPBES) process. Reviewed funding policies for environmental quality management and revised as needed to ensure "must fund" environmental management policies are consistent with overarching guidance; e.g., DPG/TAP.
12/00	Provided guidance for and oversight of pollution prevention plans and strategies preparation, updating, and implementation. Reviewed compliance and pollution prevention funding streams and revised funding strategy.
07/01	Completed Mini-POM 03 – 07 to address pollution prevention requirements within appropriate Program Evaluation Groups.
09/01	Began integrating environmental quality considerations into weapon system acquisition system and the system engineering process. Full integration into all ACAT I Army weapon systems' development programs began in late FY 01.
09/01	Developed a pollution prevention training program for use in Army Acquisition Corps training.
03/02	Requested USAAA review to validate effectiveness of corrective actions.
06/02	POM 04 – 09 addressed pollution prevention requirements within appropriate PEGs
09/02	USAAA completed validation of corrective actions. .

B. Planned Milestones (Fiscal Year 2003): Not Applicable.

C. Planned Milestones (Beyond Fiscal Year 2003): Not Applicable.

HQDA/OSD Functional proponent Participating in Corrective Action:
Army – Office of the Assistant Secretary of the Army (Installations and Environment); Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology); Office of the Assistant Secretary of the Army (Financial Management and Comptroller); Office of the Deputy Chief of Staff; G-3 and USAAA. Other DOD Agencies - Support may be needed from the Defense Logistics Agency, Defense Acquisition University, and Deputy Under Secretary of Defense (Environmental Security) to fully resolve this material weakness beyond FY2001.

Point of Contact:

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Review of The Army Management Control Process (Fiscal Year 2002)

An Assessment for the Secretary of The Army

U.S. Army Audit Agency

13 November 2002

Audit Report: A-2003-0054-FFG

DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
Office of the Auditor General

Alexandria, VA 22302-1596

13 November 2002

Secretary of The Army

The U.S. Army Audit Agency performed a review to furnish you an independent assessment of The Army's actions to comply with the requirements of the Federal Managers' Financial Integrity Act of 1982; Office of Management and Budget Circular A-123, Management Accountability and Control; DOD Directive 5010.38, Management Control Program; and DOD Instruction 5010.40, Management Control Program Procedures.

Based on our review, I have concluded that The Army, as an entity, has continued its efforts to ensure that a system of management controls exists in accordance with the Integrity Act, Circular A-123, DOD Directive 5010.38, and DOD Instruction 5010.40. As shown in the enclosure to your annual assurance statement, during FY 02 The Army remained committed to ensuring that the management control process was effective. Some of these actions follow:

- The Army continued to emphasize leadership, training, and process execution in day-to-day operations.

- The Senior Level Steering Group met twice during the fiscal year to review Army-level material weaknesses.

- The management control process benefited from the overall program direction of the Management Services Directorate. The directorate:

    - Furnished functional guidance and executed an education and training program during FY 02.

    - Provided training Armywide to more than 1,000 commanders and managers.

    - Continued to award commanders, managers, and administrators for executing more efficient programs within their organizations.

- Maintained an e-mail network of management control administrators for Headquarters, DA Staff Agencies and major commands.

- Operated a website with information on the management control process.

We found that these actions have had a positive impact on the process.

Again this year, our effort paralleled The Army's emphasis on leadership, training, and execution of the management control process. We also concentrated on support for your statement and the identification and correction of material weaknesses and the publishing of key management controls in Army regulations. A summary of the results of our review follows:

- There has been continued leadership emphasis on the process; senior-level managers at Headquarters, DA and Army major commands have directly participated. Their feeder statements were generally a fair representation of the effectiveness of the process.

- Senior leadership at each level generally evaluated weaknesses identified by external inspection and audit activities for materiality and reported those weaknesses considered to be material.

- Management levels identifying material weaknesses corrected them or scheduled them for correction.

- Headquarters, DA activities and major commands had reasonably effective systems to monitor actions to correct material weaknesses.

- Education and training efforts resulted in increased awareness of feeder statements requirements.

- Activity managers prepared feeder statements that were compiled into an annual assurance statement that the commander or equivalent signed.

