

FISCAL YEAR 2008 AGENCY FINANCIAL REPORT



Section 3: Other Accompanying Information

Detailed Federal Managers' Financial Integrity Act Information

Department of Defense
November 17, 2008

Management Assurances



The Department of Defense (DoD)'s leadership is resolute in its determination to continuously establish and maintain effective internal management controls for all mission essential processes. In June 2008, the Public Relations Society of America recognized the DoD as a first-place winner of the prestigious Silver Anvil Award for the best internal communications campaign with a tag line, "Check It. What gets checked, gets done." More information about the Check It Campaign is available on the website: http://www.defenselink.mil/comptroller/micp_heckItCampaign.html. The award winning Check It Campaign reminds members of the Department to double check their work and help ensure effective internal management controls. The Under Secretary of Defense (Comptroller) stated that, "The campaign helped the work force think of the job in a positive way instead of getting negative messages." In addition to public service announcements, posters, and interviews with senior leadership, the Check It Campaign fostered an internal competition for DoD Components to report their best process improvements made due to "checking it," their internal management controls. In two rounds of competition during FY 2008, forty improvements from 24 DoD Components were submitted to the Deputy Secretary of Defense totaling \$3 billion of savings as a result of improving internal management controls. The first place winner in the first round of competition was the Commander of the Multi-National Forces – Iraq. When "checking it," the Commander and his troops conducted a review finding 950 contracts had not been appropriately deobligated or decommitted in the amount of \$831 million, which was reinvested in critical items for the Iraqi Security Forces. During the second round of competition, the Commander of the

United States Transportation Command and his troops reported \$1.9 billion in savings by improving controls that enhance the end-to-end strategic distribution processes, which enhanced capabilities for joint forces deployment and sustainment, strategic refueling, global patient movement and supply management. Tying for first place in the second round of competition, the United States Marine Corps improved the controls over small arms in-transit shipments to reduce vulnerability of loss or theft, diminish the threat to public safety, and ensure that the small arms get to the warfighter when needed. Other improvements are listed in the process improvement Table 1.

The Check It Campaign also helps promote a culture of integrity, accountability and forthright reporting required under the Federal Managers' Financial Integrity Act of 1982.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires Federal agencies to assess the effectiveness of internal management controls for all program, operational, and administrative areas. This assessment is not limited to accounting and financial management.

Internal management controls are the checks and balances that help program and financial managers achieve results and safeguard the integrity of their programs. Internal management control strengthens integrity and accountability within programs and operations, and:

- Is critical for "good government"
- Demonstrates responsible stewardship over assets and resources
- Promotes accountability of Departmental assets and of our leadership
- Enhances the sound delivery of services to customers
- Maximizes desired program outcomes.

DoD Managers' Internal Control Program

The Department conducts self-assessments of the internal management controls under a formalized program known as the Managers' Internal Control Program, which is conducted throughout the Department to include forward deployed units such as the Multi-National Forces - Iraq. Using assessments according to OMB Circular A-123, "Management's Responsibility for Internal Control," as the basis, the Department prepared the fiscal year 2008 Annual Statement of Assurance (presented in the Management's Discussion and Analysis section of this report).

The Department has 34 Component Heads required to report Statements of Assurance to the Secretary of Defense, which include (3) Military Departments, (10) Combatant Commands, (1) Joint Staff, (1) Office of the Secretary of Defense, (1) Office of the Inspector General, (17) DoD Agencies, and (1) DoD Financial Reporting Senior Assessment Team. All Components Heads are required to conduct a robust programmatic approach to establishing and assessing internal management controls for all non-financial mission essential operations. Only specified Component Heads, those that produce stand-alone financial statements, are also required to include a financial reporting assurance.

The Department uses the Component Heads' Statements of Assurance as the foundation for the Department's Statement of Assurance. More information concerning the Department's process for developing the Statement of Assurance is available on the website: <http://www.defenselink.mil/comptroller/micp.html>. The Department asserts that all Components, as prescribed by the Department's regulatory guidelines, have reported their individual statements of assurance over internal control to the Secretary of Defense, except the Uniformed Service University of the Health Sciences, whose reporting has been transferred to the Tricare Management Agency under the Assistant Secretary of Defense (Health Affairs) and Under Secretary of Defense

(Personnel and Readiness). In addition, the Commander of the Multi-National Forces – Iraq, reported directly to the Secretary of Defense rather than the Commander the United States Central Command, resulting in 34 DoD Component Heads reporting to the Secretary of Defense in FY 2008.

Statement of Assurance over Financial Reporting Process:

The Department is using an incremental approach in implementing Appendix A of the OMB Circular No. A-123, and leveraging to the extent possible, existing initiatives such as the DoD Financial Improvement and Audit Readiness (FIAR) Plan management tools and audit documentation.

At the beginning of fiscal year 2006, the Deputy Secretary of Defense established a Senior Assessment Team composed of senior leaders as the governing body for DoD Appendix A implementation. The team issues guidance, defines the scope of the assessments used within the Department, determines the DoD financial reporting weaknesses, and monitors the progress of corrective actions.

The annual guidance issued by the Senior Assessment Team provides a framework for assuring proper planning and implementation of the OMB Circular No. A-123, Appendix A, and prescribes procedures for conducting flow charts, risk assessments, internal control analyses and creating test plans to help promote consistency and comparability of data throughout the Department. The current guidance defines the materiality used by the Department and provides instructions on preparing corrective action plans.

The Department is leveraging its FIAR Plan for the Appendix A implementation by using the resources and capabilities already established for the FIAR Plan. The FIAR Plan is the Department's path to audit readiness and an unqualified audit opinion. The plan describes major impediments identified by auditors and management and sets milestones for resolving problems affecting the accuracy, reliability, and timeliness of

financial information. For process solutions, the plan addresses known major deficiencies and captures work done or to be done by large Defense components in assessing their weaknesses and developing necessary plans for overcoming those weaknesses. The Department uses an incremental approach in implementing Appendix A of the OMB Circular No. A-123, which is congruent with the focus areas of the FIAR Plan. The Department will continue to align its focus areas of the Appendix A effort to be congruent with the FIAR Plan in an effort to maximize resources.

Training and Education

The Department's managers and senior leadership understand that training and education are crucial to the successful execution of the internal management control program and the Check It Campaign. The Office of USD(C) conducted training for over 1,300 DoD personnel at numerous workshops. The workshops were held at various locations throughout the Department, including the American Forces in Baghdad, Iraq. In addition, the DoD conducted a Department-wide training conference attended by more than 260 representatives at the National Defense University in Fort McNair, DC.

Types of Material Weaknesses

The management-identified weaknesses required by the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular No. A-123 fall into three categories:

1. **FMFIA Section 2 Financial Reporting Material Weaknesses** (See Table 2a): Weaknesses identified as materially affecting the Department's financial reporting identified under the oversight of the DoD Senior Assessment Team during the limited assessment of internal controls over financial reporting. The Department is using an incremental approach to comply with the OMB Circular No. A-123, Appendix A, which in FY 2008 included assessments conducted in: fund balance with Treasury; investments; military equipment; real property; Medicare Eligible Retiree Health Care Fund; Federal

Employees Compensation Act Liabilities; environmental liabilities; appropriations received; accounts receivable; inventory; accounts payable; operating materials and supplies; other assets, other liabilities; general property and equipment for the Defense organizations only; compilation of financial reports; and internal use software for the intelligence community only.

2. **FMFIA Section 2 Overall (Non-Financial) Operations Material Weaknesses** (See Table 2b): Weaknesses materially affecting internal management controls usually affect more than one DoD component for all functions except for weaknesses associated with financial reporting or financial systems.

3. **FMFIA Section 4 Financial System Nonconformance Weaknesses** (see Table 2c): Material weakness(es) in the financial system conformance with government-wide requirements such as the Federal Financial Management Improvement Act as prescribed by OMB Circular No. A-127. The Department is reporting one weakness that covers the wide range of pervasive problems identified with financial system nonconformance.

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Table 1. Most Improved Processes

| Process Improvement | By Whom | Result |
|--|---|--|
| Improved processes to prevent excess supplies | Army | Saved \$6.4 million in FY 2007 |
| Decreased out-of-service debt that was erroneously credited to the United States Treasury's miscellaneous receipt account | Navy | Corrected discrepancies and collected \$20.8 million for military personnel and \$1.4 million for reserve personnel during FY 2007 |
| Improved efficiency of pharmacy production | Air Force | Saved \$3.5 million in FY 2007 |
| Achieved better management of training hours, and more efficient and effective training of air traffic controllers | Air Force | Saved \$250 thousand from 2004 to 2008; doubled the number of trained air traffic controllers, increased controller certifications achieved from 29 to 170, and decreased failures to pass by 40 percent |
| Improved controls over small arms in-transit systems to prevent loss or theft while getting them to warfighters | Marine Corps | Recovered 194 weapons and saved \$1.4 million during FY 2008 |
| Improved amphibious assault vehicle depot production line | Marine Corps | During FY 2008, reduced cycle time by 25 percent, reduced cost below budgeted baseline, reduced overtime by 50 percent, and improved quality targets on rework |
| Improved the process and reduced the time to issue common access cards | Joint Staff | During FY 2008, reduced time to issue cards from 12 to 3 days, and saved \$8 thousand per process |
| Created accounting cells augmented by the Defense Finance and Accounting Service to improve deobligating and decommitting of funding on contracts | Multi National Security Transition Command - Iraq | Freed up \$831 million for critical items for Iraqi Security Forces during FY 2007 |
| Provided greater oversight, and improved disbursing and cash management procedures | Joint Special Operations Forces Command | Achieved 100 percent accountability of \$10 million without a loss or overage of funds in FY 2007 |
| Improved ability to project national security capabilities, enhancing worldwide troop movement and sustenance, patient movement, strategic refueling, and supply management | United States Transportation Command | Saved \$1.9 billion from FY 2004 to FY 2008; these savings accrued to the Global War on Terror |
| Improved teamwork and efficiencies by providing augmentation teams of financial management experts for the Defense Support of Civil Authorities Financial Management Process | United States Northern Command | Saved \$3 million in FY 2007 |
| Improved automated capability to maintain control of clearances and access, which helps ensure continued security of most sensitive data | United States Special Operations Command | Saved \$54 thousand each year in FYs 2007 and 2008 |
| Improved information assurance competency | United States European Command | Increased by 40 percent the number of personnel receiving information assurance certifications during FY 2008 |
| Developed a new automated and standardized method to help reconcile ending balances | Defense Finance and Accounting Service | Reduced delinquent receivables by \$2.6 billion in FY 2007, saving \$125 thousand in labor costs per year |
| Increased timeliness of payments due to our Nation's wounded warriors | Defense Finance and Accounting Service | Improved timelines of document processing by increasing the percentage processed within 15 days of receipt from 34 percent to 95 percent |

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| Table 1. Most Improved Processes | | |
|--|---|---|
| Process Improvement | By Whom | Result |
| Implemented an automated customer service ticket tool, which provides better management of customer service requests | Defense Finance and Accounting Service | Completed processing of 14,000 backlogged customer requests during FY 2007 by employing the new tool; estimated annual savings resulting from use of the new tool are \$27.3 thousand |
| Improved management of controlled property, which could endanger national security | Defense Logistics Agency | Removed from sales to the public approximately 300,000 line items from FY 2006 to FY 2008 |
| Re-engineered capital asset management processes to more closely track and report capital assets acquired to ensure accurate asset values and timely recording of assets in the financial accounting and subsidiary systems. Improvements include creation of a Capital Project Procurement code, and new "Due-in" and "Due Diligence" processes | Defense Information Security Agency | Capitalized \$336 million in assets not previously reported; identified and began depreciating \$152 million in assets not previously activated in the subsidiary property system; improved overall management of \$2.9 billion in capital assets |
| Improved the process for reimbursement of manufacturer coupons | Defense Commissary Agency | Reduced aged coupons awaiting reimbursement by 74 percent, and reduced outstanding debt by approximately \$140 thousand during FY 2008 |
| Improved the process of transferring funds to another government agency | Missile Defense Agency | Incorporated a rigorous approval process for funds transfers, resulting in reduced risk and improved oversight of \$1.2 billion. |
| Improved administrative tasks | Defense Contract Management Agency | Reduced the number of physical servers, and consolidated 18 data centers into five |
| Implemented procedures to prevent unauthorized or prohibited items purchased at \$8,000 or more. | National Geospatial - Intelligence Agency | Eliminated the risk of unauthorized or prohibited purchases of \$8 thousand or more |
| Standardized software purchases | Defense Contract Audit Agency | During FY 2007 reduced maintenance renewal costs by \$196 thousand; saved \$51 thousand from reduced or cancelled subscriptions |
| Re-engineered reimbursable customer order and accounts receivable processes | Defense Intelligence Agency | From FY 2005 to FY 2007, achieved efficiencies to reduce unbilled revenue from \$13.8 million to \$0 and collect \$30 million in outstanding accounts |
| Designed more efficient asset identification and tracking system. | Defense Security Services | Inventoried and bar-coded 100 percent of information technology assets for maintenance in the Defense Property Accountability System |
| Improved the process for generating travel vouchers | Defense Advanced Research Projects Agency | Reduced lost or misplaced travel vouchers by 90 percent during FY 2008 |
| Awarded a more cost effective contract to improve contracting services for leased copiers | Washington Headquarters Services— Director of Administration and Management, Office of the Secretary of Defense | Saved \$175 thousand from negotiated service waivers in FY 2007, \$563 thousand in FY 2008, and projected savings of \$1.1 million in the out years |

