

## MANAGEMENT ASSURANCES



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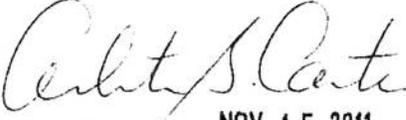
The leadership of the Department of Defense is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and the Office of Management and Budget's (OMB) Circular A-127, "Financial Management Systems." The Department continues to focus on strengthening the Managers' Internal Control Program, not only to meet these objectives but to exceed them.

This past fiscal year, the Department conducted onsite validations of select internal control programs. The purpose of the validations was to determine the strength of the programs and to ensure there was a concerted effort to encourage risk-based self-reporting. The independent review team used benchmarks for validating the Components' internal control programs and provided suggested improvements.

The Department conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular A-123. Based upon the results of this assessment, the Department can provide qualified assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations achieved the objectives of the FMFIA as of September 30, 2011. Details of the material weaknesses identified are available in Addendum A, Other Accompanying Information, of this report.

The Department conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A. This assessment determined that, while the Department continues to achieve measurable progress, it cannot provide reasonable assurance that internal controls over financial reporting were effective as of June 30, 2011. Related to this financial reporting weakness, as of September 30, 2011, the Department's financial systems are not in compliance with the FFMIA and OMB Circular A-127. Details of the material weaknesses also are available in Addendum A.

Improvements in the Department's financial processes remain the focus of the Department's Financial Improvement and Audit Readiness initiative and systems modernization efforts. We remain fully committed to developing a culture centered on an effective control environment for two principal reasons. The first is to ensure that America's Service members have the resources they need to carry out the mission of defending the United States. The second is to satisfy the Department's duty as a steward of the resources entrusted to it.

  
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