The Army continues to provide senior level emphasis on the importance of a system of management controls. For example:

- The Office of the Chief of Staff of The Army, despite the loss of significant records due to the September 11th Pentagon attack, reconstructed management control files. The Chief of Staff personally issued policy guidance emphasizing the program, ensured attendance at The Army Senior Level Steering Group, and trained Senior Level Army leadership to include the Director of The Army Staff.

- The Headquarters, U.S. Army National Guard had an effective process. It provided video teleconferencing on controls needed in The Army Purchase Card Program. It also issued memorandums on an on-going basis addressing requirements on the management control process. It held Senior Level Steering Group meetings to discuss management control weaknesses and related issues.

- The U.S. Army Intelligence and Security Command also had an effective process. It trained managers on a wide scale, training 126 personnel to include 2 Deputy Assistant Chiefs of Staff. Management developed and executed an innovative method of training—an interactive training game called Management Control Jeopardy. It also held Senior Management Councils to discuss management control issues.

We did find, however, that activities needed to continue emphasizing the requirement to include management control responsibilities in managers' performance agreements. Also, activities needed to make sure that they supported management control evaluations with documented tests of controls. Although improvements were needed, the issues we identified were not significant enough to change our overall conclusion on the effectiveness of The Army's management control process.

AR 11-2 (Management Control) requires DA functional proponents to identify the areas that should have key management controls evaluated. The regulation also requires the functional proponent to publish the key management controls, usually in the form of evaluation checklists, in its Army regulations. During FY 02, we found that the functional proponents had published management control evaluations in their key regulations.

I have concluded that The Army continues in its efforts to ensure that a system of management controls exists in accordance with the law and applicable implementing guidance. My overall conclusion is based on the

results of specific reviews done for 55 assessable units at 17 activities, and 18 Army Audit Agency reports issued during FY 02 that included an objective that addressed whether Army regulations identified key management controls. The annual review didn't identify problems that materially affect your annual assurance statement for the Secretary of Defense on the status of internal accounting and administrative controls in The Army.

FRANCIS E. REARDON
The Auditor General

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Did The Army have reasonable support for the Secretary of The Army's FY 02 annual assurance statement?

Yes, The Army had reasonable support for the Secretary of The Army's FY 02 annual assurance statement that a system of management controls exists, as specified in the Federal Managers' Financial Integrity Act, with the exception of the material weaknesses identified in the FY 02 annual assurance statement.

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Did The Army adequately identify and correct, or promptly schedule for correction, material management control weaknesses?

Yes, Headquarters, DA activities and major commands we reviewed had reasonably effective processes in place to adequately identify and correct, or promptly schedule for correction, material management control weaknesses.

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Did DA functional proponents identify and publish key management controls in their regulations?

Yes. DA functional proponents identified the areas that required evaluation of key management controls. They included management control checklists in 101 regulations, including 8 new checklists in FY 02. The three Headquarters, DA activities we reviewed included checklists in their regulations.

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INTRODUCTION

WHAT WE REVIEWED

We conducted an independent assessment of The Army's actions to comply with the Federal Managers' Financial Integrity Act of 1982; Office of Management and Budget Circular A-123, Management Accountability and Control; DOD Directive 5010.38, Management Control Program; and DOD Instruction 5010.40, Management Control Program Procedures.

The Auditor General is responsible for preparing and submitting an independent assessment to the Secretary of The Army assessing implementation of The Army's management control process. To help fulfill that responsibility for FY 02, the U.S. Army Audit Agency reviewed the management control process for 55 assessable units at 17 activities in 9 major commands or Headquarters, DA activities throughout The Army.

RESULTS IN BRIEF

We found that from 1 October 2001 through 30 September 2002, The Army continued actions to ensure it complied with the Integrity Act, Circular A-123, DOD Directive 5010.38, and DOD Instruction 5010.40.

Headquarters, DA activities and major commands took actions to ensure they corrected, or scheduled for correction, the nine material weaknesses reported in the Secretary of The Army's FY 01 annual assurance statement. They corrected two weaknesses (Customer Service Call Center Call Backlog and Pollution Prevention Management) in FY 02. The Army added three new weaknesses (In-Transit Visibility Policy/Standards, Line-of-Duty Pay and Incapacitation Pay—National Guard Bureau, and Army Purchase Card Program) in FY 02.

