



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

18 OCT 2002

CERM-P

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY, FINANCIAL
MANAGEMENT AND COMPTROLLER (SAFM-FOI-M), 109 ARMY PENTAGON,
WASHINGTON, DC 20310-0109

SUBJECT: FY02 Annual Statement of Assurance on Management Controls

1. I have reasonable assurance that management control systems throughout the U.S. Army Corps of Engineers (USACE) are in place and working except for the enclosed uncorrected material weaknesses. This statement accurately reflects all known management control material weaknesses in all functional areas of responsibility guided by HQDA and USACE regulations. My assessment is based on my overall knowledge of these management controls, evaluations of their effectiveness, all known audits, inspections, investigations, and reviews, and the overall awareness of my staff. Regulations are being maintained to ensure Corps-wide understanding of essential policies and requirements that must be enforced. The corrective actions shown for all USACE material weakness are appropriate and will be monitored to ensure that the material weaknesses are resolved in a timely manner.
2. As you are aware in last year's statement I included, but later withdrew, the issue of "Civilian Personnel Management" as a material weakness. My Human Resources staff has closely monitored that activity since then. I am pleased to report that, based on assurances from my field commanders, this issue can be considered closed.
3. Additionally, we are actively pursuing methods for improving our capabilities in economic analysis of projects, financial documentation for construction projects, and Civil Works cost sharing controls. As these are internal matters, the corrective actions plans are not included in this statement.

Encl


ROBERT B. FLOWERS
Lieutenant General, USA
Commanding

TAB A

How This Assessment Was Conducted

LEADERSHIP EMPHASIS –

During FY02, our command continued to emphasize the importance of the management control program and issued guidance on updating the Management Control Inventory, updating headquarters and field Management Control Plans and conducting required evaluations, and preparing our Annual Assurance Statements. Corporate level discussions were held with regard to what reported Material Weaknesses were systemic and what other internal processes warranted attention and reporting upward.

Throughout USACE, management control responsibilities are included in the performance plans of Assessable Unit Managers and other appropriate personnel.

Management control mechanisms within USACE include meetings of HQ USACE Command, Issues Management Boards, Major Subordinate Commands' Boards of Directors, Regional Management Boards, Quality Councils, and Quarterly Review Boards; operating budget/manpower reviews; Project Review Board meetings and Line Item reviews; Command Staff Inspections; and Command Management Reviews.

We continue to give considerable emphasis to the Chief Financial Officer's (CFO) Act items through audits, inspections, and internal evaluations. We have imbedded CFO Act issues into our operating business practices and the USACE 5-year Management Control Plan.

The examples of leadership emphasis coupled with similar initiatives implemented within USACE divisions and centers have enhanced our overall management controls program.

TRAINING –

USACE staff activities and field organizations conducted management control training during FY02 utilizing the Army Management Control Administrators and Managers Courses; in-house training by management control administrators; websites that contain program guidance and key controls lists from HQDA, Army and Engineer Regulations governing the programs/areas to be evaluated, and USACE policy, guidance, and toolboxes.

During August 2002, USACE HQ, MSC and FOA Management Control Administrators attended Army's two-day Management Controls Symposium and the U.S. Department of Agriculture Graduate School's two-day Army Management Control Administrators Course.

EXECUTION –

Throughout the year, HQUSACE used e-mail to send all management control information to Corps organizations, to correspond with and provide guidance to headquarters and field management control administrators, and to coordinate actions in preparing our annual statement of assurance.

We have developed a homepage for USACE employees' easy access to internal management control information and links to other USACE and Army management control homepages. Planned improvements to this homepage include links to DA approved websites (such as Fort McCoy, WI) for training courses in Management Control topics.

Many USACE management control evaluations are integrated into normal management processes such as quarterly command management reviews, staff visits, program management reviews, command inspections, and internal audits. Checklists, conference results, and independent reviews by GAO and USAAA are other tools used to monitor and evaluate our key management controls.

USACE districts, divisions, centers, and staff offices tested key management controls for areas requiring evaluation in FY02, prepared their statements of assurance, and submitted these statements through their chains of command to HQUSACE. Functional proponents reviewed audit findings and field-reported material weaknesses and issues.

A HQUSACE Accountability Board reviewed headquarters functional proponent comments, audit findings, and field and headquarters statements of assurance and reported material weaknesses. This year's review did not identify any new material weaknesses to be reported to the next level of command, but did acknowledge internal management control weaknesses in Civil Works cost-sharing, economic analyses, and financial documentation of construction projects. We are aggressively monitoring and diligently working to resolve these issues within the Corps.