Table 1. Most Improved Processes

| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| Title | 1. Valuation of Property Plant and Equipment - Military Equipment |
| Description of Issue | DoD's inability to accurately report the financial value of military equipment supports the probability of material misstatement in financial reporting. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Completed the initial military equipment program valuations. • Developed and delivered training classes for updating baseline valuations. • Collaboratively reengineered the process to collect information at the contract level, and published the policy to support the reengineered processes and policies. • Completed the initial operational testing and loading of data for the Capital Asset Management System-Military Equipment, Increment 1, and achieved full operational capability. • The Navy interfaced the accountability systems with the Item Unique Identification registry and completed the registry of the Capital Asset Management System – Military Equipment. • Achieved initial operational capability for the Increment 2, Spiral A of the Capital Asset Management System-Military Equipment. • Developed and delivered the Defense Acquisition University training module for fiscal and physical accountability and management of DoD equipment. <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> • Develop and issue guidance on “full cost” and on “modifications.” • The Air Force will test and validate the internal controls for military equipment. • Achieve full operational capability for the Increment 2, Spiral B, of the Capital Asset Management System - Military Equipment. • The Army will validate the auditability of military equipment. • The Navy will assert audit readiness. • Ensure that the United States Special Operations Command provides assertion that the military equipment weaknesses are corrected. • The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 1st Qtr, FY 2014</p> |
| Title | 2. Real Property Assets |
| Description of Issue | The Department of Defense does not have adequate internal controls in place to provide assurance that real property assets are identified and properly reported in its financial reports. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Published a revision to the Department of Defense Financial Management Regulation, Volume 4, Chapter 6, “General Property, Plant, and Equipment” that codifies the Statement of Federal Financial Accounting Standards. • Issued a revised capitalization threshold that capitalizes 99 percent of real property assets. • Standardized the core data elements for a real property inventory, and issued the Department of Defense Instruction 4165.14, “Real Property Inventory and Forecasting.” • Received the Military Services’ plans for implementing the real property inventory requirements to streamline the business processes, standardize data elements, and put into practice the business rules as depicted in the Business Enterprise Architecture. • Conducted a business process reengineering of the construction-in-progress to identify sustainable business processes and internal management controls that will improve reliability for construction-in-progress cost information. • Validated the implementation of the Military Services’ standardized data reporting for real property assets. • Revised the guidance on standardized transactions for acceptance and transfer of real property assets. • Continued to monitor the Military Services’ progress toward implementing real property inventory requirements and their sustainable business processes against the Enterprise |

| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <p>Transition Plan.</p> <ul style="list-style-type: none"> Achieved full operational capability for the real property unique identifier registry, which contains the information on Department's owned real property sites and assets. |
| | <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> Validate that the Military Services have updated and/or developed new policies and procedures for real property accountability and financial reporting, and that they have begun implementing sustainable procedures. Validate that the Military Services have completed the real property inventory requirements implementation of sustainable business processes, standard data elements, and consistent internal management controls. Achieve the full operational capability of the reconciliation tool that will be used to improve the completeness and accuracy of the real property records. Develop a standard methodology for the establishment of real property valuation baseline that can be sustained by the implementation of real property inventory requirements processes. Validate that the Military Services have adopted the standard methodology to establish the real property valuation baseline and sustained the real property valuation baseline that was identified. Validate that the Military Services have completed the implementation of real property construction-in-progress requirements for sustainable business processes, standard data elements, and consistent internal management controls. The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 2nd Qtr, FY 2013</p> |
| Title | 3. Environmental Liabilities |
| Description of Issue | The Department of Defense internal controls for reporting environmental liabilities do not provide assurance that cleanup costs for all of its ongoing, closed, and disposal operations are identified, consistently estimated, and appropriately reported. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> Revised the Financial Management Regulation to clarify the circumstances that require environmental liability recognition and reporting for munitions response and operational ranges. Developed and issued a change to the regulations that require the reconciliation of property, plant, and equipment, and environmental site records. Formed an environmental liabilities policy workgroup, with representation from the Department Components, to assist in implementing the new environmental liabilities policy and guidance. Published the "Best Practices Guide for Environmental Liabilities," which provides best practices for preparing for an audit and proper accounting that supports environmental liabilities in financial statements. Issued guidance for recognizing, measuring, and reporting environmental liabilities not eligible for the Defense Environmental Restoration Program funding (i.e., non- Defense Environmental Restoration Program guidance), November 15, 2005. This guidance allows the components to develop procedures for identifying and estimating future liabilities not previously addressed under current programs. Published the Environmental Liabilities Recognition, Valuation, and Reporting Requirements document, July 2006, which includes implementation in Component business operations and information technology systems to provide complete and auditable environmental liabilities for financial statement reporting. Completed the Departmental integration of the Environmental Liabilities Recognition, Valuation, and Reporting Requirements into the DoD Business Enterprise Architecture 4.0, published in September 2006. The Navy estimated environmental disposal liabilities for all ships and submarines, both conventional and nuclear, and submitted an assertion package. The Department updated the Financial Management Regulation instruction for the Note 14, Environmental and Disposal Liabilities, to meet new disclosure requirements and to improve Department wide reporting. |

| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <ul style="list-style-type: none"> The Department updated the guidance to assist DoD Components in implementing environmental liability policies when estimating and reporting Defense Environmental Restoration Projects environmental liabilities. |
| | <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> Identify the universe of environmental liabilities candidate units, facilities, property, and/or operations where environmental issues have been identified. Complete and document the initial estimates for all sites in the environmental liabilities' universe. Ensure DoD Components have completed the documentation and correction of processes and procedures for creating, changing, reviewing, approving, and liquidating environmental liability estimates. Ensure Components document and validate that all property, plant and equipment records have been reviewed for environmental liabilities and liability is properly recorded. Ensure Components have validated that corrective actions resolved the weakness. The Department will validate that the weakness is corrected. <p>Revised Correction Target Date: 1st Qtr, FY 2012</p> <p>(Although the Senior Assessment Team reported the targeted correction as 1st Quarter, FY 2012, the Army corrective actions extend past the correction date to the 4th Quarter, FY 2012. Therefore the corrective actions and correction target date will be reviewed and impact assess.)</p> |
| Title | 4. Health Care |
| Description of Issue | The military health care current financial processes cannot collect accurate cost and performance information to produce reliable Department of Defense health care financial reports and actuarial liabilities. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> Established procedures requiring the Military Services' medical facilities to submit monthly reports on the quality of their medical record coding. Published a Department-wide policy on how to code medical records. Developed a reconciliation process for reviewing expense data at Military Services' medical facilities. Constructed data that tracks ancillary patient services and matches them to patient and provider encounters. Fully installed a coding compliance editor system within all the military treatment facilities. The Medicare-Eligible Retiree Health Care Fund resolved the backlog of claims issues, therefore remedying previously reported actuarial valuation data sourcing weaknesses; remapped the Trust Fund Account System account balances to the United States Standard General Ledger accounts and completed mapping the United States Standard General Ledger accounts to the financial statements, therefore remedying the presentation of distributed offsetting receipts weaknesses; and began to develop the methodology for the per capita rate. <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> The Medicare-Eligible Retiree Health Care Fund will fully develop the methodology for the per capita rate; will receive consensus on the developed methodology among appropriate stakeholders to include: the TRICARE Management Activity Program Analyses and Evaluation, the DoD Comptroller, and the Office of the Actuary; and will use the per capita rate methodology to compute FY 2009 Medicare-Eligible Retiree Health Care Fund Health Care Liability and the FY 2010 Distribution Plan to the Military Services in August 2009. The Service Medical Activities will map the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services medical systems requirements into the Line Services Information Technology Solutions; and will monitor the data from the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services for integrity and data conversion issues. The Service Medical Activities will implement information technology solutions for the core |

| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <p>financial systems of line service for the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services; and will reconcile the Medical Expense and Performance Reporting Systems Expense Assignment System IV data for the Army Medical Command, the Navy Bureau of Medicine and Surgery, and the Air Force Medical Services.</p> <ul style="list-style-type: none"> The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 4th Qtr, FY 2015</p> |
| Title | 5. Fund Balance with Treasury |
| Description of Issue | DoD is unable to reconcile cash account balances to the Department of the Treasury cash account balances. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> Accounting service sites documented process transactions for reconciling, tracking, and reporting clearing accounts, intragovernmental payment and collection system statement of differences, check issue differences, and financial statement compilation. Identified and documented limited processes and controls that significantly impact Fund Balance with Treasury balances. Performed risk and control assessments to identify potential weakness areas in processes. The Defense Finance and Accounting Service and the Defense Logistics Agency partnered to resolve 97 percent or \$168 million of the \$173 million of the Defense Logistics Agency's Working Capital Fund's unsupported undistributed disbursements and collections. A joint Defense Finance and Accounting Service and Navy team cleared approximately \$250 million in overaged unprocessed accounting transactions by correcting a system logic problem in the Navy's Transportation of Things. The Air Force compiled a list of systems that contain Fund Balance with Treasury activity; identified and documented the entry level data and timeframes that data can be accessed from the General Accounting and Finance System Base Level and the Centralized Disbursing System; identified and documented the type of data available at the Treasury to compare against the data recorded in the Air Force accounting records; analyzed supporting documentation and the validity and accuracy of journal voucher activity, and documented the underlying cause and impacts on the Fund Balance With Treasury reconciliation process; developed and documented a process for reconciling Air Force Fund Balance with Treasury activity with Treasury data; and identified where detail data exists and where there are known data gaps. The Defense Finance and Accounting Service provided the accounting alternatives recommended for \$1.2 million of the Working Capital Fund's undocumented undistributed collections that had not been posted. The Defense Finance and Accounting Service in Indianapolis sponsored a Fund Balance with Treasury customer conference for Army commands and Defense Agencies. The conference provided an overview of the reporting and reconciliation processes. At the request of the DoD Financial Management Investment Review Board, the Office of the Under Secretary of Defense (Comptroller) established a working group to analyze the Department's reconciliation processes and systems, which defined several solutions to improve the reconciliation of Fund Balance with Treasury across the Department. Additionally, the Comptroller implemented one of the working group recommendations by designating the Financial Management Leadership Council as the Senior Steering Group for the Department's Fund Balance with Treasury reconciliation improvement efforts. The Navy Working Capital Fund's group documented the Defense Finance and Accounting Services' collections and disbursements processes; completed the initial business process testing; corrected the Naval Facilities Engineering Command's problem disbursements, which could lead to a misstatement of accounts payable balances if not researched and resolved in a timely manner; corrected Naval Facilities Engineering Command's high volume of unmatched collections; and documented the Military Sealift Command's collections and disbursements business processes. The Defense Intelligence Agency's public accountants used the Internal Controls over Financial Reporting review process to complete an "Auditability Assessment Report" and identified control deficiencies and recommendations. The review identified key business processes and |

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>controls, high control risks, and selective testing of low to moderate risk controls. Under the direction of the Office of the Director of National Intelligence, the Defense Intelligence Agency and the National Security Agency jointly identified a direct relationship with Treasury that bypasses the Defense Finance and Accounting Service’s reconciliation of the Treasury Index 97, Fund Balance with Treasury; for the first time in the history of the agency, the Defense Intelligence Agency reconciled the Military Construction, the Foreign Military Exploitation, and the Base Realignment and Closure appropriation accounts through the end of fiscal year 2007; reconciled all the transactions paid by the National Security Agency through the end of fiscal year 2007; completed 76 percent of the reconciliation of the operations and maintenance accounts; developed and submitted a comprehensive corrective action plan for achieving a balance sheet audit for fiscal year 2011 to the Office of the Director of National Intelligence; and developed an automated reconciliation tool to assist with expediting the reconciliation process.</p> <ul style="list-style-type: none"> • The Army identified requirements to accurately report Fund Balance with Treasury according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.1.1.1.1 and implemented the OMB Circular A-123, Appendix A, according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.1.1.1.2. • The Defense Intelligence Agency reconciled three Fund Balance with Treasury appropriation accounts for fiscal year 2007; completed the Internal Controls over Financial Reporting review for fiscal year 2007 and documented control weaknesses; developed a detailed corrective action plan and submitted it to the Office of the Director of National Intelligence; researched and resolved “abnormal” and “canceling” account balances prior to data conversion; verified that Fund Balance with Treasury balances have been accurately converted to the Financial Management Solutions and Financial Accounting and Corporate Tracking System based on data cleansing and conversion; established a Defense Intelligence Agency team of resources to coordinate with the Defense Finance and Accounting Service for researching and resolving differences; reconciled the Data Element Management Accounting Report for “non payroll” and “payroll” transactions; and determined the strategy for any remaining “unmatched” Defense Finance and Accounting Service file transactions. • The Navy documented and analyzed the accounting processes and associated internal controls for the receipt of funds, collections, non-disbursements, Treasury registration and reporting, field level account maintenance and control and department level budget execution, the Department of Treasury, and Audited Financial Statements; documented the processes and controls for reconciling, tracking, and reporting clearing accounts and resolved deficiencies identified; documented the processes and controls for reconciling, tracking, and reporting of problem disbursements and collections; prepared and submitted the Defense Finance and Accounting Service and Command Level collections validation package; and completed the systems assessments. • The National Security Agency developed the concept of operations to ensure that the Fund Balance with Treasury is auditable. • The Service Medical Activity reconciled disbursement and collection data in the Cash Management Report to the Treasury Account for the Defense Health Program; reconciled the disbursement and collection data in the Cash Management Report to the Defense Departmental Reporting System; and identified the “suspense” amounts reported in the Other Defense Organization financial statements. |
| | <p>B. Planned Milestones for 2009 and Beyond:</p> <ul style="list-style-type: none"> • The Senior Steering Group will implement several near-term solutions, including the update of the DoD Financial Management Regulation for uniformity of Fund Balance with Treasury reconciliations. • The Air Force will create a Cash Reconciliation Unit consisting of Air Force and Defense Finance and Accounting Service personnel that will analyze, monitor, and reconcile differences between the Treasury and the standard General Ledger 1010 account, and will establish and document a plan to comply with the business rules for transferring trading partner data to the Air Force at the transaction level that will support the proper reconciliation of the Air Force Fund Balance with Treasury. • The Chemical Biological Defense Program will effectively complete the database at the transaction level. • The Defense Finance and Accounting Service will provide the Defense Logistics Agency with accounting alternatives for the Columbus Cash Accounting System Tier 2 amounts that need to be written off, because of aged amounts, where insufficient detail was available for proper |