The Army's FY 02 annual assurance statement was a reasonable representation of the effectiveness of Army activities in complying with the management control process. Senior-level managers participated directly in the process at Headquarters, DA activities and major commands. Management controls were generally in place and operating. However, activities needed to make some improvements to ensure that manager's performance agreements included management control responsibilities and that activities documented tests of controls to support their management control evaluations.

Our review of the Management Services Directorate's inventory of management control evaluations showed that 21 functional proponents were responsible for 101 regulations with key management controls. The proponents published evaluation checklists in all 101 of the regulations, including 8 new ones in FY 02. The three DA proponents we reviewed included checklists in their regulations.

BACKGROUND

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 and Office of Management and Budget Circular A-123 require that each agency establish internal accounting and administrative controls in accordance with standards the Comptroller General prescribes. Further, the systems of internal accounting and administrative controls must give management reasonable assurance that:

- Obligations and costs comply with applicable laws.
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- Revenues and expenditures applicable to agency operations are recorded and accounted for properly so that reliable financial and statistical reports may be prepared and accountability for assets may be maintained.
- Programs are efficiently and effectively carried out according to applicable law and management policy.

Office of Management and Budget Guidance

The Office of Management and Budget, in consultation with the Comptroller General, issued policy, guidance, and standards for use by executive departments and agencies in evaluating, improving, and reporting on internal accounting and administrative control systems. The guidance and standards in effect during our review were in the Office of Management and Budget Circular A-123, Management Accountability and Control.

The Office of Management and Budget requires Federal managers, when implementing requirements of the Integrity Act, to integrate efforts with other efforts to improve effectiveness and accountability. According to

the office, the controls should be an integral part of the entire cycle of management, accounting, and auditing. It further adds that agency managers, who are required by the Integrity Act to follow up on audit recommendations, should use these reviews to identify and correct problems resulting from inadequate, excessive, or poorly designed controls.

Secretary of Defense Guidance

DOD Directive 5010.38 establishes the DOD process for management controls. The directive provides policy, prescribes procedures, and assigns responsibility for the process. The Integrity Act requires the Secretary of Defense to prepare an annual assurance statement for the President and Congress that covers the status of internal accounting and administrative control systems within DOD. The annual assurance statement:

- Identifies the material weaknesses found during the year and includes a schedule for correcting the weaknesses.

- Includes a separate report on whether accounting systems conform to the principles, standards, and related requirements the Comptroller General prescribes.

The Secretary of The Army's annual assurance statement furnishes the basis, with regard to The Army, for the Secretary of Defense's annual assurance statement to the President and Congress.

DOD Instruction 5010.40 gives procedures for the implementation of the management control program. The instruction gives 14 specific criteria for determining whether a material weakness exists.

Army Guidance

Army Regulation 11-2 (Management Control) prescribes the policy and contains guidance for the establishment, surveillance, and execution of The Army Management Control Process.

- Headquarters, DA functional proponents must:

    - Develop and maintain policies and regulations that include effective management controls.

- Determine and explicitly identify the key management controls in appropriate regulations.
- Develop checklists or identify other methods to evaluate management controls.
- Determine which weaknesses merit reporting in the Secretary of The Army's annual statement and provide a description and corrective action plan for them.
- Track corrective progress on weaknesses.

- Major commands and field operating agencies must:
  - Carry out the management controls that the Headquarters, DA functional proponents prescribe.
  - Provide leadership and support to ensure that management controls are in place and operating.
  - Submit an accurate statement describing the status of their management controls.

- Installation, division, major subordinate command, Army commanders, and State Adjutants General must ensure that required management control evaluations are done and that management control responsibilities are explicitly in performance agreements of commanders and managers down to the assessable unit manager level.

- Management control administrators must:
  - Advise the senior responsible officials on the implementation and status of the activities' management control process.
  - Keep commanders and managers informed on management control matters.
  - Identify and provide needed management control training.
  - Develop and maintain a management control program that plans for evaluations over a 5-year period.
  - Coordinate the preparation of the activities' annual statement on management controls.
  - Ensure material weaknesses are tracked until corrected.

- Retain documentation that supports the annual statements and correction of material weaknesses.

- Supervisors must include an explicit statement of responsibility for management controls in the performance agreements of commanders and managers responsible for execution and/or oversight of effective management controls, down to the assessable unit manager level.