TAB B-1

FY02 Material Weaknesses

UNCORRECTED — For HQDA Awareness

<u>MW# (FY Identified)</u>	<u>Description</u>
<u>COE-00-001</u>	Computer System Control
<u>COE-00-002</u>	Sub-Contracting Plans for Small Business
<u>COE-01-002</u>	Information Technology (IT) Capital Planning and Investment Decision Process

CORRECTED

<u>MW# (FY Identified)</u>	<u>Description</u>
NONE	

TAB B-2

**Uncorrected
Material Weaknesses**

UNCORRECTED MATERIAL WEAKNESS

MW # COE-00-001

Title and Description of Material Weakness: Computer System Control Weaknesses. Weaknesses in system controls were identified at the Corps data processing centers and district sites that could facilitate both hackers and legitimate users to improperly modify, inappropriately disclose, and/or destroy sensitive and financial data. Such weaknesses could result in a disruption of critical computer-based operations. The identified weaknesses involved both general and application controls. Corrective actions have been taken during the past 12 months to correct all deficiencies that were identified in the annual Chief Financial Officers (CFO) audit conducted by the Army Audit Agency (AAA) & the Government Auditing Office (GAO). USACE has also reorganized its staff and increased its funding to better support the Command's Information Assurance Program. The corrections taken by USACE in the past year, however, are pending validation from AAA and GAO as part of their annual audit report scheduled for October 2002.

Functional Category: Automation

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: Sep 2001

Targeted Correction Date in Last Year's Report: Sep 2001

Current Target Date: Oct 2002

Reason for Change in Dates(s): Corrective actions identified in the FY 2000 audit cannot be validated until the GAO Audit is finalized/closed.

Component/Appropriation Account Number: Army/Military and Civil Works

Validation Process: GAO follow-up Audit as part of the annual Chief Financial Officers Act (CFO) Audit.

Results Indicator: Few, if any, unauthorized intrusions to the computer systems and accurate system data.

Source(s) Identifying Weaknesses: GAO Audit Report Number GAO/AIMD-00-235

dated September 2000; Subject: Computer Control Weaknesses over Corps of Engineers Financial Management System (CEFMS). GAO audited using their Jan 1999 Financial Information System Controls Audit Manual (FISCAM).

Major Milestones in Corrective Actions:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Dec 00	Memorandum from USACE to HQDA requesting review/revision of AR 380-19 to update current systems needs and technology because of the GAO Audit. Additionally, HQDA should establish updated standards that consider the GAO FISCAM guidance. Corrective Action: A memorandum was sent to HQDA.
Sep 01	(Oct 00 – Sep 01) USACE Corporate Information, Security and Law Enforcement, and Finance Staffs work to correct all the USACE Commander agreed upon GAO FISCAM audit issues. Corrective Action: The USACE Commander 28 August 2000 command response to the GAO was used as the corrective action guide.
Jan 01	(Oct 00 – Jan 01) USACE Internal Review reviews the centers and districts review the non-technical GAO FISCAM audit issues following CEIR guidance. Corrective Action: There will be continuing follow-ups of open audit issues until they are closed.

B. Planned Milestones (Fiscal Year 2002):

<u>Date:</u>	<u>Milestone:</u>
Mar 02	(Sep 01 – Mar 02) USACE Corporate Information and Finance Staffs work to correct the USACE Commander agreed upon and new GAO FISCAM audit issues. Corrective Action: The USACE Commander 8 March 2002 command response to the GAO will be used as the corrective action guide and it can be modified by subsequent negotiated agreements made with GAO during future discussions.

C. Planned Milestones (Beyond Fiscal Year 2002):

<u>Date:</u>	<u>Milestone:</u>
Oct 02	Corrective action validated by AAA, USACE IR and CERM-P (MCA).

HQDA Functional Proponent Participating in Corrective Action: N/A

Point of Contact: Sondra Charlton (CECI-A) (202) 761-1736

UNCORRECTED MATERIAL WEAKNESS

MW # COE-00-002

TITLE AND DESCRIPTION OF MATERIAL WEAKNESS: **Subcontracting Plans for Small Business.** Many of the field contracting offices are in noncompliance with applicable public laws and implementing policies and procedures as they pertain to small business subcontracting. USACE procedures are not adequate for evaluating and negotiation of acceptable subcontracting plans and for monitoring, evaluating and documenting contractor performance.

