OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

MAY 3 2012

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Internal Control over Financial Reporting and Financial Systems Statement of Assurance Reporting Requirements

In December 2011, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Improvement and Audit Readiness (FIAR) Directorate fully integrated internal control over financial reporting and financial systems guidance into the FIAR Guidance. This integration drives efficiency in the utilization of the Department's resources to meet the objective of achieving an audit ready state. In accordance with the FIAR Guidance, Components are required to provide the following by July 13, 2012:

- An internal control over financial reporting and financial systems statement of assurance (SOA) memorandum (see Attachment 1), signed by the Senior Assessment Team (SAT) Chairman, along with all the supporting material weakness corrective action plan (CAP) summaries (see Attachment 2), to the OUSD(C) FIAR Directorate.

- A CAP summary for each identified material weakness to the related Office of the Secretary of Defense (OSD) Senior Accountable Official (see Attachment 3).

The OSD Senior Accountable Officials coordinate internal control assessment activities across the Department, serve as members of the FIAR Governance Board, and should meet regularly with the Components that have reported financial reporting and financial systems material weaknesses. They should clearly communicate assessment objectives throughout the Department to ensure assessments are completed in an effective and timely manner. This effort promotes communication of the Department's expectations and ensures monitoring of progress while holding the Components accountable for completing corrective actions. The OSD Senior Accountable Official will brief the Department's summary CAP to the FIAR Governance Board on July 27, 2012.

The internal control over financial reporting and financial systems SOA memorandum signed by the Component SAT Chairman should be included with the Component's overall SOA submission to the Secretary of Defense on September 4, 2012. If there are changes between the materials weaknesses reported on September 4 and the material weaknesses reported on July 13, the Component must identify the changes and the reason for the changes by including a statement in the revised SOA memorandum, then submit the revised memorandum and revised summary of the material weakness CAP with its September 4, 2012, overall SOA.

Components should submit the signed internal control over financial reporting and financial systems SOA memorandum and supporting material weakness CAP summaries to Mrs. Victoria Crouse no later than July 13, 2012. Mrs. Crouse may be reached at 703-614-7532 or via email at victoria.crouse@osd.mil.

Mark E. Easton
Deputy Chief Financial Officer

Attachments:
As stated

DISTRIBUTION:
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Fiscal Year Internal Control Over Financial Reporting and Financial Systems Statement of Assurance Memorandum

The fiscal year internal control over financial reporting and financial systems statement of assurance (SOA) memorandum must be signed by the Component's Senior Assessment Team (SAT) Chair and should provide the level of assurance related to the effectiveness and compliance with applicable laws and regulations for both internal controls over financial reporting and internal controls over financial systems.

The following format is required for the Component's financial reporting and financial systems SOA memorandum due 10 business days after June 30 of the respective year.

The [Name of Component] conducted an internal review of the effectiveness of the [Name of Component] internal controls over financial reporting for the Financial Improvement Plan (FIP) assessable units identified in the May 20XX FIAR Plan Status Report and related financial systems. The May 20XX FIAR Plan Status Report provides information pertaining to the [Name of Component] accomplishments and identifies the schedule for the [Name of Component] FIP assessable units that are currently under evaluation.

The assessment was conducted in compliance with OMB Circular No. A-123, Appendix A, and the December 2011 (update for the most recent version) DoD Financial Improvement and Audit Readiness (FIAR) Guidance under the oversight of the [Name of Component's] Senior Assessment Team (SAT). The [Name of Component] SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, the [Name of Component] is able to provide: [the statement must take one of three forms: (1) "an unqualified statement of assurance" (no material weakness is being reported); (2) "a qualified statement of assurance" (one or more material weaknesses being reported); or (3) "no assurance" (processes not in place to assess all controls or pervasive material weaknesses)] that the internal controls over financial reporting assessable units as of June 30, 20XX, were operating effectively [(if qualified "with the exception of (number) material weakness(es) noted below).

The [Name of Component] also conducted an internal review of the effectiveness of the internal controls over the financial systems. The [Name of Component] is able to provide: [the statement must take one of three forms: (1) "an unqualified statement of assurance" (no nonconformance is being reported); (2) "a qualified statement of assurance" (one or more nonconformances being reported); or (3) "no assurance" (processes not in place to assess all controls or pervasive nonconformance] that the internal controls over the financial systems as of June 30, 20XX, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-127 [(if qualified "with the exception of (number) nonconformance(es) noted below.