RESPONSIBILITIES

The Assistant Secretary of The Army (Financial Management and Comptroller) has overall responsibility for implementing The Army Management Control Process.

The Assistant Secretary delegated this responsibility to the Deputy Assistant Secretary of The Army for Financial Operations. The Deputy Assistant is responsible for furnishing overall guidance and direction on internal accounting and administrative control systems within The Army.

The Office of the Deputy Assistant Secretary assigned the day-to-day administration of the process to its Management Services Directorate. The directorate:

- Furnishes guidance on management control evaluation procedures.

- Establishes and maintains reporting procedures for monitoring management control process accomplishments.

- Prepares The Army's periodic status reports on management control improvement actions.

- Prepares, for the Secretary of The Army's signature, an annual assurance statement regarding the status of the management control process within The Army.

- Coordinates the efforts of U.S. Army activities involved with reviewing, improving, and reporting on accounting subsystems.

OBJECTIVES AND CONCLUSIONS

A – ANNUAL ASSURANCE STATEMENTS

OBJECTIVE

Did The Army have reasonable support for the Secretary of The Army's FY 02 annual assurance statement?

CONCLUSION

Yes, The Army had reasonable support for the Secretary of The Army's FY 02 annual assurance statement that a system of management controls exists, with the exception of the material weaknesses identified in the FY 02 annual assurance statement. Commanders and directors generally:

- Maintained reasonable support for their annual assurance statements.
- Used established guidance.
- Ensured that key management controls applying to their organizations were evaluated to see whether they were in place and operating.
- Furnished management control process training to their employees.

However, the activities we visited needed to make some improvements in the process to ensure that:

- All managers had management control responsibilities in their performance agreements.
- Management control training included additional instructions on the need to perform tests and maintain adequate documentation to support management control evaluations.

All nine of the Headquarters, DA activities and major commands we reviewed effectively carried out the administrative aspects of the

management control program and had processes in effect to provide reasonable assurance that adequate management controls were effective overall.

Although we found areas where improvements were needed, they were not material in nature and therefore did not lower our overall assessment of the effectiveness of The Army's management control process.

BACKGROUND

Headquarters, DA activities; major commands; and field operating agencies are the primary reporting activities in The Army Management Control Process. The heads of these activities are responsible for carrying out the management control process within their activities. They:

- Sign and submit an annual statement of assurance that accurately describes the status of management controls within their activities, to include any material weaknesses and plans for corrective action.
- Designate a senior responsible official to ensure that the management control process is effectively implemented within their activities.
- Provide the leadership and support needed to ensure that management controls are in place and operating effectively.

DISCUSSION

In this section we discuss:

- Leadership support.
- Education and training.
- Implementing the management control process.
- Management control evaluations.

Leadership Support

Senior leadership at the 17 activities we reviewed established and implemented leadership in support of the management control processes in their activities. All of the commanders/directors signed their respective annual assurance statements and took the initiative to emphasize the program at their activities.

They used several methods to place leadership emphasis on the management control process. For example:

- The U.S. Army Intelligence and Security Command discussed and resolved management control issues in Senior Management Council meetings. It held quarterly performance reviews to track and monitor management control issues on an ongoing basis. Senior leadership issued supplemental correspondence supporting the management control program. Command developed and disseminated an innovative training aid—Management Control Jeopardy—to facilitate training in the program.

- The U.S. Army National Guard issued supplemental memorandums on the program, periodically held Senior Level Steering Group meetings to discuss management control issues, and held a video teleconference to address potential weaknesses associated with the purchase card.

Overall, leadership and senior management supported the program. However, we found that two activities did not formally designate management control administrators until the end of FY 02, which did affect the effectiveness of the process at those locations.

Although the two activities appointed administrators late in the fiscal year, the impact was not significant enough to change our overall conclusion on leadership emphasis. We will address the impact on their processes at the activity level.

Education and Training

At Headquarters, DA and at major and subordinate commands, leaders continued to make progress in educating managers on the principles and practices of the management control process. We reviewed training to determine the number of personnel trained and whether the training provided met requirements in AR 11-2.