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>reconciliation.</p> <ul style="list-style-type: none"> • The Defense Logistics Agency will identify the Defense Finance and Accounting Service, Indianapolis Center, allocation process, and will integrate the process into a Defense Finance and Accounting Service and Defense Logistics Agency monthly cash reconciliation package. • The Navy will validate the audit readiness of the collections and disbursement processes. • The Air Force will implement new procedures to reconcile current activity in all fund symbols and, on a monthly basis, new procedures to research and reconcile past unreconciled activity. • The Department will develop corrective action plans to mitigate identified weaknesses. • The Defense Logistics Agency will conduct a pilot project with the Defense Finance and Accounting Service to provide the Defense Logistics Agency Accountability Office the population of Fund Balance with Treasury transactions using the Columbus Cash Accountability System. The Defense Logistics Agency Accountability Office will request a sample of the population and the Defense Logistics Agency and the Defense Finance and Accounting Service will deliver the documents through the Defense Logistics Agency's central information repository. • The Navy Working Capital Fund will complete an internal validation of the Defense Finance and Accounting Service collections and disbursements processes and will complete the documentation of the Naval Facilities Engineering Command's Working Capital Fund collections and disbursements business processes. • The National Security Agency will begin testing parts of the Fund Balance with Treasury cycle. • The Fund Balance with Treasury working group will implement several near-term solutions, including a closer look at the Standard Financial Information Structure. • The Air Force will identify and clear reconciling items on a monthly basis, and develop and implement monthly executive "dashboard" reports to communicate with the Senior Air Force Management the timely resolution of cash backlog items. • The National Security Agency will complete the full implementation and Agency wide use of the revised business processes for Fund Balance with Treasury. • The Chemical Biological Defense Program will add basic symbol limitations for the Chemical Biological Defense Program at the Treasury Department. • The Service Medical Activity will investigate the unposted disbursements and collections, post the amounts at the proper limits, and obtain a statement of transactions from the Defense Finance and Accounting Service, Indianapolis Fund Balance with Treasury Division, on "for self" and "by others" transactions in regard to Army, Navy, Air Force, and State Department disbursing offices. • The Defense Intelligence Agency will verify that the Fund Balance with Treasury transactions are recorded accurately and timely in the Financial Management Solutions and the Financial Accounting and Corporate Tracking System; continue to develop formal policies and procedures for resolving "undistributed" balances; provide training to Defense Intelligence Agency and Defense Finance and Accounting Service personnel on new policy and procedures; continue to resolve and record material Defense Finance and Accounting Service differences for eight appropriation accounts ranging from fiscal year 2003 to fiscal year 2007; continue to resolve and record Data Element Management Accounting Report differences; continue to research and resolve State Department discrepancies; continue to research and resolve all material unmatched Defense Finance and Accounting Service file transactions by document numbers; adopt and implement a deposit account with the Treasury based on the Office of the Director of National Intelligence guidance and coordination with Treasury and other DoD Agencies; research and document business processes to identify root causes of discrepancies and develop additional plans of actions; develop policy and procedures for Combatant Commands' Fund Balance with Treasury reconciliation; continue the migration of Combatant Commands into the Defense Intelligence Agency's Fund Balance with Treasury reconciliation; transition reliance from the Defense disbursement centers and move towards utilizing the National Security Agency as the Defense Intelligence Agency's primary disbursement center; and consolidate from the multiple Defense Finance and Accounting Service's disbursing stations to one Defense Finance and Accounting Service location for disbursements and collection of Defense Intelligence Agency funds for activities that are not feasible to move to the National Security Agency. • The Defense Logistics Agency will implement corrective actions resulting from the Defense Logistics Agency Accountability Office pilot project. |
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| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <ul style="list-style-type: none"> • The Chemical Biological Defense Program will develop and issue reconciliation procedures and add appropriate staffing. • The Air Force will perform detail testing, where detail information is available, of reconciliation processes to validate that completed corrective actions are effective. • The Service Medical Activity will reconcile the Statement of Transactions detail to the Summary Statement of Transactions data that is used to create the Pile File and will reconcile the Statement of Transactions detail to the Disbursement Offices' Statement of Accountability. • The Chemical Biological Defense Program will train their staff on reconciliation procedures, test the reconciliation procedures; and validate that the Fund Balance with Treasury variance is not material to the financial statements. • The Defense Intelligence Agency will reconcile cash with the Fund Balance with Treasury during the first quarter of FY 2010; will consolidate evidential matter that supports the Fund Balance with Treasury for management's assertion; will perform an internal review of the Fund Balance with Treasury assertion package; will develop corrective action plans based on internal review; and will focus efforts toward completing all the corrective action plans. • The Department will develop detailed corrective action plans to correct identified control weaknesses. • The Air Force will perform testing, where detail information is available, of reconciliation processes in order to validate the corrective actions completed to date are effective. • The Army will implement sustainable business processes to report Fund Balance with Treasury according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.1.1.1.3; will report Fund Balance with Treasury according to a sustainable business process as required by the Army Chief Financial Officers Strategic Plan 1.1.1.4; will have full operational capability of the General Fund Enterprise Business System according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 7.6; and will revalidate the auditability of the Fund Balance with Treasury according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.1.1.2.2. • The Defense Logistics Agency will complete the development of process cycle memoranda and flowcharts for all identified processes and will reconcile Columbus Cash Accounting System tier 3 variances which relate to unmatched vouchers. • The Department will validate that controls, systems, and processes are effective for Fund Balance with Treasury Reporting. <p>Revised Correction Target Date: 2nd Qtr, 2012</p> |
| Title | 6. Accounts Receivable |
| Description of Issue | The Department of Defense is unable to accurately record, report, collect, and reconcile intragovernmental accounts receivable from other Federal agencies and DoD entities, as well as accounts receivable due from the public. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Used enhanced analytical tools to analyze Army accounts receivable data, reducing processing time, and increasing visibility over accounts receivable management reports at the transaction level. • Revised the joint Defense Logistics Agency and Defense Finance and Accounting Service plans for reconciling source documents and defining accountability and responsibility roles. Also, developed and published guidance. • Developed a detailed aging report for the Navy that will help identify, analyze, and resolve delinquent accounts receivable for both General Funds and Working Capital Funds. • Identified and assessed key business processes for internal control effectiveness. • Completed the concept for the Department-wide automated system solution called the Intragovernmental Value Added Network system; identified participants for piloting the Intragovernmental Value Added Network system; conducted training; completed the system and user acceptance testing; and conducted a proof of concept. • Incorporated the Office of the Under Secretary of Defense (Comptroller) memorandum of revised Intragovernmental Business Rules regarding trading partners into the DoD Financial Management Regulation. • Conducted the Intragovernmental Value Added Network implementation decision briefing to |

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>Office of the Under Secretary of Defense (Comptroller) and the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics).</p> <ul style="list-style-type: none"> • The Defense Finance and Accounting Service completed the first reconciliation between the accounts receivable amounts on the Department's financial statements, Note 5, with the amounts reported on the Office of the Secretary of Defense financial operation metrics. In January 2008, a newly developed automated reconciliation process was implemented which reduced processing from 2 days to less than one hour. • The Defense Finance and Accounting Service improved its rate of referring debt to the Treasury from 22 percent to 43 percent as reported on the Treasury Report on Receivables. This improvement helps the Department better comply with the Debt Collection Improvement Act of 1996. • The Defense Finance and Accounting Service assisted the Army General Fund Enterprise Business System Program Management Office by supplying historical accounts receivable data that the Army can use to pursue establishing an allowance for doubtful accounts. This aids the Army in complying with the Department's policy and Statements of Federal Financial Accounting Standards. • The Defense Intelligence Agency continually improved the accounts receivable database to better monitor, age, and expedite the collection of receivables. As of September 30, 2007, the accounts receivable database was reconciled for the conversion to the Financial Management Solutions and the Financial Accounting and Corporate Tracking System. • The Defense Intelligence Agency implemented the procedures with other DoD customers to facilitate timely collection of receivables; aggressively pursued outstanding receivables; and implemented the use of the intragovernmental payment and collection with their largest customer resulting in a 96 percent decrease in intragovernmental receivables between the 3rd Quarter of FY 2007 and the 3rd Quarter of FY 2008. • The Defense Information Systems Agency completed the final remediation work for both expenditure and revenue cycles; remediated the September 30, 2007, accounts receivable balance; and completed the General Fund position paper and a standard operating procedure for accounts receivable processes. • The Air Force analyzed feeder systems to determine where gaps exist; modified policy and procedures to reflect the transaction data associated with the acceptance and fulfillment of reimbursable orders to comply with requirements; and ensured a dispute resolution process was implemented with all trading partners as directed by Office of the Under Secretary of Defense (Comptroller). • The Air Force analyzed and determined necessary changes to existing Tri-Annual Review processes to ensure compliance with the DoD Financial Management Regulation Volume 3, Chapter 8; evaluated existing pricing strategy for sales to the Foreign Military Sales Trust Fund ensuring compliance with the DoD Financial Management Regulation Volume 15, Chapter 5; identified and documented Foreign Military Sales Order to Cash "as-is" processes, controls systems and policies during discovery site visits; and developed initial corrective actions for improving the Air Force Foreign Military Sales Order to Cash "as-is" processes. • The Air Force identified and documented major audit recommendations related to accounts receivable based on the last five years of audit reports; and created test plans for the major audit recommendations to determine whether the recommendations were implemented as scheduled. • The Air Force wrote off unsupported undistributed collections based on the Office of the Under Secretary of Defense (Comptroller) guidance; completed OMB Circular A-123, Appendix A implementation requirements; analyzed results and developed corrective action plans for reporting in the Financial Improvement and Audit Readiness Tool; and incorporated the Office of the Under Secretary of Defense (Comptroller) memorandum of revised Intragovernmental Business Rules regarding trading partners into the DoD Financial Management Regulation. • The Air Force led a team, including the Defense Finance and Accounting Service and Security Assistance personnel, to review and analyze the foreign military sales' accounts receivable process; started identifying and incorporating necessary changes to foreign military sales accounts receivable process to ensure compliance with the DoD Financial Management Regulation Volume 15, Chapter 5. • The Air Force Audit Agency will begin an audit of Air Force Tri-Annual Review over accounts receivable. |
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Table 2a. Section 2 Financial Reporting Weaknesses

- The Air Force reviewed Tri-Annual Review guidance to confirm compliance with DoD Financial Management Regulation Volume 3, Chapter 8, and completed the FY 2008 testing of internal controls to include validating the establishment and support for accounts receivable.
- The Army implemented the OMB Circular A-123, Appendix A pertaining to public and intragovernmental receivables, according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structures 1.1.4.1.12 & 1.1.4.1.2.2; accurately recorded public accounts receivable that are due to criminal and civil fraud recovery according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.1.4.1.1.10; and provided, as required, the public and intragovernmental receivables audit readiness plan according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.1.4.1.1.3.5.
- The Defense Intelligence Agency documented the current “as is” processes for customers orders, billings and collections, and reimbursables; implemented the use of the United States Treasury intragovernmental payment and collection system with customers outside DoD; and recovered over \$6 million in delinquent receivables from the Defense Intelligence Agency’s largest customer.
- The Navy documented processes and controls for reconciling, tracking, and reporting “unmatched” disbursements.
- The Office of the Assistant Secretary of Defense Health Affairs issued the Defense Health Program accounts receivable policy on May 2, 2008, requiring service components to implement the accounts receivable policy by the 1st Quarter of FY 2009.
- The Defense Security Service identified and documented the current user population and access procedures for the Automated Business Services System; implemented and documented the guidelines for the roles and responsibilities involving training, access, and administration of the Automated Business Services System; and required all current and new users to complete the web-based training related to their assigned roles.
- The Defense Security Service identified and documented the current process for reviewing sufficient funds availability; ensured the validation of accounts receivable transactions during the Tri-Annual Review; created a central e-mail repository for storing e-mail notifications used to document records of action created in the Automated Business Services System; and documented and communicated the roles and responsibilities relating to the review of funds availability.
- The Defense Security Service reviewed the current policies and procedures to determine what controls should be in place for recording accounts receivable and accounting for check collections; and required the financial management analysts and resource advisors to review outstanding reimbursable work orders in order to capture the completion of work within the appropriate reporting period.
- The Defense Security Service formalized the communication plan and follow-up procedures with the Defense Finance and Accounting Service to confirm the receipt of the Defense Security Service Standard Form 1080’s and their subsequent collection; developed and documented the formal Defense Security Service specific policies and procedures for timely recording of accounts receivable transactions; performed 100 percent reconciliation of accounts receivable transactions; and began reporting accurate accounts receivable balances on the Defense Security Service financial statements.
- The Defense Security Service assigned financial management analysts the primary responsibility for daily review of open documents list data in the General Accounting and Finance System, Base Level; reviewed the current monthly trial balance report from the Defense Finance and Accounting Service and supporting journal vouchers for accuracy and completeness; and identified, documented, and communicated the formal Defense Security Service specific roles and responsibilities surrounding the implementation of the related compensating internal controls to validate the Defense Security Service transactions in the General Accounting and Finance System, Base Level and the Trial Balance.
- The Defense Security Service validated the accounts receivable transactions during the Tri-Annual Review; incorporated document review of reimbursable transactions with the Tri-Annual Review; assigned responsibility for assessing if the costs on the Standard Form 1080 are supportable and whether they exceed the costs of the corresponding DD Form 448; and documented and communicated Defense Security Service roles and responsibilities relating to the review of supporting documentation for reimbursable transactions.