The [Name of Component] also asserts that the material weakness(es) and nonconformance(es) identified below and related corrective action(s) and remediation plan(s) for bringing the system(s) into substantial compliance included in Attachment 1 are supported by the detail included in Financial Improvement Plans(s)(FIPs) as of June 30, 20XX, section 2.

- **<u>Material Weaknesses / Nonconformances</u>**
  <u>[List Name of Material Weakness / Nonconformance and Correction Date. (all detail is to be supported in the FIP and summary of the Corrective Action Plan(s) (CAPs) / Remediation Plan(s) are to be provided as an attachment to this memo.</u>
  For example:
  Military Equipment *May 2014*

- **<u>Corrected Material Weaknesses / Nonconformances</u>**
  [Component will maintain documentation supporting the corrected weakness / nonconformance].
  For example:
  Fund Balance With Treasury: *May 2011*

Signed by Component SAT Chair

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"Component Name"
DoD Material Weakness (e.g. "Hire to Retire – Civilian Pay")
Summary Corrective Action Plan

FIP Related Assessable Unit: *If multiple Component level material weaknesses roll up to the DoD Material Weakness, multiple assessable units may be identified.*

First Year Reported: *Show earliest date reported to OSD. If multiple Component level material weaknesses roll up to the DoD Material Weakness, report earliest date any of these weaknesses was reported.*

Original Target Date: *Target Date First Reported. If multiple Component level material weaknesses roll up to the DoD Material Weakness, report the original target date for the earliest reported Component level weakness.*

Target Date on Prior Year SOA: *Show Target Date Reported on FY 2011 SOA. If multiple Component level material weaknesses roll up to the DoD Material Weakness, report the Target Date (Reported on FY 2011 SOA) for the Component level material weaknesses with the latest target date.*

Status: (On Track/*Slipped)
**If slipped – provide reason for slippage in the Impediments Section below*

Current Target Date: *Target Date Reported on the 2012 SOA*

Description of Weakness:

Multiple Component Material Weaknesses may be linked under a single DoD Weakness

Describe the issue(s) recognized with the design or operation of a control or control(s) that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements related to financial reporting on a timely basis.

Corrective Action Summary:

Present the high level summary of actions procedures in resolving the reported weakness. For example: (1) New system implementation, (2) Process or Control changes that will be implemented, (3) Testing existing compensating controls and improving them or identifying compensating controls that need to be put in place until new system is deployed, and (4) Analyze test results to determine if the weakness has been corrected.

Impediments:

Identify the areas causing delay in meeting milestones in the Component's FIP(s) for correcting the material weakness. If date slipped from previous year, describe what caused the slippage.

FY 2011 DoD Material Weakness Corrective Action Plan

End-to-End Business Process and Material Weakness	OSD Senior Accountable Official
Budget-to-Report	
Budgetary Authority	Mr. Mark Easton, Deputy Chief Financial Officer, OUSD(C)
Fund Balance with Treasury	
Financial Reporting Compilation	
Financial Reporting of Intragovernmental Eliminations	
Hire-to-Retire	
Health Care Liabilities	Mr. Allen Middleton, Deputy Assistant Secretary of Defense for Health Budgets and Financial Policy
Civilian Pay	Mr. Pat Tamburrino, Chief of Staff, Office of the Under Secretary of Defense (Personnel and Readiness)
Military Pay	
Order-to-Cash	
Accounts Receivable	Mr. Mark Easton, Deputy Chief Financial Officer, OUSD(C)
Procure-to-Pay	
Contracts	Mr. Richard Ginman, Director of Defense Procurement & Acquisition Policy, OUSD(AT&L)
MILSTRIP Orders	
Reimbursable Work Orders - Grantor	
Transportation of People	Mr. Pat Tamburrino, Chief of Staff, Office of the Under Secretary of Defense (Personnel and Readiness)
Acquire-to-Retire	
Military Equipment Assets	Dr. Nancy Spruill, Director of Acquisition Resources and Analysis, OUSD(AT&L)
General Equipment	
Real Property Assets	Dr. Dorothy Robyn, Deputy Under Secretary of Defense (Installation & Environment), OUSD(AT&L)
Environmental Liabilities	
Plan-to-Stock	
Inventory	Mr. Paul Peters, Deputy Assistant Secretary of Defense for Supply Chain Integration, OUSD(AT&L)
Operating Materials & Supplies	