The Management Services Directorate's management control staff executed an education and training program. The staff offered general management control training courses, which were comprehensive, to

Army managers through the U.S. Department of Agriculture's Graduate School. The school provided formal training to all government managers on the management control process. The staff recognized that formal training was costly and continued an Armywide education and training effort. The directorate reported a total of 24 presentations to more than 1,000 commanders and managers at all levels, and issued awards that recognized those commanders and managers for executing administratively efficient programs within their organizations. The directorate also maintained an e-mail network of management control administrators for Headquarters, DA Staff Agencies and major commands and operated an Internet website that contained information on the management control process.

Our review of training showed that there were some improvements needed in training emphasis. We found that although the training materials addressed some key issues, awareness was not adequate at the activities reviewed. For example, increased emphasis on testing and documentation of tests of controls in training could have possibly led to activities having better support for 24 of the 53 management control evaluations we reviewed. When we asked managers for support for their answers, they usually provided reasonable explanations but stated they didn't document their testing because they didn't know they had to.

As with the leadership area, the training problems found weren't significant enough to change our overall conclusion on training. We will address the matter at the activity level.

Implementing the Management Control Process

Our review showed that The Army continues to successfully implement the management control process. The nine Headquarters, DA activities and major commands we reviewed had adequate management control processes overall, and three were highly effective in their administration of The Army's management control program. Further, the assessable unit managers for those activities had management control responsibilities directly tied to their performance agreements.

Program Implementation. Seven of the nine DA activities and major commands were effective in implementing the process. We made suggestions to the other two to ensure that:

- All managers had management control responsibilities in performance agreements.

- Assessable units were appropriately designated.

- Managers received management control process training.

One of the activities identified these deficiencies in its FY 02 assurance statement and had begun implementing an action plan to correct them.

Program Responsibilities. The majority of assessable unit managers, 35 of the 55, had management control responsibilities included in their performance objectives. However, at each of the 17 activities reviewed, we found that some assessable unit managers didn't have management control responsibilities as a major performance objective in their performance agreements. The managers performed tasks associated with the management control process; however, based on their agreements, they wouldn't be rated on their performance. One activity—the Space and Missile Defense Command—was in the process of updating performance agreements and showed us guidance that it had sent out requiring managers to have a management control statement in their performance agreements. Its actions show that the command is striving to ensure its program is effective. We provided suggested actions at each location we reviewed to ensure that managers had management control responsibilities in their performance agreements. Activities at the sites agreed with our suggested actions. We will address these issues locally in separate site reports.

Management Control Evaluations

Overall, DA functional proponents and major commands conducted evaluations of key management controls to support the status of management controls in their annual assurance statements. Implementing an effective management control process includes evaluating key management controls and reporting material weaknesses in the feeder statements. This can be accomplished by testing key management controls listed in regulations or using alternative methods to ensure key controls are in place and operating. We found that all 17 of the activities we reviewed had implemented procedures for performing evaluations or had used alternative means to identify material weaknesses.

B – MATERIAL WEAKNESSES

OBJECTIVE

Did The Army adequately identify and correct, or promptly schedule for correction, material management control weaknesses?

CONCLUSION

Yes, The Army adequately identified and corrected, or promptly scheduled for correction, material management control weaknesses. During FY 02, Headquarters, DA functional proponents and major commands took actions to make progress in correcting the nine material weaknesses reported in the Secretary of The Army's FY 01 annual assurance statement. They corrected two and identified three new ones. Each Army activity assigned an action officer to:

- Define the weakness.
- Determine the method of correction.
- Monitor milestones to completion.

All Army activities we reviewed had reasonably effective systems to monitor actions taken to correct material weaknesses.

BACKGROUND

Army Regulation 11-2 (Management Control), states that the absence or ineffectiveness of management controls constitutes a management control weakness that must be corrected. The initial determination of whether a weakness in management controls is material can be made at any level of command. If the weakness is considered material and reported, the determination of materially is then reevaluated at each

successive level of command. It further adds that even though a weakness can be corrected at one level, that does not exclude it from being reported to the next level since the sharing of important management information is one of the primary reasons for reporting a material weakness.

DOD Instruction 5010.40, Management Control Program Procedures, provides additional guidance in identifying material management control weakness. It establishes criteria to help in evaluating potential material weaknesses.