Table 2a. Section 2 Financial Reporting Weaknesses

B. Planned Milestones for 2009 and Beyond:

- The Navy General Fund and Working Capital Fund will complete the internal validation of collections and disbursements process.
- The Defense Finance and Accounting Service Standards and Compliance is developing an accounts receivable Financial Improvement and Audit Readiness Plan that addresses the accounts receivable process deficiencies, mitigates the material weaknesses and/or reportable conditions identified by management assertions, and seeks to move toward the standardized processes depicted in the Business Enterprise Architecture. A plan will be developed for this concept and will be ready to execute by December 31, 2008.
- The Air Force General Fund will compile a list of all Air Force accounts receivable feeder systems.
- The Air Force Working Capital Fund group will test to validate the foreign military sales accounts receivable, and will establish internal controls over acceptance and fulfillment of reimbursable orders based on the implemented business practices.
- The Navy General Fund and Working Capital Fund will complete implementation of the improved Reimbursable Work Order Performer process, and will assert audit readiness for collections and disbursements.
- The Air Force General Fund will establish internal controls over acceptance and fulfillment of reimbursable orders based on implemented business practices.
- The Air Force Working Capital Fund will review and analyze the results of the Air Force Audit Agency's audit on the Tri-Annual Review over accounts receivable.
- The Air Force General Fund will assess the accounts receivable systems to determine if the systems are capturing all the detailed transactions associated with an order for the life of an order.
- The Navy General Fund and Working Capital Fund will complete the internal validation of audit readiness for Reimbursable Work Order Performer.
- The Defense Logistics Agency will develop standard operating procedures to review customer orders not posted, and reconcile and/or post missing receipts required by systems to record revenue, and will implement processes to ensure orders and receipts are posted to the Business Systems Management-Energy.
- The Defense Logistics Agency will evaluate procedures used to perform the internal reconciliations of the Defense Energy Supply Center revenue and accounts receivable; will develop and implement standard operating procedures; will update procedures for generating and correcting intermediate document error reports; and implement training as required.
- The Navy General Fund and Working Capital Fund will assert audit readiness of the Reimbursable Work Order Performer.
- TRICARE Management Activity will coordinate any policy changes to allow medical accounts receivable collections to become available for budget authority in the year collected.
- The Service Medical Activities (Financial Statement Reporting Entities (FSREs)) will gather billing data from Medical Services Accounts, Third Party Outpatient Collection System, and Medical Affirmative Claims to determine if the outstanding bills are recorded in the core accounting systems and are reported on the Treasury Report On Receivables; will perform a decomposition of the Treasury Report On Receivables to determine what accounts receivable data are being reported in the Defense Departmental Reporting System on a quarterly basis; and will identify potential databases that support outstanding medical bills for the Third Party Outpatient Collection System, the Medical Services Accounts, and the Medical Affirmative Claims.
- TRICARE Management Activity will address a preliminary policy for the allowance of doubtful accounts.
- The Service Medical Activities Executing Organizations will determine if these databases have any current electronic or manual interfaces to the core accounting systems.
- TRICARE Management Activity will contract for the Statement of Auditing Standard 70/88 for the Third Party Outpatient Collection System and the Composite Health Care System.
- The Defense Intelligence Agency will continue to document business procedures and process flows, and will expand the use of the United States Treasury intragovernmental payment and

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>collection system to expedite collections.</p> <ul style="list-style-type: none"> • The Air Force General Fund will implement the corrective actions for pricing strategy for sales to the Foreign Military Sales Trust Fund after discovery is completed, and will analyze its implementation of the DoD Tri-Annual Review requirements. • The Air Force Working Capital Fund will test and validate internal controls over the acceptance and fulfillment of reimbursable orders; will develop and implement corrective action plans that were recommended by the Air Force Audit Agency; and will perform internal control reviews to determine the effectiveness of the corrective actions. • The Air Force General Fund will incorporate any necessary changes to the existing Tri-Annual Review process to ensure compliance with the DoD Financial Management Regulation Volume 3, Chapter 8, and will test and validate that the Tri-Annual Review processes are in compliance with the DoD Financial Management Regulation Volume 3, Chapter 8. • The Army General Fund will implement a sustainable business process to correct aging and reporting receivable deficiencies within the public and intragovernmental accounting systems according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structures 1.1.4.1.1.3.4 and 1.1.4.1.2.3.3. • The Defense Logistics Agency will document processes for recording the end of the month budgetary journal vouchers for Oracle Government Funds for the Defense Energy Supply Center; develop test plans for the Fuels Automated System Enterprise Server and the Defense Fuels Automated Management System reject and suspense corrections by Defense Fuel Supply Points; conduct tests at Defense Fuel Supply locations; and validate the effective implementation of corrections of findings. • The Defense Intelligence Agency will reconcile documents, the accounting system, and the payable database; establish and document the processes for ensuring sufficient audit trails; issue requirements for supporting documentation; conduct training of the accounts receivable staff on all written procedures and process flows; complete internal control self-assessments to validate the adherence to written procedures; and ensure the continued monitoring and reconciliation of detailed transactions to the corresponding General Ledger account balances. • The Defense Logistics Agency will ensure the Defense Energy Supply Center's end of the month fund balance is reconciled with the Treasury, and that the balance entered in the Columbus Cash Accountability System is accurate; and will implement standard operating procedures as required. • The Army General Fund will validate the auditability of public and intragovernmental receivables according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structures 1.1.4.2.1 and 1.1.4.2.2. • The Defense Logistics Agency Working Capital Fund will evaluate the reconciliation of the Columbus Cash Accountability System and the Treasury collections against the Defense Fuels Automated Management System and the Oracle Government Fund billing records and report of "unmatched" collections in order to develop and implement standard operating procedures as required. • The Army General Fund will identify requirements and implement sustainable business processes to accurately report public and intragovernmental receivables according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structures 1.1.4.1.1.1, 1.1.4.1.2.1, 1.1.4.1.1.3 and 1.1.4.1.2.3. • The Defense Logistics Agency Working Capital Fund will verify the transfer of interfund collections made to the Defense Finance and Accounting Service in Indianapolis is reconciled with the Defense Fuels Automated Management System and the Oracle Government Fund interfund collections report; will validate that the intragovernmental payment and collection system is identifying errors in collection data and are corrected by the Defense Finance and Accounting Service in Columbus; will develop and implement standard operating procedures with support from the Defense Finance and Accounting Service; and, with the support of the Defense Finance and Accounting Service, will evaluate the procedures to ensure that the DoD Activity Address Codes are being verified for validity. • The Defense Logistics Agency will identify and evaluate the Defense Automated Addressing System environment for Subsistence Total Order and Receipt Electronic System, Fresh Fruit and Vegetables Order Receipt System, Defense Medical Logistics Support Systems, Electronic Mall interfaces via Order Fulfillment 74, Order Fulfillment 7096, and Order Fulfillment 75; will develop and implement controls, as appropriate, and test the functionality; will enhance or develop interface documentation to address the edit checks over customer "dunning" codes for |
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| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <p>the Order Fulfillment 78 interface; and test the functionality and update standard operating procedures.</p> <ul style="list-style-type: none"> • The Defense Logistics Agency Working Capital Fund will develop and document in sufficient detail to address edit checks over signal codes and shipment confirmations for the Order Fulfillment 167 interface; develop documentation to describe the controls for the customer setup and processes related to the Order Fulfillment 55 interface; develop documentation to describe the controls for the customer funds availability included in the Financial Interface Software Extensions 3011, 3000, and 3002; and implement and test the functionality. • The Defense Logistics Agency Working Capital Fund will ensure journal vouchers are for the correct amounts and are approved prior to entry into the Oracle Government Fund; implement standard operating procedures as required; and evaluate and develop standard operating procedures for the Defense Energy Supply Center's financial interface for suspense report error research and customer review. • The Defense Logistics Agency will document the Fuels Automated System Enterprise Server and the Defense Fuels Automated Management System data validation and format the edit check process on fuel sales or returns from the Fuels Control Center or the Fuels Manager Defense, and validate the effective documentation of the Fuels Automated System Enterprise Server and Defense Fuels Automated Management Systems data validation process. • The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 4th Qtr, FY 2014</p> |
| Title | 7. Inventory Valuation |
| Description of Issue | The Department of Defense is unable to accurately account for, value, and report inventory on DoD's financial statements in accordance with generally accepted accounting principals. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Updated the DoD Financial Management Regulation, Volume 11B, Chapter 5. • Issued policy for "Accounting for Inventory Held for Repair in Working Capital Funds." • Convened an inventory working group, co chaired by the Office of the Under Secretary of Defense (Comptroller) and the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) charged with developing a baseline for inventory valuation, establishing methodologies for valuing inventory, and testing the existence and completeness assertions. • Developed proposed methodologies for valuing inventory, identified systems that are compliant with moving average cost inventory valuation and that can sustain the moving average cost valuations; developed proposed processes to baseline compliant systems using moving average cost methodology and to sustain those baselines; developed proposed timelines and approaches for completing baselines for all systems; and for testing the existence and completeness assertions. • Worked with the Federal Accounting Standards Advisory Board to interpret and apply the Statement of Federal Financial Accounting Standards to the Department's processes. • The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) issued an update to the policy for unique identification of assets via a memorandum dated December 22, 2003, which addresses tangible items, including new equipment, major modifications, and reprourement of equipment and spares. • Issued an interim Defense Federal Acquisition Regulation Supplement on "Item Unique Identification and Valuation," dated January 13, 2004. • The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) issued policy on radio frequency identification via memorandum dated February 20, 2004. • Published the Defense Federal Acquisition Regulation Supplement clause that governs the application of passive radio frequency identification policy in the Federal Register for public comments. • Issued the final item unique identification rule that was published as Defense Federal Acquisition Regulation Supplement Subpart 211.274, entitled "Unique Item Identification and Valuation." • Valuation requirements included in the Enterprise Transition Plan. Milestones for completion |

| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <p>added to the Financial Improvement and Audit Readiness Plan, monitored by the Office of the Under Secretary of Defense (Comptroller).</p> <ul style="list-style-type: none"> • Published the Defense Federal Acquisition Regulation Supplement clause governing the application of tags for the remaining commodities and locations. • Ensured the solicitations and contracts for Government Furnished Property met item unique identification requirements. • Published the “in transit” accountability policy and updated the logistics’ guidance. |
| | <p>B. Planned Milestones for 2009 and Beyond:</p> <ul style="list-style-type: none"> • The Defense Logistics Agency will complete and document the baseline valuation process with values based on available historical acquisition data and other supporting documentation for “Non-Energy” and will implement a sustainable, auditable process to document, track, and record in-transit inventory in the Enterprise Business System for Non-Energy. • The Army will convert all inventory valuation processes to the moving average cost method; implement a sustainable business process to report inventory and related property; and establish a sustainable process to track in-transit inventory moving between systems, service organizations, or third party inventory control points. • The Air Force will implement a sustainable physical inventory process that includes regular reconciliations supported by documentation and internal controls. • The Defense Logistics Agency will implement a sustainable physical inventory process that includes regular reconciliations supported by documentation and internal controls for energy and will perform internal validation for energy. • The Defense Logistics Agency, for non-energy, will complete an independent validation and verification of the Enterprise Business System inventory including compliance with financial management requirements; ensure a sustainable physical inventory process for the Distribution Standard System, which includes regular reconciliations that are supported by policy, internal controls, and documentation; and perform an internal validation for non-energy. • The Air Force will complete and document a baseline valuation process with values based on available historical acquisition data and other supporting documentation. • The Air Force will perform internal control reviews to ensure the Air Force Working Capital Fund will have adequate documentation to support consistent and accurate in-transit inventory valuations, tracking, and visibility. • The Army will perform an internal validation. • The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 2nd Qtr, FY 2015</p> |
| Title | 8. Operating Materials and Supplies |
| Description of Issue | The Department of Defense cannot accurately account for value or report the value of operating material and supplies, which causes the potential for a misstatement in financial reporting. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Included the valuation requirements in the Enterprise Transition Plan. • Included the milestones for completion in the Financial Improvement and Audit Readiness Plan. • Published the updated DoD regulation 4140.1-R and the “in-transit” accountability policy. • The Army identified the requirements to accurately report operating materials and supplies. |
| | <p>B. Planned Milestones for 2009 and Beyond:</p> <ul style="list-style-type: none"> • The Air Force will complete and document the baseline valuation process with values based on available historical acquisition data and other supporting documentation. • The Army Enterprise Resource Planning General Fund Enterprise Business System will have full operational capability. • The Army will complete and document the baseline valuation and obtain supporting documentation to establish auditable baseline values based on historical acquisition data and will convert all of the operating materials and supplies valuation processes to the moving average cost method. |

| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <ul style="list-style-type: none"> • The Air Force will implement a sustainable physical operating materials and supplies inventory process that includes regular reconciliations that are supported by documentation and internal controls, and will test the internal controls for munitions to ensure that corrective actions have been effectively implemented within the Expeditionary Combat Support System. • The Army will have full operational capability for the Enterprise Resource Planning Global Combat Support System. • The Army will develop and implement a sustainable business process for capturing and reconciling the physical operating materials and supplies inventories supported by documentation and internal controls. • The Navy will validate audit readiness. • The Army will conduct an internal validation. • The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 2nd Qtr, FY 2015</p> |
| Title | 9. Accounts Payable |
| Description of Issue | The Department of Defense does not have adequate internal control in place to provide assurance that Accounts Payable are identified and properly recorded in its financial reports. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • The Navy scoped and created a plan to correct the problem of payables not always being accurately recorded in a timely manner. • The Air Force and the Defense Finance and Accounting Service modified accounts payable systems to capture trading partners and issued standard guidance and procedures for managing accounts payable. • The Defense Logistics Agency issued guidance and procedures for managing payables and implemented a plan to liquidate valid overaged accounts payable and write off invalid payables. • The Navy conducted training for improving the timeliness of accurately recording accounts payable. • The Defense Finance and Accounting Service implemented metrics to measure the magnitude of problems and the impact of corrective actions. • Implemented changes in the Navy wide area work flow to support automated recording of accounts payable for other contractual goods and services. • Increased the volume of electronic funds payments to contractors and vendors to more than 95 percent. • The Department obtained "proof-of-concept" funding for an automated system's solution for the intragovernmental transactions of the Intragovernmental Value Added Network system; incorporated the DoD Deputy Chief Financial Officer policy on Intragovernmental Transaction Business Rules into the DoD Financial Management Regulation; identified and assessed key business processes for internal control effectiveness; completed the concept for Department-wide automated system solution, known as the Intragovernmental Value Added Network; identified participants for piloting Intragovernmental Value Added Network and conducted training; completed system and user acceptance testing and conducted "proof of concept" for the Intragovernmental Value Added Network; conducted Intragovernmental Value Added Network implementation decision briefing to the Office of the Under Secretary of Defense (Comptroller) and the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics); completed the plan for implementing the Intragovernmental Value Added Network system across the Department of Defense; conducted pilot testing to prove that the Intragovernmental Value Added Network concept will resolve the material weakness; and obtained Intragovernmental Value Added Network implementation plan approval and funding. • The Defense Finance and Accounting Service increased electronic invoicing from 82 to 85 percent and electronic receiving reports from 66 percent to 74 percent. The results included cost avoidance of nearly \$1 million in the Defense Finance and Accounting Service manual rate processing charges. • The United States Army Corps of Engineers implemented corrective action plans in order to properly estimate and record accruals; performed monthly testing; and performed year-end testing. |

Table 2a. Section 2 Financial Reporting Weaknesses

- The Defense Logistics Agency and the Defense Reutilization and Marketing Service started aggressive cleanup of all documents in the Defense Business Management System that are open for implementation of the Enterprise Business System and the Enterprise Operational Accounting System.
- The Navy Working Capital Fund Military Sealift Command completed the full OMB Circular A-123 compliant business process testing.
- The Navy Working Capital Fund group submitted the Naval Research Laboratory segment assertion package including the “plan to pay” business processes; corrected Naval Facilities Engineering Command’s failures to reconcile purchase card charges to disbursements; and completed the initial operating capability testing for the Intragovernmental Value Added Network system.
- The Defense Finance and Accounting Service deployed the Mechanization of Contract Administration Services’ accounts payable database tool. The tool links the Department’s accounts payable monthly summaries to transaction data and facilitates reconciliation. The tool links an average of 175,000 transactions per month and aids the Department in compliance with Generally Accepted Accounting Principles on recording accounts payable.
- In conjunction with the Defense Finance and Accounting Services’ deployment of the Mechanization of Contract Administration Services accounts payable tool, is a DoD wide standard accounts payable estimation tool for Mechanization of Contract Administration Services’ accruals for all DoD Components. The tool generates monthly estimates for financial reporting. The estimates aid the Department in complying with Generally Accepted Accounting Principles and Federal accounting estimation standards. An average of \$1.3 billion in estimates is generated monthly applicable to all Military Services and Defense Organizations.
- The Defense Finance and Accounting Service completed the identification and documentation necessary to ensure the complete universe of accounts payable is recorded from the major entitlement systems; ensured the owned entitlement systems’ payments contain valid Tax Identification Numbers; and implemented a monthly certification process which requires reconciliation between the entitlement system and accounting systems.
- The Defense Finance and Accounting Service produced a flowchart of the processes for the remaining existing entitlement systems that produce payments to public vendors, which include related sources and outputs to the financial statements’ bottom up approach and identified disconnects between the reporting and major entitlement systems.
- The Defense Intelligence Agency decentralized the training and travel processes and institutionalized a satellite level approach for better efficiency and reporting; improved the military interdepartmental purchase request process so that it now addresses advances and prepayments according to standard practices; streamlined the reconciliation and submittal processes for government purchase card payments; developed an accounts payable database to better monitor, age, and expedite payment processing; properly staffed the accounts payable department; formalized workload assignments; conducted outreach efforts within the agency and with vendors resulting in a reduced number of aged invoices; and finalized the process flows in Financial Accounting Corporate Tracking System Manual Accounts Payable environment.
- The Air Force incorporated the revised Intragovernmental Business rules regarding trading partners according to the DoD Financial Management Regulations; analyzed feeder systems against the rules to determine any gaps in order to capture and feed the required order data to the core accounting system; and modified policy and procedures to reflect the transaction data associated with the order to comply with the rules.
- The Air Force implemented a dispute resolution process with all trading partners as required; analyzed implementation of DoD Tri-Annual review requirements; analyzed and determined necessary changes to the existing Tri-Annual review processes to ensure compliance with the DoD Financial Management Regulation Volume 3, Chapter 8; tested the Mechanization of Contract Administration Services’ accounts payable accrual process as implemented by the Defense Finance and Accounting Service to ensure accuracy and validity of the Air Force financial reporting; completed the OMB Circular A-123, Appendix A implementation requirements; and issued the Revised Intragovernmental Business Rules.
- The Army completed the OMB Circular A-123, Appendix A process requirements for the public and intragovernmental accounts payable according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.2.1.1.1.2 & 1.2.1.1.2.2.
- The United States Army Corps of Engineers developed a corrective action plan for accounts

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>payable and accruals and provided training to all Chief Financial Officer leaders and finance and accounting officers for the implementation of corrective action plans.</p> <ul style="list-style-type: none"> • The Defense Intelligence Agency documented current “as is” processes for training, travel, government purchase cards, civilian pay, acquisitions, and manual payables; documented the “to-be” processes for training, travel, government purchase cards, civilian pay, acquisitions under the new National Security Agency’s Financial Management Solutions and Financial Accounting and Corporate Tracking System; and developed methodology to detect abnormal balances in the current environment. • The Defense Intelligence Agency implemented the Financial Management Solutions and Financial Accounting and Corporate Tracking System accounting system; reviewed documentation of the processes for training, travel, government purchase cards, civilian pay, acquisitions, and manual payables under the Financial Management Solutions and the Financial Accounting and Corporate Tracking System; resolved abnormal balances; and implemented business process improvements. • The Defense Information Systems Agency completed the final remediation work for both expenditure and revenue cycles; remediated the September 30, 2007 accounts payable balance; posted accounts payable accruals for FY 2007; and completed a General Fund position paper and a standard operating procedures for accounts payable processes. • The National Security Agency worked with Acquisition Directorate and Business Management Integration office to assign roles and responsibilities to perform periodic accruals; defined requirements; developed business processes and internal controls; enhanced the Financial Accounting and Corporate Tracking System, and tested the revised business process. • The Defense Logistics Agency and the Defense Reutilization and Marketing Service developed detailed standard operating procedures; developed a training plan for initial and refresher training; and implemented the Financial Document Workflow. • The Navy General Fund posted a wide area work flow accounts payable. • The Navy Working Capital Fund documented and implemented revised guidance to clarify Naval Research Laboratory accrual policies and procedures; completed an internal validation of Naval Research Laboratory financial statements including the “procure to pay” business process; and implemented the discovery and documentation of the Military Sealift Command’s “plan to pay” process. • The Defense Security Service reviewed outstanding intragovernmental obligations as part of the Tri-Annual Review process; expanded quarterly financial statement activities related to temporary duty assignment travel to include validation of advances, accounts receivable and accounts payable; and identified accountability and oversight features for the performance of the Tri-Annual Review as related to intragovernmental accounts payable. |
| | <p>B. Planned Milestones for 2009 and Beyond:</p> <ul style="list-style-type: none"> • The Air Force will implement the new Open Document Analysis Component of the Financial Management Suite to aid financial analysts in the review and reconciliation of open document items during the Tri-Annual review. • The Department will validate that all Defense Finance and Accounting Service locations have implemented the standard guidance provided in the DoD Financial Management Regulation Volume 4, Chapter 9. • The Defense Finance and Accounting Service will identify and document the accounts payable universe and the relationships between the accounting and entitlement systems; establish a standard reporting level for reconciling the DoD Financial Statements, Budgetary Reports, and the Entitlement Systems; develop test scenarios to ensure that the accounts payable of the Defense Finance and Accounting Service functional requirements are properly implemented for Enterprise Resource Planning Systems while identifying the functionality required by the Enterprise Resource Planning Systems to meet the “end to end” business processes; and document the processes and procedures for Electronic Commerce. • The Defense Logistics Agency will identify existing control documentation and evaluate the extent of the controls that have been documented to ensure that only authorized users can access Bulk Ports. Where controls are not documented, develop documentation that describes controls to appropriate levels. Where control gaps exist in the process, develop, implement, and document the controls; and test the functionality of existing and newly developed controls. • The Defense Logistics Agency will identify existing control documentation and evaluate the |

