

## **Internal Controls over Financial Reporting Corrective Action Plan (CAP) Development Instructions**

Component management is responsible for taking timely and effective action to correct deficiencies identified during tests of design or operational effectiveness of control activities. Correcting deficiencies is an integral part of management accountability and must be considered a priority by the Component<sup>1</sup>.

In accordance with Task 2.2 *Develop Corrective Action Plans*, CAPs should be developed for all deficiencies identified, and the Component's FIP should be updated with specific corrective action plans and target completion dates. Component's management should also identify the appropriate resources and budget requirements needed to implement and execute the corrective actions. Progress against plans should be reported quarterly to the Internal Control PMO. For control deficiencies not reported in the FMFIA report, Mission Action Plans (MAPs) should be developed and tracked internally at the appropriate division/office level. A summary of the MAPs for material weaknesses should be included in the DoD Annual Financial Report (CAP). The summary discussion should include a description of the material weakness, status of the remediation actions, and timeline for resolution<sup>2</sup>.

Component Management should maintain more detailed MAPs internally, and these should be available for OMB review. Component Management processes for resolution and remediation action of identified material weaknesses and reportable conditions in internal control must<sup>3</sup>:

- Provide for the appointment of a Mission Action Plan Official (MAPO). The MAPO should report to the Component's Senior Management Council;
- Require prompt resolution and remediation actions;
- Maintain accurate records of the status of the identified material weaknesses through the entire process of resolution and remediation action;
- Assure that the remediation action plans are consistent with laws, regulations, and DoD policy; and
- Assure that performance appraisals of appropriate officials reflect effectiveness in resolving or implementing remediation action for identified material weaknesses<sup>4</sup>.

A determination that a reportable condition has been corrected should be made only when sufficient remediation actions have been taken and the desired results achieved. This determination should be documented,, and other appropriate documentation supporting the determination should be available for review by the Office of Management and Budget (OMB), the SMC, the Inspector General (IG), and the external auditor.

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<sup>1</sup> Adopted from OMB Circular A-123, Appendix A, Section V.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Standards based upon OMB Circular A-50, Audit Follow-up.

Remediated deficiencies may still need to be reported in the AFR. To be excluded from the AFR, the remediated control must be in operation for a reasonable length of time to determine whether it is functioning as intended during the reporting period.

#### ICOFR Specific Corrective Actions Plans

Components are no longer required to submit a detailed CAP with their ICOFR Statement of Assurance (SOA) memorandum, as all CAPs should be included in the Component Financial Improvement Plans (FIPs) contained in the FIAR Planning Tool. The FIPs are expected to be updated no later than June 30, of each fiscal year in support of the ICOFR SOA submission.

- In lieu of the detailed CAP, Components are required to submit a summary of the material weakness CAP to the OSD Senior Accountable Official by July 11 of each fiscal year. . A template for the material weakness CAP summary is included in Attachment 1. In addition, the financial weaknesses should be aligned to the end-to-end business processes used to organize the FIP work, as shown in Attachment 2.
- The ICOFR SOA memorandum template has been revised to reflect this change and include reference to the detailed CAP's inclusion in the Component FIP. The revised template is included as Attachment 3.
- Components must submit their ICOFR SOA memorandum signed by the Component SAT Chair, along with all the supporting material weakness CAP summaries to the OSD FIAR office by July 11, 2011. The Component SAT Chair should brief the Component Head (or Principal Deputy) on the content and level of assurance contained within the ICOFR SOA memorandum prior to the July 11, 2011 submission.

The OSD Senior Accountable Officials coordinate internal control assessment activities across the Department and participate as active members of the FIAR Governance Board. They clearly communicate assessment objectives throughout the Department and ensure assessments are completed in an effective and timely manner. The OSD Senior Accountable Officials in charge of the reported financial material weakness should meet regularly with the Components that have reported financial material weaknesses. This effort promotes communication of the Department's expectations and ensures monitoring of progress while holding the Components accountable for completing corrective actions. These meetings may start as early as March 2011 and at least one meeting should be held prior to the Component submissions on July 11, 2011. The OSD Senior Accountable Official will brief the Department's summary CAP to the FIAR Governance Board on July 20, 2011

The ICOFR SOA memorandum signed by the Component SAT Chair should be included as part of the Component's overall SOA submission to the Deputy Secretary of Defense on September 1, 2011. Neither the summary of the material weakness CAP or the detailed CAP for the ICOFR material weaknesses are required to be submitted as part of the September 1, 2011 overall SOA unless there have been changes since the July 11, 2011 ICOFR SOA submission. If there are changes, the Component must identify the changes and the reason for the changes by including a statement in a revised ICOFR SOA memorandum and submit the revised memorandum and revised summary of the material weakness CAP with their September 1, 2011 overall SOA.

To better align the reported financial material weakness to the Department's FIAR priorities and the Component FIP related assessable units, we plan to present the weaknesses in the AFR grouped by the end-to-end business process. Attachment 3 illustrates the planned presentation. These changes will be reflected in the updated FIAR Guidance this summer.