Annual feeder statements from field operating agencies, major commands, and DA proponents are required. These feeder statements address the status of management controls within The Army and report on material weaknesses found. Armywide material weaknesses and the status of each weakness are identified in the Secretary of The Army's annual assurance statement. Organizations responsible for tracking the correction of material weaknesses are responsible for maintaining documentation on the status, effectiveness, and validation of corrective actions.

DISCUSSION

In this section we discuss:

- Evaluating and reporting material weaknesses.
- Correcting material weaknesses.
- Monitoring material weaknesses.

Evaluating and Reporting Material Weaknesses

Headquarters, DA functional activities and major commands generally evaluated weaknesses identified by external inspection and audit activities for materiality and reported those weaknesses considered to be material. They were generally aware of the requirement to use other sources such as:

- Management control reviews.
- Management reports.

- Inspection/review teams.

- Review and analysis programs.

At each level of command, high-ranking and knowledgeable personnel evaluated the reported and proposed material weaknesses. If these personnel determined the weaknesses applied throughout the command or were otherwise significant, they reported them to the next level of command.

Army activities identified and reported material weaknesses in accordance with the Management Services Directorate's FY 02 Annual Assurance Statement memorandum dated 22 May 2002. The memorandum required subordinate activities to continue to report material weaknesses during FY 02.

The Services Directorate received 34 feeder statements from DA activities and major commands. We reviewed the feeder statements and found that DA activities and major commands had reported 16 new material weaknesses. The Army Senior Level determined that three of the new material weaknesses should be reported in The Army's FY 02 annual assurance statement.

We did an in-depth review of 9 of the 34 feeder statements. This included reviewing management control processes at 55 assessable units that supported the 9 feeder statements. We found that the activities generally had adequate procedures to identify and report material weaknesses. We did suggest actions to make the process more effective at three of the nine activities.

Correcting Material Weaknesses

Senior level Army leaders either corrected or continued to take corrective action on material management control weaknesses included in the Secretary of The Army's FY 02 annual assurance statement and the statements prepared by subordinate activities. Our review of the FY 01 material weaknesses that showed the responsible activities had completed corrective actions on two weaknesses (Customer Service Call Center Call Backlog and Pollution Prevention Management). The Army Audit Agency validated the effectiveness of corrective actions taken on the material weaknesses before they were closed. In FY 02, The Army identified three new material weaknesses (In-Transit Visibility Policy/Standards, Line-of-Duty Pay and Incapacitation Pay-National Guard Bureau, and Army Purchase Card Program).

The FY 02 assurance statement properly reports that 10 material weaknesses still require corrective actions.

Monitoring Material Weaknesses

All of the Headquarters, DA functional proponents, major commands, and activities that we visited had a process in place to monitor corrective actions. The Headquarters, DA activities and major commands tracked corrective actions. The DA activities and major commands we reviewed have also tasked their subordinate activities to monitor and report the status of corrective actions on weaknesses considered material at their level.

C – KEY MANAGEMENT CONTROLS

OBJECTIVE

Did DA functional proponents identify and publish key management controls in their regulations?

CONCLUSION

Yes. DA functional proponents identified the areas that required evaluation of key management controls. They published checklists in 101 regulations, including 8 new checklists in FY 02. The three Headquarters, DA activities we reviewed included checklists in their regulations.

BACKGROUND

Key management controls are essential to ensuring that critical processes operate as intended and resources are safeguarded. AR 11-2 (Management Control) prescribes the policy for identification and revision of key management controls. DA functional proponents must:

- Develop and maintain policies and regulations that include effective management controls.
- Determine and explicitly identify the key management controls as an appendix in appropriate regulations.
- Develop checklists or identify other methods to evaluate management controls.

There are 32 functional proponents responsible for publishing Army regulations. The proponents decide whether their Army regulation should contain management control provisions and whether the key management controls should be evaluated every 5 years or more frequently. Before the key management controls are published, the

proponent must coordinate with The Army Audit Agency to ensure a common baseline for audit purposes and executive-level approval of key controls to ensure that excessive coverage is avoided. The Army Audit Agency also reviews the publication of key management controls during its audits when guidance for the functional area involves an Army regulation. The Army's field activities aren't required to evaluate the functional areas until DA proponents publish key management controls.

DISCUSSION

In this section we discuss:

- Identification and Publication of Key Management Controls.
- FY 02 U.S. Army Audit Agency Audits.