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>extent of the controls that have been documented to ensure that there is a sufficient level of detail in the available documentation that is capable to address the Fuels Automated System Enterprise Server 02 edit checks. Where controls are not documented, develop documentation that describes controls to appropriate levels. Where control gaps exist in the process, develop, implement and document the controls; and test the functionality of existing and newly developed controls.</p> <ul style="list-style-type: none"> • The United States Army Corps of Engineers will continue to be monitored and tested by the Internal Review Office. • The Defense Security Service will improve the current accounts payable process to include documentation and internal communication surrounding the obligation of funds; will document and formalize the agency's accounts payable policies and procedures concerning the DD Form 448 and DD Form 448-2 initiation, commitment, and obligation process; assign responsibility for the daily review of the open document list; ensure that Tri-Annual Review of obligations properly includes accounts payable stages of accounting; request adhoc report from the Defense Travel System Tier 3 Help Desk for all travel submitted and approved but with unpaid travel vouchers; reconcile the adhoc report with the accounts payable in General Accounting and Finance System, Base Level; record each identified exception from the adhoc report as an accounts payable; incorporate the use of the Central Travel Office Fee Report as part of temporary duty assignment management procedures; and incorporate the use of the Total Obligation Report as part of temporary duty assignment management procedures. • The Air Force will complete Smart Operations for the 21st Century rewrite of the instructions for completing the Tri-Annual Review to incorporate any necessary changes to existing Tri-Annual review processes to ensure compliance with the DoD Financial Management Regulation Volume 3, Chapter 8; and will review and analyze results of the Air Force Audit Agency audit on the Overall Health of Accounts Payable. • The Navy Working Capital Fund will complete documentation of the Naval Facilities Engineering Command's Working Capital Fund "plan to pay" business processes. • The Air Force Audit Agency will review and analyze results on Air Force Intragovernmental Eliminations. • The Defense Security Service will implement a process that records accounts payable upon receipt of goods and services to General Service Administration contracts; implement a process that records accounts payable upon receipt of goods and services for the contracts of the Defense Information Systems Agency, Defense Information Technology Contracting Office, Defense Telecommunication Services Washington, and Contracting Center for Excellence; incorporate a three-way match of the contract, receiving report and invoice into procedures for approval of vendor invoice; incorporate a checklist for review and approval of invoices authorized for payment into policies and procedures; define and formalize the procedure for central receipt and distribution of vendor invoices; establish an internal review process to check for funds availability against the invoice amount; establish an internal review and reconciliation for data entered into the Integrated Accounts Payable System with data on the receiving report and invoice; adopt electronic invoice submission and automatic matching features for the contract, receiving report, and invoice; and document procedures for the review and approval of invoices. • The Air Force will complete the journal voucher review process and test for intragovernmental supporting documentation; and complete a test for the validity of General Funds, public, accounts payable supporting documentation. • The Defense Reutilization and Marketing Service will implement the Enterprise Business System and Enterprise Operational Accounting System. • The Defense Security Service will update current and relevant Defense Security Service accounts payable guidance, policies, and procedures to address changes to the process for invoice receipt, approval, certification, and payment. • The Navy Working Capital Fund will complete documentation of the Naval Air Systems Command Naval Aviation Depot "plan to pay" business processes. • The National Security Agency will implement a revised Agency wide business process. • The Defense Security Service will review and reconcile trading partner data to validate elimination data for accounts payable in a joint effort with the Defense Finance and Accounting Service; will establish a schedule for actions related to review of trading partner balances that support the quarterly Audited Financial Statements cut-off; and add responsibility for capturing |
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Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>and maintaining intergovernmental transaction history.</p> <ul style="list-style-type: none"> • The Service Medical Activity’s accounts payable has systemic weaknesses across the three line services and will follow the lead of DoD with respect to recommended changes in systems and financial policy prescribed by the line service and support the Defense Finance and Accounting Service functions. • The Defense Intelligence Agency will review documentation of the processes for training, travel, government purchase cards, civilian pay, acquisitions, and manual payables under the Financial Accounting and Corporate Tracking System; resolve abnormal balances; and implement business process improvements. • The Air Force will standardize a tracking process for the open document listing review; and develop and implement corrective actions recommended by Air Force Audit Agency. • The Defense Logistics Agency will identify existing control documentation and evaluate the extent of the controls that have been documented to ensure that there is a sufficient level of detail in the available documentation to address the required management edit checks; the Constellar edit checks, when the Constellar receives the daily purchase order data from Bulk Ports; the Bulk Ports edits; and the Defense Fuel Automated Management System edit checks, when Constellar receives the daily purchase order from Bulk Ports. Where controls are not documented, develop documentation that describes controls to appropriate levels. Where control gaps exist in the process, develop, implement, and document the controls; and test the functionality of existing and newly developed controls. • The Air Force will create a test plan for the Mechanization of Contract Administration Services accounts payable accrual process as implemented by the Defense Finance and Accounting Service based on changes made to that system. • The Navy Working Capital Fund group will complete the documentation of the United States Marine Corps Working Capital Fund’s “plan to pay” business processes within the Navy Working Capital Fund. • The Air Force will review internal controls performed to determine any defectiveness of corrective actions; will test and validate the internal controls for intragovernmental trading partner eliminations; and the reconciliation of the open document listing to ensure accuracy and completeness. • The Department will implement Level 2 Reimbursable Transactions in the Intragovernmental Value Added Network systems. • The Army will have full operational capability of the Logistics Modernization Program according to the Army Chief Financial Officers Strategic Plan, Work Breakdown Structure 7.11. • The Defense Logistics Agency will identify existing control documentation and evaluate the extent of the controls that have been documented to ensure that there is a sufficient level of detail in the available documentation to address the Defense Fuel Automated Management System edit checks, when the daily purchase order file is received from Bulk Ports; and the Defense Fuel Automated Management System edit checks, and when the Defense Fuel Automated System receives electronically signed receipt data from Bulk Ports. Where controls are not documented, develop documentation that describes controls to appropriate levels. Where control gaps exist in the process, develop, implement, and document the controls; and test the functionality of existing and newly developed controls. • The Army will have full operational capability of General Fund Enterprise Business System according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 7.6; will identify requirements to accurately report public and intragovernmental accounts payable according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structures 1.2.1.1.1.1 & 1.2.1.1.2.1; will implement sustainable business process to report public and intragovernmental accounts payable according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structures 1.2.1.1.1.3 & 1.2.1.1.2.3; and will report public and intragovernmental accounts payable according to a sustainable business process according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structures 1.2.1.1.1.4 & 1.2.1.1.2.4. • The Defense Logistics Agency will identify existing control documentation and evaluate the extent of the controls that have been documented to ensure that there is a sufficient level of detail in the available documentation concerning the Vendor Maintenance File, the two and three way match, and the generation of document numbers. Where controls are not documented, develop documentation that describes controls to appropriate levels. Where control gaps exist in the process, develop, implement, and document the controls; and test the |
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| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <p>functionality of existing and newly developed controls.</p> <ul style="list-style-type: none"> • The Defense Logistics Agency will identify existing control documentation and evaluate the extent of the controls that have been documented to ensure that there is a sufficient level of detail in the available documentation to address the Defense Automated Addressing System environment for the Electronic Mall, Subsistence Total Order and Receipt Electronic System, Fresh Fruits and Vegetables Order Receipt System, and Defense Medical Logistics Support System edit checks and interfaces. Where controls are not documented, develop documentation that describes controls to appropriate levels. Where control gaps exist in the process, develop, implement, and document the controls; and test the functionality of existing and newly developed controls. • The Defense Intelligence Agency will implement full accrual accounting; reconcile documents, the accounting system, and the Accounts Payable database; establish and document processes for ensuring sufficient audit trails, and issue requirements for supporting documentation; conduct training of accounts payable staff on written procedures and process flows; complete internal control self-assessment to validate adherence concerning written procedures; and ensure continued monitoring and reconciliation of detailed transactions to corresponding general ledger account balances. • The Army will validate the auditability of public and intragovernmental accounts payable in accordance with the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.2.1.2. • The United States Special Operations Command will conduct a segment assertion and an audit readiness validation. • The Department will be at full operational capability with Intragovernmental Value Added Network. • The Department’s new component accounting systems will have the capability to process accrual accounting according to generally accepted accounting principles. • The Department will validate the weakness is corrected. <p>Correction Target Date: 4th Qtr, FY 2015</p> |
| Title | 10. Personal Property – General Personal Property (Reassessed as a new Financial Reporting Weakness in FY 2008. Although previously reported as an overall (non-financial) weakness #3, Table 2b, newly reported in FY 2008 as financial reporting weakness.) |
| Description of Issue | The Department does not currently meet Federal Accounting Standards for the financial reporting of general personal property, specifically general equipment. The Department is not able to accurately report the financial value of general equipment, which is a factor in the Department’s inability to obtain an unqualified audit opinion on its annual financial statements. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • The Defense Logistics Agency identified the universe of general purpose equipment. • Revised and published DoD Instruction 5000.64, “Equipment and Administrative Property”; and completed the functional requirements for the Defense Property Accountability System. • The Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) published the concept of operations. • The Air Force identified the universe of general purpose equipment. • The Navy identified the universe of general purpose equipment. • The Defense Security Service reconciled capital assets in the Defense Property Accountability System; recorded capital leases; recorded property not previously reported in the Defense Property Accountability System; documented the process flow for the plant, property and equipment financial presentation and disclosure; and documented the plant, property and equipment process flows and narratives. • The Department established the DoD Property Council. <p>B. Planned Milestones for 2009 and Beyond:</p> <ul style="list-style-type: none"> • The Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) will complete a technical “refresh” of the Defense Property Accountability System. • The Air Force will reconcile accountability with the accounting records; revalidate for |

| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <p>compliance with the audit requirements of the Chief Financial Officers Act; and determine the values of general equipment.</p> <ul style="list-style-type: none"> • The Department will work with personnel at select sites to audit property auditability, conduct a physical inventory, initiate the use of the Defense Property Accountability System to manage property and ensure compliance with all applicable regulations. • The Defense Security Service will review, finalize, and distribute the policy for plant, property, and equipment roles and responsibilities. • The National Security Agency will complete all phases of property accountability and will implement the Defense Property Accountability System at selected agency sites to ensure compliance with auditability requirements. • The Defense Security Service will perform a walk through of each plant, property and equipment cycle process; perform a risk analysis of the identified key control points; and align the processes and standardize the roles and responsibilities across the Defense Security Service. • The Army will determine the values of general equipment; reconcile accountability with accounting records; and record the baseline for general equipment. • The Air Force will recertify and accredit the Air Force Equipment Management System. • The Defense Logistics Agency will record the baseline for general equipment. • The Army will report general equipment according to the sustainable business process and validate the auditability of general equipment. • The Defense Logistics Agency will reconcile with the accounting records. • The Navy will assert audit readiness. • The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 4th Qtr, FY 2013</p> |
| Title | 11. Financial Reporting Compilation - Includes Statement of Net Cost, Statement of Budgetary Resources, Statement of Net Position, and Accounting Adjustments (Newly Reported: FY 2008) |
| Description of Issue | Due to inadequate internal management control, the Department is unable to produce accurate Statements of Net Cost, Budgetary Resources, and Net Position, or adequately document accounting adjustments as required by the Chief Financial Officers Act of 1990. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • The Defense Financial Improvement and Audit Readiness Plan details the long term financial improvement plans of the Army, Navy, Air Force, and Defense Logistics Agency, and progress in achieving those plans. • The Defense Commissary Agency, Defense Contract Audit Agency, Defense Finance and Accounting Service, Military Retirement Fund, and Office of the Inspector General each received unqualified opinions on their FY 2007 financial statements. • The Medicare-Eligible Retiree Health Care Fund and the United States Army Corps of Engineers each received a qualified opinion on their FY 2007 financial statements. • In order to increase awareness of the importance of accurate financial reporting, the Deputy Secretary of Defense memorandum of January 28, 2008, required Component Heads to submit a certification statement to the Deputy Chief Financial Officer Office of the Under Secretary of Defense (Comptroller) at the end of each quarter. Providing accurate statements is a high priority of the Department. • The Department continuously reviews its business practices related to preparing and reviewing financial reports. The compilation process is complex and although the Department is reporting the compilation of financial reporting as a material weakness, there are many internal controls in place which are operating effectively. • The Defense Finance and Accounting Service in Indianapolis, Agency Wide Financial Statements Directorate prepared and approved “map” changes to the Defense Departmental Reporting System – Audited Financial Statements to ensure the “mappings” agree with both the Treasury’s statement crosswalks and the OMB requirements; ensured that the “mappings” agree with the Treasury before the DoD components began preparing their financial statements; published quarterly financial statement guidance for upcoming quarters based on |

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>changes received from the OMB, the Treasury, or the Office of the Under Secretary of Defense (Comptroller) including new reporting requirements; performed reviews of the preliminary draft agency wide statements for determining material fluctuations that required “footnote” narrative; determined the responsible component and ensured that sufficient narrative for agency wide use was provided; monitored the reconciliation reports to ensure that component level reconciliations, that require a zero difference, agreed.</p> <ul style="list-style-type: none"> • The Defense Information Systems Agency conducted internal controls testing at the detail transaction level for the balances as of March 31, 2007, and June 30, 2007; identified additional challenges to obtain documentation in order to support recorded amounts and updated the document retrieval guides for the accumulated testing results of disbursements and collections; performed “roll-forward” testing of the controls for the period ending June 30, 2007; and retested the controls with corrective action plans to validate remediation activities; performed extensive coordination activities with the Financial Improvement and Audit Readiness Office and the Office of the Inspector General to discuss audit readiness and the Defense Information Systems Agency’s assertion packages; performed substantive testing of the third quarter balances to test the reasonableness of the amounts recorded for all balance sheet accounts; and completed the analysis and validation of all balance sheet accounts and other financial statement accounts. • The Defense Information Systems Agency completed the final remediation work for both expenditure and revenue cycles; and updated the process flow documentation and narratives to reflect new processes of the Defense Finance and Accounting Service in Columbus, and compiled an assertion package. • The Defense Information Systems Agency continued working on the sustainment of its balance sheet remediation efforts and started the financial remediation of its Statement of Net Cost, Statement of Budgetary Resources, Statement of Net Position, and Statement of Financing Footnote; completed transaction level testing of property and equipment, accounts payable, accounts receivable, funds balance with treasury, travel, Federal Employees Compensation Act, other assets and other liabilities, and analyzed the results; provided the White House Communications Agency an equipment listing and sampling guidance for a property and equipment validation / certification effort; corrected property and equipment records and adjusted the recording of depreciation; developed a detailed Capital Assets Accounting Team procedure manual and a monthly and daily activities checklist; and performed a review and verification of sample property items from the Defense Information Systems Agency’s completed wall-to-wall inventory of its property records. • The Defense Information Systems Agency finalized the “to-be” process position paper and standard operating procedures for General Fund property and equipment which included improved property processes and procedures; monitored the Defense Information Systems Network core cost and property records from General Fund to the Telecommunications Services and Enterprise Acquisition Service with the Defense Property Accountability System; prepared “Final Expenditure Reports” for accounts resolved and internal controls; performed internal controls testing procedures for revenue and expenditures; asserted that the Defense Information Systems Agency’s General Fund balance sheet financial statement is auditable; reconciled Fund Balance with Treasury to the Defense Finance and Accounting Services’ and the Treasury’s records; updated the accrual models for accounts payable and expense to improve the matching of liability and expense recognition with the benefits received; recognized imputed cost instead of recording property and equipment related to the Non-Generally Accepted Accounting Principles “preponderance of use”; reconciled the proprietary and budgetary accounts; identified Non-Generally Accepted Accounting Principles processes in the consolidation procedures utilized by Defense Departmental Reporting System and recorded the adjusting entries; developed an estimate of the amount of overstated obligations related to the Telecommunications Services and Enterprise Acquisition Service contract close out population and completed task orders’ population; continued extensive coordination with the Financial Improvement and Audit Readiness Office and the Office of the Inspector General to discuss audit readiness and the Defense Information Systems Agency’s assertion packages; and worked on preparing the assertion package according to the Office of the Under Secretary of Defense (Comptroller) requirements for the Statement of Net Cost, the Statement of Budgetary Resources, the Statement of Net Position, and the Statement of Financing footnote. • The Army implemented the OMB Circular A-123, Appendix A, according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 4.1.1.2. • The Defense Information Systems Agency recorded estimated liabilities for the cost of closing out contracts for which accounts payable were historically under-estimated; tested the accuracy |
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| Table 2a. Section 2 Financial Reporting Weaknesses | |
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| | <p>of accounts payable recorded on 26,000 overaged payables for which detail level solutions were economically impractical; developed a program-based Statement of Net Cost for the Working Capital Fund; completed the valuation process for specific Defense Information Systems Agency property assets using estimation techniques and comparisons on available acquisition and disbursing documents; and asserted that the Working Capital Fund balance sheet financial statement was auditable.</p> <ul style="list-style-type: none"> The Defense Logistics Agency developed corrective action plans to resolve deficiencies and reviewed current reconciliation controls and procedures. |
| | <p>B. Planned Milestones for 2009 and Beyond:</p> <ul style="list-style-type: none"> Finalize the assertion package for the Defense Information Systems Agency's FY 2008 General Fund and Working Capital Fund Balance Sheet, Statement of Net Cost, Statement of Budgetary Resources, Statement of Net Position, and Statement of Financing Footnote as required by the Office of the Under Secretary of Defense (Comptroller). Finalize audit support and obtain the DoD Inspector General's audit opinion for the full set of the Defense Information Systems Agency's General Fund and Working Capital Fund financial statements, including the Balance Sheet, Statement of Net Cost, Statement of Budgetary Resources, Statement of Net Position, and Statement of Financing Footnote as required by the Office of the Under Secretary of Defense (Comptroller). The Defense Logistics Agency will establish standard operating procedures that implement an auditable and sustainable process to reconcile subsidiary ledgers with the general ledger summary balances; prepare accurate and supported adjustment vouchers; and validate the reconciliation procedures to ensure that accurate and supportable values are reported on the financial statements. The Army will have full operational capability of the Logistics Modernization Program according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 7.11; correct identified deficiencies resulting in abnormal account balances according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 8.3.1.4; report the full cost of outputs in the General Purpose Financial Statements according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 2.1.1.3.1; report the indirect costs included in the full cost of outputs according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 2.1.1.3.2; report general management and administrative support costs as a "cost" not "assigned to programs" if they cannot be identified by segment according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 2.1.1.3.3; report other post employment benefits as an expense for the period during which the future outflow or other sacrifice is probable and measurable on the basis of events occurring on or before the accounting date according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 2.1.1.3.4; report as an "expense" the benefits paid during the reporting period (plus any increase or less any decrease) in the liabilities from the end of the period to the end of the current period according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 2.1.1.3.5; will report "inter-entity" costs for goods and services received without reimbursement according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 2.1.1.3.6; and correct any abnormal balances. The Department will validate the weakness is corrected. <p>Correction Target Date: 1st Qtr, FY 2012</p> |
| Title | 12. Financial Reporting of Intragovernmental Eliminations – Includes Anti-Deficiency Act Violations (Newly Reported: FY 2008) |
| Description of Issue | The Department is unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified. Problems can potentially cause violations of the Anti-Deficiency Act. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> The Defense Finance and Accounting Service conducted a review of 30 DoD accounting and information systems to determine the data capturing capabilities; identified the payables and advances from others, and eliminations with major "Level 1" trading partner activities; defined the "end-to-end" standard process, business rules, and requirements for intragovernmental transactions; determined the feasibility of the previous deadline/goal of completing the Intragovernmental Transaction System and received permission to reevaluate the completion |