FUNCTIONAL CATEGORY: Contract Administration

PACE OF CORRECTIVE ACTION:

YEAR IDENTIFIED: Fiscal Year 2000

TARGET CORRECTION DATE: Originally Sep 2001; However, the Pilot Automated System Development to assist in correcting the weakness was completed Sep 2001, but not presented for acceptance; a Beta Test in Corps Districts was planned for Oct 2001 – Sep 2002; Because of non-acceptance of the system for enhancements, the beta test has slipped until FY 2003; Total Correction now has slipped to Sep 2003

CURRENT TARGET DATE: Sep 2003

REASON FOR CHANGE IN DATE: See explanation under Target Correction Date above

COMPONENT/APPROPRIATION/ACCOUNT NUMBER: army/Military and Civil Works

VALIDATION PROCESS: Internal compliance reviews and training continue to be provided by CT and SADBU at the local contracting entities. The PARC's agendas on the Road shows to the Districts and at the annual PARC Roundtable/Conference contain training on Subcontracting Plans Compliance. The Acquisition Management Surveys (AMS) Reviews at the Divisions and OPARC have placed a new aggressive focus on Subcontract Management that will improve monitoring and validation of the processes embraced by the Districts. The capability for independent validation of 294/295 submissions by the prime contractors will be administered through the OPARC Pilot automated system for the management of Subcontract Compliance.

RESULTS INDICATORS: The automated system will ensure timely submission of

294/295 reports by contractors or provide "red flag" alerts and notification. The capability to ensure accuracy in reporting will also be administered through the effective use of the OPARC Pilot Program on Subcontract Compliance which will capture the independent web-based notification from subcontractors of all receipts of payment from the prime and a clear explanation of the type of work performed so that subcontractors receive the proper experience to prepare them for future prime competitions.

SOURCE(S) IDENTIFYING WEAKNESS: HQUSACE Internal Review.

MAJOR MILESTONES IN CORRECTIVE ACTION:

1. PARC TO ISSUE POLICY AND GUIDANCE ADDRESSING THE APPLICATION OF CURRENT PUBLIC LAW AND REGULATION AS IT PERTAINS TO SMALL BUSINESS SUBCONTRACTING IN USACE CONTRACTS. **TARGET DATE: Dec 00.** **POLICY DISSEMINATION COMPLETED:** On 1 December 2000, PARC sent out e-mail broadcast to all Chiefs of Contracting and Directors of Contracting notifying them of the material weakness procedures for aggressive monitoring, such as meetings/IPRs with prime contractors monthly or as deemed necessary, specifically monitoring progress in subcontracting for all contracts in excess of \$500,000 (\$1,000,000 for construction); and requiring greater execution of liquidated damages when agreed upon contracting goals were not met. The field was requested to send in copies of all Standard Operating Procedures (SOPs) for Contractor Reviews so that the accountable OPARC Analyst could ferret out "best of breed" standardized procedures that could be incorporated in the automated system that was being designed for independent and aggressive management of subcontract plans by the government and provide enhancements to the formal policy distribution which was planned for release with the pilot automated compliance system in August 2001. The pilot automated system will now be released October, 2002 shortly after the beginning of FY 03 and the formal policy, leveraging all lessons learned will be released concurrently.
2. PARC to develop a command-wide monitoring process that effectively identifies and tracks compliance with the PARC's policy and guidance on small business subcontracting. **Original Target Date: Dec 00.** The PARC accepted for Beta Testing a Pilot Contract Compliance System in early August 2002, which was developed under the Corps of Engineers Pilot Program for Small Businesses with "seed money" provided by HQDA. The contract was awarded in FY 2000 (GS00K97AFD2191) for the development and prove-out of a Subcontract Compliance System, which would track the actual execution and actual outlays to small businesses under approved Subcontracting Plans. The Contractor, SYMBIONT, INC, a small disadvantaged business, developed the system to prove-out the new innovation in the Corps. The new automated system supports