Identification and Publication of Key Management Controls

Functional proponents of Army regulations identify areas in which field activities need to evaluate key management controls. The Management Services Directorate keeps an inventory of regulations that includes management control evaluations. Our review of the Management Services Directorate's inventory of control evaluations showed that 21 DA functional proponents were responsible for 101 regulations with management control checklists, including 8 new ones published in FY 02.

The three DA-level functional proponents we reviewed included checklists to evaluate key management controls in their key regulations.

FY 02 U.S. Army Audit Agency Audits

The U.S. Army Audit Agency issued 18 reports during FY 02 that addressed key management controls in regulations. Of the reports, eight found that the regulations met the requirements in AR 11-2 for identification of management controls. However, 10 reports identified regulations that weren't in compliance with the AR 11-2 requirements. In those reports, we recommended that the responsible functional proponents develop key management controls for these areas. The DA

functional proponents agreed with our recommendations to take the appropriate actions to identify the key controls and include them in their regulations.

ANNEXES

SCOPE AND METHODOLOGY

We performed the review:

- From July through November 2002.
- In accordance with generally accepted government auditing standards and included the tests of management controls that we considered necessary under the circumstances.
- At the locations listed in Annex B.

The review covered transactions representative of operations during FY 02 to comply with the:

- Federal Managers' Financial Integrity Act of 1982.
- Office of Management and Budget Circular A-123, Management Accountability and Control.
- DOD Directive 5010.38, Management Control Program.
- DOD Instruction 5010.40, Management Control Program Procedures.

We plan to issue reports at each activity we reviewed. We list those activities in Annex B.

We reviewed:

- AR 11-2 (Management Control) and other guidance pertaining to the management control process and implementation of the process.
- Managers' performance agreements for management control responsibilities.
- Training materials and records.
- Audit and inspection reports and other types of reviews to identify potential material weaknesses.
- Current and prior year annual assurance statements.

- Supporting documentation showing how key management controls were tested.

- The status of open material weaknesses to determine if the actions taken were properly reviewed, planned, and reported.

- The status of DA functional proponents' efforts to identify and distribute key management controls to the field.

- Army Audit Agency reports to determine whether functional proponents agreed to add key controls as needed in their regulations.

We also interviewed key personnel and management responsible for the process at the DA level and those responsible for implementation at the activities visited. Additionally, we considered The Army's concern for leadership, training, and process execution.

ACTIVITIES INCLUDED IN THE REVIEW

Assistant Secretary of The Army (Financial Management and Comptroller)
Office of the Chief of Staff of The Army
The Inspector General

U.S. Army Forces Command
- Headquarters
- Fort Carson
- Fort Drum
- Fort Riley

U.S. Army Military District of Washington
- Headquarters
- Fort Belvoir
- Fort Meade

U.S. Army National Guard
- Headquarters
- Virginia National Guard
- California National Guard
- Colorado National Guard

Headquarters, Intelligence and Security Command

Headquarters, U.S. Army Criminal Investigation Command

Headquarters, Space and Missile Defense Command

OTHERS RECEIVING COPIES OF THIS REPORT

Assistant Secretary of The Army (Financial Management and Comptroller)
The Inspector General
Chief of Public Affairs
Director of The Army Staff
Deputy Chief of Staff, G1
Deputy Chief of Staff, G2
Deputy Chief of Staff, G4
Chief, Army Reserve
Assistant Chief of Staff for Installation Management
Chief, National Guard Bureau
Commanding Generals,
- U.S. Army Forces Command
- U.S. Army Space and Missile Defense Command
- U.S. Army Criminal Investigation Command
- U.S. Army Military District of Washington
- U.S. Army Intelligence and Security Command

Commander, 3d MP Group, USACIDC
Commander, 6th MP Group, USACIDC
Commandant, U.S. Army Logistics Management College
Director, Center for Army Lessons Learned

Under Secretary of Defense (Comptroller)
Director, Defense Intelligence Agency
Inspector General, Department of Defense
Auditor General, Air Force Audit Agency

AUDIT TEAM

(Project Code: A-2002-FFG-0806.000)

Operations Center

Fort Belvoir Field Office

Fort Meade Field Office

Fort Lewis Field Office

Fort Bliss Field Office

Huntsville Field Office