Table 2a. Section 2 Financial Reporting Weaknesses

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| | <p>data and methodology; and fully decomposed and defined the “end-to-end” standard process, business rules, and requirements for reimbursable orders in intragovernmental transactions beginning with reimbursable orders; and reorganized efforts into three distinct working integrated product teams, which are reimbursable order creation, performance and fulfillment, and disbursement and collection.</p> <ul style="list-style-type: none"> • The Defense Finance and Accounting Service conducted and completed the analysis of alternatives to determine the best way to provide an enterprise-wide capability for processing reimbursable orders; determined the milestones and final implementation date based on the alternative selected by the Office of the Secretary of Defense (Acquisition, Technology, and Logistics); and developed the Intragovernmental Value Added Network pilot to focus on selected DoD service “buyer and seller” customers that have the capability to produce and track intragovernmental orders through the order creation process; implementation of the full “to be” process is to be accomplished in a phased approach with the first phase targeted for order creation. • The Defense Finance and Accounting Service drafted a concept of operations for the Intragovernmental Value Added Network pilot automated system as a concept demonstration system; and requested the Investment Review Board’s approval for the Intragovernmental Value Added Network pilot which is being sought in two phases. The first phase is an intragovernmental review milestone briefing and overview, and the second phase includes technical documentation and funding approval. • The Defense Finance and Accounting Service conducted the acquisition and vendor selection process for the development of the Intragovernmental Value Added Network; finalized pilot participants; established metrics; assessed the results of the Intragovernmental Value Added Network proof of concept for “Level 2” transactions; established an Intragovernmental Transaction Working Group to develop the Intragovernmental Value Added Network implementation strategy and plan; completed the proof of concept for Level 1 transactions; and obtained the implementation plan for approval and funding. |
| | <p>B. Planned Milestones for 2009 and Beyond:</p> <ul style="list-style-type: none"> • The Defense Finance and Accounting Service will implement “Level 1” on the reimbursable transactions in the Intragovernmental Value Added Network. • The Army will achieve full operational capability of the Logistics Modernization Program according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 7.11. • The Defense Finance and Accounting Service will implement “Level 2” reimbursable transactions in the Intragovernmental Value Added Network. • The Army will correct the identified deficiencies over the intragovernmental transactions and eliminations according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 8.3.1.3; confirm the sustainable business processes, procedures, and/or systems exist to eliminate intragovernmental payables according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.2.1.1.2.3.2; achieve full operational capability of the General Fund Enterprise Business System according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 7.6; and confirm that sustainable processes, procedures, and/or systems exist to eliminate account receivables according to the Army Chief Financial Officers Strategic Plan Work Breakdown Structure 1.1.4.1.2.3.7. • The Defense Finance and Accounting Service will perform final assessment and closure actions; evaluate the result of the operational effectiveness of the Intragovernmental Value Added Network solution; and transfer the operational responsibility to the financial management enterprise solution. • The Department will validate the weakness is corrected. <p>Correction Target Date: 4th Qtr, FY 2013</p> |

| Table 2b. Section 2 Overall (Non-Financial) Material Weaknesses | |
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| Title | 1. Department of Defense Financial Management Systems and Processes |
| Description of Issue | DoD financial and business management systems and processes are costly to maintain and operate, are not fully integrated, and do not provide information that is reliable, timely, and accurate. (Consolidated into FMFIA Section 4 System Nonconformance Weakness. Please see Section 4 System Nonconformance Material Weakness #1, DoD Financial Management Systems and Processes, at Table 2c.) |
| Title | 2. Management of Information Technology and Assurance |
| Description of Issue | DoD information systems are potentially vulnerable to an information warfare attack. In addition, the Department has reported this issue as a "significant deficiency" under the reporting requirements of the Federal Information Security Management Act. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Revised the Department's security certification and accreditation policy, and the Departments' instructions entitled the "Defense Information Assurance Certification and Accreditation Process," to improve compliance and provide enterprise management capability. Incorporated the Department's policy guidance to better manage, help close identified security performance weaknesses, and direct components to appropriately report all security weaknesses identified in annual reviews and Government Accountability Office or Office of the Inspector General audits. • Began issuing public key infrastructures' certificates to network domain controllers in support of smart card "login" to DoD networks. • Initiated the second phase of the public key infrastructure operational implementation, which will enable digital signature for e-mail with attachments and encryption of sensitive data. • Completed the certification and accreditation of all 23 Department computer network defense service providers. • Certified 10 percent of Department's information assurance workforce. • Aligned 52 components with a certified DoD network defense service provider of which 15 required improvements to the computer network defense program with full compliance in October 2008. • Developed the initial phase of the Departments' non-classified internet protocol router network demilitarized zone engineering plan. • Demonstrated the prototype capability of the security content automation protocol, providing enterprise-level situational awareness and mitigation of vulnerabilities, intrusions, and misconfigurations across the DoD's information technology assets. • Achieved 95 percent of certification and accreditation of the Department's systems with 84 percent certified for authority to operate, and 7 percent certified for interim authority to operate. • Initiated the second phase of non-classified internet protocol router network demilitarized zone engineering plan. • Established the Enterprise Demilitarized Zone Configuration Control Board and developed the Application Migration Plan. <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> • Initial implementation of enterprise-wide passive vulnerability monitoring of information technology assets. • Develop the DoD external application migration strategy. • Certify 40 percent of the DoD information assurance workforce. • Initial implementation of five non-classified internet protocol router network demilitarized zones at the Defense Information Systems Agency's Defense Enterprise Computing Center with three inside and two outside the Continental United States. • Begin deploying the public key infrastructure hardware credentials on a secret internet protocol router network. • Field the prototype capability of the "Security Content Automation Protocol" and Computer Network Defense Data Standards, while providing a model for the enterprise level situational awareness and mitigated vulnerabilities, intrusions, and misconfigurations across selected global information grid organization information technology assets through a user defined |

| Table 2b. Section 2 Overall (Non-Financial) Material Weaknesses | |
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| | <p>operational pictures interface.</p> <ul style="list-style-type: none"> • Achieve 98 percent certification and accreditation of the DoD systems. • Continue deploying non-classified internet protocol router network demilitarized zones and migrating services externally-facing applications to demilitarized zones. • The Department will validate the weakness is corrected. <p>Correction Target Date: 4th Qtr, FY 2009</p> |
| Title | 3. Personal Property – General Personal Property |
| Description of Issue | The Department does not currently meet Federal Accounting Standards for the financial reporting of general personal property, specifically general equipment. The Department is not able to accurately report the financial value of general equipment, which is a factor in the Department's inability to obtain an unqualified audit opinion on its annual financial statements. (Reassessed as a DoD Financial Reporting Weakness. Please see Financial Reporting Material Weakness #10, Personal Property - General Personal Property at Table 2a.) |
| Title | 4. Personnel Security Investigations Program |
| Description of Issue | DoD hiring is adversely affected because personnel security investigations are backlogged. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Transferred the function of personnel security investigations to the Office of Personnel Management. Improvements and progress made in the timeliness of investigations are the result of the initiatives generated by the Office of the Management and Budget, the Office of Personnel Management, and DoD. • Implemented the Office of Management and Budget policy on the reciprocal recognition of existing personnel security clearances. • Implemented the Office of Management and Budget's additional guidelines on improving reciprocity within the Federal Government with respect to programs requiring special access. • Implemented the new adjudication guidelines approved by the President for determining eligibility for access to classified information. • Instituted a weekly monitoring system at the Defense Security Service to track industry investigations against available funding to recognize the depletion of funds well in advance to avoid any stop-work action. • Submitted a \$25 million reprogramming request to Congress to fund the Defense Security Service's requirements. • Established working groups to address improving essential elements in the personnel security program. • Developed initiatives to improve financial management and meet the requirements of accurate budget estimates and budget execution for the Defense Security Service. • Maintained only 2 percent variance of workload projections and actual submissions for the personnel security investigations. • Established a formal team with the Office of the Director of National Intelligence to develop recommendations for a reformed clearance system to address current and future program needs. • Received the predictive model established by the Air Force for independent validation as a forecasting tool for all the Department's requirements for personnel security investigations. • Increased the funding for FY 2008 of industry investigations in the President's Budget to cover all anticipated requirements. • Increased the use of electronic questionnaires for investigations processing to 72 percent resulting in a delay of fewer requests for investigations because of incomplete or erroneous information. • Reiterated the guidance on the requirement for full submissions on the electronic questionnaires for investigations processing when used for national security investigations. • Reduced the total number of DoD's pending investigations of all types from 444,000 reported last year to 293,650. • Received investigations electronically from the Office of Personnel Management for the Army |

Table 2b. Section 2 Overall (Non-Financial) Material Weaknesses

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| | <p>Central Adjudication Facilities.</p> <ul style="list-style-type: none"> • Completed the program of instruction for DoD Adjudicator Certification Program. • Reviewed the Department’s Central Adjudication Facilities, which maximized efficiencies in the adjudication process and related information technology infrastructure. • Provided an initial report to the Office of the Management and Budget for submission to the President of the United States designed to improve the cost, timeliness and quality of the Security Clearance Program. • Assessed sensitive activities of the mission in support of the stakeholders for the Defense Security Service mission areas. • Revised the Performance Assessment Rating Tool that identifies measures to assess the cost, timeliness, and quality of the security clearance program for all three phases of the process. • Completed a virtual test of electronic adjudication for non-issue investigations in support of secret security clearances. • Completed a virtual test of the On-Line Rapid Assessment of Incomplete Security Evaluations to assess the quality of investigations completed by Office of Personnel Management. • Increased the Department’s use of electronic questionnaire investigations processing to 89 percent. • Adjudicated 80 percent of all completed investigations received within 25 days and met Intelligence Reform and Terrorism Production Act’s metrics for timeliness. • Maintained an average of adjudication timeliness for 90 percent of Intelligence Reform and Terrorism Production Act security clearance requests in 39 days. The end to end time for the entire process was completed in an average of 135 days, which includes approximately 15 days of processing and mailing time. • Established business rules for the Adjudicator Certification Program. |
| | <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> • Improve the processes of the Joint Personnel Adjudication System, which will further measure the results of investigative requests to Office of Personnel Management. • Implement the use of the Rapid Assessment of Incomplete Security Evaluations and the Review of Adjudication Documentation and Accuracy Rationales to assess investigative and adjudicative quality. • Implement the Adjudicator Certification Program. • Completed investigations electronically received by Defense Industrial Security Clearance Office. • Measure five areas for annual performance report to the Office of Management and Budget: (1) use of the electronic questionnaire investigations processing; (2) workload projections (3) investigation and adjudication timeliness (4) investigative quality, and (5) cost of the security clearance process. • Establish a program baseline in support of the Performance Assessment Rating Tool that measures cost, timeliness, and quality of the security clearance process to include short and long range performance goals. • Less than 5 percent of all submissions will be rejected due to errors in submissions by electronic questionnaire investigations’ processing. • Begin e-adjudication of non-issue investigations in support of a secret security clearance. • Produce 90 percent of the requested files and information in 30 days or less. • Achieve 95 percent usage of electronic questionnaire investigations processing with submission of all required data and forms for investigation within 14 days or less from the date the subject provides all required material. • Complete assessment of Personnel Security Research Center’s predictive model that will accurately project military and civilian investigative requirements for Department wide implementation. • Develop a strategic plan for the DoD Personnel Security Program. • Meet or exceed the Intelligence Reform and Terrorism Protection Act goals that require 90 percent of all applications for a personnel security clearance to be adjudicated in an average of 20 days. |

| Table 2b. Section 2 Overall (Non-Financial) Material Weaknesses | |
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| | <ul style="list-style-type: none"> • The Department will validate the weakness is corrected. <p>Correction Target Date: 4th Qtr, FY 2009</p> |
| Title | 5. Real Property Infrastructure |
| Description of Issue | The Department has not adequately managed the real property infrastructure to halt the deterioration or obsolescence of facilities on military installations. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Refined the accuracy of the real property inventories being collected each year and the use of the reporting metrics for sustainment and recapitalization. • Deployed the facilities recapitalization model to predict the average annual dollar amount required to update and renew the inventory of facilities on a continual, ongoing basis. • Worked on the facilities modernization model to improve upon the current benchmark by using industry-based service lives in lieu of Department estimates and applying those service life values to the facilities inventory of each organization for which a rate is calculated. • Continued to support a robust disposal program that currently includes approximately \$150 million in demolition funding for the Military Departments and selected Defense agencies in an effort to eliminate excess and obsolete infrastructure. • Tested an operational version of the facilities operations model that predicts the requirements for facility-related services, utilities, and leasing. • Completed the Department's annual reporting of inventory for the Federal real property profile and validated the value of a new consolidation process developed to improve and streamline the submission. • Completed the analytical efforts for developing and implementing the means for identifying facility deficits and for projecting new facility requirements. • Refined the integration of military family housing into other metrics. • Included details for the additional core data elements in the FY 2008 instructions for the submission of real property inventories. • Conducted an initial operational capability test on the real property assets database. This database is being developed based on recommendations from the business transformation study for real property. • Captured the real property inventory data elements as prescribed by the Federal Real Property Council for use in the submission to the Federal real property profile after an extensive validation process. <p>Corrected</p> |
| Title | 6. Government Card Program |
| Description of Issue | Instances of misuse, abuse, and fraud in respect to purchase and travel card use, and centrally billed accounts have been attributed to inadequate DoD emphasis on proper use of the cards, poorly enforced controls, and lax oversight. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Developed additional guidelines for management of centrally billed accounts. • Implemented the premium class travel task force recommendations regarding policies for the Department. • Working with the Office of Management and Budget, General Services Administration and Office of the Under Secretary of the Defense (Comptroller), revised the reporting metrics for better reporting of any delinquencies. • Published a memorandum encouraging the conversion of centrally billed accounts to individually billed accounts. • Completed a comprehensive travel card program assessment by a private firm. • Formed two governance boards for policy and regulatory changes: the Defense Travel Improvement Board and the Defense Travel Steering Committee. • Applied the travel card program assessment recommendations to build the statement of work |

| Table 2b. Section 2 Overall (Non-Financial) Material Weaknesses | |
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| | requirements for a smart pay contract. <ul style="list-style-type: none"> • Monitored the travel card performance through monthly reporting metrics. • Transitioned to the smart pay contract by reconciling accounts with outstanding balances and closing inactive accounts. <p>Corrected</p> |
| Title | 7. DoD Contracting for Services |
| Description of Issue | The Office of the Inspector General, DoD, and the Government Accountability Office, have identified deficiencies in the policy for, and the execution of, procurement for services. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Resolved overpayment issues identified in the Inspector General, DoD report. • The Army reviewed all logistic civil augmentation plan orders to ensure they are within scope and the backlog of undefinitized orders eliminated. Developed new procedures to ensure prompt definitization. • Revised the policy on the proper use of other Agencies' contracts to include conducting surveillance of services procured from other Agencies' contracts. • Published an updated policy on how to appoint and train contracting officer representatives. The Defense Acquisition University updated the contractor officer representatives training. • Established working groups that were identified in the Department's improvement plan. Implemented the improvement plan and initiated periodic status reviews of systemic weaknesses with senior Department's leadership. • Issued a policy memorandum on the performance-based services acquisition and required progress reports on performance-based services acquisition training for individuals participating in the preparation of performance-based work statements. • Developed metric goals and thresholds for the strategic sourcing program. • Developed a concept of operations for DoD strategic sourcing. • Updated the plan for improving the Government Accountability Office high risk area of contract management. • Published guidance regarding procedures for, and use of, waivers of competitive requirements. • Reviewed and updated the policy on quality assurance surveillance or written oversight plans. • Published the Acquisition, Technology and Logistics Workforce Human Capital Strategic Plan. • Published the policy entitled "Management Structure for the Procurement of Contract Services," which implements the National Defense Authorization Act for FY 2006 requirements. • Designated senior officials who are required to ensure that their service contract review processes and data collection requirements support adequate contract surveillance. • Reviewed component data for the top 20 acquisitions of services. • Required personnel who develop statements of work to receive performance-based services acquisition training. • Military Departments and Defense Agencies completed self assessments of pricing techniques, performance-based services acquisition, and quality assurance surveillance or written oversight plans. • Addressed the Government Accountability Office high risk areas in training requirements and/or policy requirements. • Reviewed the guidance procedures for task orders, competition, price reasonableness determinations, and quality assurance surveillance or written oversight plans in response to weaknesses identified in the Department's self assessment. • Completed the implementation in order that 75 percent of the Department's invoices are submitted electronically through an authorized electronic invoicing system. <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> • Implement new DoD architecture for the acquisition of services. |

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| Table 2b. Section 2 Overall (Non-Financial) Material Weaknesses | |
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| | <ul style="list-style-type: none"> The Department will validate the weakness is corrected. <p>Revised Correction Target Date: 1st Qtr, FY 2009</p> |
| Title | 8. Procurement Data |
| Description of Issue | Instances where information in the Federal Procurement Data System was not verified and validated, which caused the Department to make misinformed business decisions. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> Established a core data management team. Confirmed that the FY 2007 contract action reports were accurately submitted to the Federal Procurement Data System-Next Generation. Verified and validated the FY 2008 data reported in the Federal Procurement Data System a Next Generation. <p>Corrected</p> |
| Title | 9. Interagency Acquisition/Potential for Anti-Deficiency Act Violations |
| Description of Issue | Instances where contracting procedures and the use of appropriated funds when acquiring supplies or services with the assistance of other Federal agencies were not properly followed. Problems can potentially cause violations of the Anti-Deficiency Act. (Interagency Acquisition corrected in FY 2008, but the Potential for Anti-Deficiency Act Violations was more accurately reassessed and consolidated as a Financial Reporting Weakness. Please see Financial Reporting Material Weakness #12, Financial Reporting of Intragovernmental Eliminations – Includes Anti-Deficiency Act Violations, at Table 2a.) |
| Progress to Date | <p>A. Completed Milestones for Interagency Acquisition:</p> <ul style="list-style-type: none"> Established senior level memoranda of agreement with the General Services Administration, Department of the Interior, National Aeronautics and Space Administration, Department of the Treasury, National Institutes of Health, and Department of Veterans Affairs. Developed training enhancements on the proper use of interagency acquisitions in collaboration with the Defense Acquisition University and the Federal Acquisition Institute and made them available to the Federal acquisition workforce. Minimized the non-compliance with statutory, policy, and regulation requirements regarding interagency acquisitions as determined by the DoD Inspector General through follow-on audits. <p>Corrected</p> |
| Title | 10. Certain Audits Do Not Meet Professional Standards (Newly Reported: FY 2008) |
| Description of Issue | As a result of hotline complaints, Government Accountability Office Report 08-857 was issued on July 22, 2008, and concluded that certain Defense Contract Audit Agency audits at three locations did not meet professional audit standards of the Generally Accepted Government Auditing Standards. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> Established an action plan for each of the reported issues. Completed Director’s scheduled site visits and discussed plan. Assembled an independent team to assess validity of the reported issues. Issued guidance on how to deal with disagreements over potential audit findings. Issued an audit alert reiterating existing guidance on workpaper documentation. Issued guidance discontinuing Defense Contract Audit Agency participation in Integrated Product Teams. <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> Review a sample of assignments across the Agency to assess whether the issues reported in the Government Accountability Office report exist elsewhere and issue a report. Develop an action plan for revising policy as needed to address the Government Accountability Office findings. The plan will include recommendations from the independent |

| Table 2b. Section 2 Overall (Non-Financial) Material Weaknesses | |
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| | <p>Defense Contract Audit Agency assessment team as well as the Office of the Inspector General, DoD assessment team.</p> <ul style="list-style-type: none"> • Conduct staff conferences focusing on audit quality to include participation from the Regional Directors and Deputy Regional Directors. • Perform an assessment of the Agency's staffing to ensure that we have adequate staffing to perform quality audits. • Perform an assessment of the Agency's metrics and benchmarks to ensure that metrics are not driving decisions and behavior that negatively impact audit quality. • Distribute, compile and assess results of a climate survey to the workforce. • Continue to assess the need for revisions to the Agency's guidance using the results from the internal review. • Assess improvements in the Defense Contract Audit Agency Quality Assurance program and coordinate revisions with the Office of Inspector General, DoD. • Implement recommendations resulting from the Agency climate survey. • Implement improvements in the Defense Contract Audit Agency quality assurance program. • Reassess the revised Agency performance measures (metrics and benchmarks) to ensure measures are working as intended. • Reassess the climate survey recommendations to ensure changes are working as intended. • The Department will validate the weakness is corrected. <p>Correction Target Date: 1st Qtr, FY 2009</p> <p>(Although management reported the completion date as 1st Qtr, FY 2009, actions to correct the weakness extend to 1st Qtr, FY 2010.)</p> |

| Table 2c. Section 4 System Nonconformance Weaknesses | |
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| Title | 1. DoD Financial Management Systems and Processes |
| Description of Issue | DoD financial and business management systems and processes are costly to maintain and operate, are not fully integrated, and do not provide information that is reliable, timely, and accurate. In addition, the Department has reported this issue as noncompliance with the Federal Financial Management Improvement Act of 1996. |
| Progress to Date | <p>A. Completed Milestones:</p> <ul style="list-style-type: none"> • Established Investment Review Boards for the core business mission areas. These Investment Review Boards will enhance the Department's ability to meet the FY 2005 Ronald W. Reagan National Defense Authorization Act by managing the investments in financial management and other business systems. • Refined the Defense Business System Acquisition Executive to make it the effective component acquisition executive and milestone decision authority for the Department's enterprise financial management and business systems. • Made a concerted effort to coordinate the Department's business enterprise initiatives with its warfighter customer through the establishment and operation of the Iraq Task Force. • Published version 4.1 of the Business Enterprise Architecture. Designated the September 2005 release as the baseline version for guiding business transformation. • Published an updated version of the Department's Enterprise Transition Plan in the 2007 Congressional report that included enterprise and component system milestones and accomplishments. • Published an updated Financial Improvement and Audit Readiness Plan to describe and report progress of specific corrective actions for achieving more reliable, accurate, and complete financial data. • Refined the scope and depth of the Standard Financial Information Structure for integration into the Business Enterprise Information Services, Enterprise Resource Planning systems, and other business mission systems to continue the evolution of a shared business intelligence environment and common financial transaction structure. |

| Table 2c. Section 4 System Nonconformance Weaknesses | |
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| | <ul style="list-style-type: none"> • Began validating, and integrating the business mission area information for the March 2008 version of the Business Enterprise Architecture. Focused efforts on systems information exchanges, business capability improvement, and enhancement of quality and consistency of information throughout architecture artifacts and assessments. • Began implementing the enterprise risk assessment methodology and business capability lifecycle for risk and program management associated with business mission area systems and initiatives. • Began developing and validating value-added metrics with which to track progress, manage, and measure results of the business mission area transformations. • Extended the capabilities of the common contingency contracting systems and the membership, coordination of actions, and economic results of the Iraq In-Theater Business Transformation Conferences. • Tested the concepts of service-oriented and federated architectures in the Department's business mission area to enhance business agility and enterprise information definition and exchange. • Institutionalized a center of excellence that provides lessons-learned, exchange of feedback, and implementation acceleration assistance to component Enterprise Resource Planning programs and initiatives. • Implemented the enterprise risk assessment methodology and business capability lifecycle for risk and program management associated with business mission area systems and initiatives. • Published the initial version of the business mission area transformation metrics to report progress. • Updated the Business Enterprise Architecture to version 5.0 and integrated it with latest Enterprise Transition Plan, which includes system and program milestones and progress measures. Published both the updated Business Enterprise Architecture and the Enterprise Transition Plan in March 2008. • Published updates to the semiannual Financial Improvement and Audit Readiness Plan to include the progress metrics. • Published the Business Mission Area Federation Strategy and Roadmap, version 2.4, which provides an updated vision for business transformation. |
| | <p>B. Planned Milestones for FY 2009 and Beyond:</p> <ul style="list-style-type: none"> • Publish the initial version of the business mission area transformation metrics with which to report progress. • Update the Business Enterprise Architecture to version 6.0. • Move the initial service-oriented and federated architecture concepts from test to operational capability with the Department's business mission area. • Publish an update of the Enterprise Transition Plan to include component and enterprise systems, and program milestones and accomplishments. • Annual release of updated Business Enterprise Architecture to standardize financial and business processes, systems, and information. • Semiannual release of Enterprise Transition Plan system and program milestones and progress measures. • Semiannual update of the Financial Improvement and Audit Readiness Plan to include progress metrics. • Quarterly Release of Business Transformation Progress Metrics with which to report progress. • The Department will validate the weakness is corrected. <p>Correction Target Date: 4th Qtr, FY 2015</p> |