paperless contracting and will serve as an independent tool for validating compliance never before available. **UPDATE (SEPTEMBER, 2002):** The PARC accepted the automated system for Contract Compliance, developed by Symbiont, Inc., to prove-out its capability to track the actual execution and actual outlays to small businesses under approved subcontracting plans. In May 2001, Symbiont, Inc. completed its review of the current SOPs of all the operating contracting offices, compiled the lessons-learned and offered a suggested solution for the Pilot Contract Compliance System. The Contractor at the PARC Roundtable/Conference, 11-15 June 2001, first demonstrated the system. Out of this review potential enhancement evolved which were subsequently incorporated into the system as an enhanced system. That system was accepted by the PARC in August 2002 and will be beta-tested during FY 03. Some of the system provisions are as follows: Simultaneous with transcribing the award of prime contracts in excess of \$500,000 (\$1,000,000 for construction), the prime contractor and every tier of subcontractor will be listed in the system by name; the system is web-based for subcontractors to enter payments received from their prime contractors on monthly basis. The Primes will continue to submit their 294/295 semi-annually, but the system will allow validation of the 294/295 independently by the government. The system will provide a variety of reports to support the SADBU offices, monitor contract compliance and support PARC Acquisition Management Surveys assessments. The implementation of the system will be managed at Corps Headquarters. The system already resides on the Headquarters' server as of August 2002. Since the system is web-based, any Corps office can review, query, or generate reports on compliance. The implementation includes training and acceptance testing of the new system. Reports from the web-based system will help the districts in their periodic or monthly meetings with prime contractors being able to discuss "real-time" performance under an approved subcontracting plan. Remaining Project Schedule:

<u>TASK</u>	<u>COMPLETION DATE</u>
1. PARC acceptance of the Web-based Pilot System	8/2002
2. Implementation of the Web-based Pilot System for Beta-Testing/Policy distribution	10/2002
3. Monitor and Evaluate the Web-based Pilot System	8/30/2003
4. IR Validate Corrective Actions	9/30/2003
5. Implement System Corps-wide	10/15/2003

3. PARC to develop a reporting process to advise the Chief of Engineers, on a semi-annual basis, of the command-wide status of implementation of and compliance with the PARCs policy and guidance on small business subcontracting, **Target date: 01 Dec 00. September 2002 UPDATE: Task Completed. Progress in Monitoring of Subcontract Plans is reported to the Deputy Chief of Engineers during each Command Staff Inspection each district within a Division and in the PARC's formal report to the Division. Routinely, subcontract monitoring is an issue reported to the Chief of Engineers during Command Management Reviews and during the Weekly Staff Meetings when there are issues regarding unrestricted competitions that the small business industry believe should be set-aside. The CMR and Strategic Management Reviews (quarterly) have been selected as the official forums for report-out to the Chief of Engineers. After the beta testing and when the automated system is fully implemented, reports of anomalies by division will be reported weekly if subcontracting goals on approved subcontracting plans are not being met. Because of the effectiveness of the on-going report outs and the plans after the implementation of the automated system, this task is complete.**
4. SB will provide command-wide oversight to assure effective, accurate and timely implementation of the PARC's policy relating to small business subcontracting. **Original Target Date, 01 Feb 01. Slipped Date: Oversight cannot begin until the system is fully implemented Corps-wide, 10/15/2003.**
5. Corrective actions validated by Internal Review and CERM-P, Management Control Administrator. **Original Target date: 30 October 2002. New Target date: 30 October 2003.**

HQDA Functional Proponent Participating in Corrective Action: N/A

Point Of Contact: Ms. Bunnatine Greenhouse, (CEPR-ZA) (202) 761-8642

UNCORRECTED MATERIAL WEAKNESS

MW # COE-01-002

Title and Description of Material Weakness: **Information Technology (IT) Capital Planning and Investment Decision Process.** Weaknesses in the IT Capital Planning and Investment Decision Process were identified for the selection, control and evaluation of USACE IT Investments. The Clinger-Cohen Act of 1996 and AR 25-1 require that Federal Agencies institutionalize a USACE IT Capital Planning and Investment Decision Process. This process integrates the programming and budgeting for IT Investments through policies, guidance and committees which monitor and track these investments through the USACE IT Investment Portfolio. Currently the process is fragmented and senior level approval continues to be given to high visibility projects that have not been through the process. This weakness impacts corporate decisions on the ranking and prioritization of IT Investments and their contribution to the mission of US Army Corps of Engineers.

Functional Category: Automation

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: Sep 2002

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

Current Target Date: Sep 2003

Reason for Change in Dates: Original Targeted Correction Date was erroneously reported in FY01 Annual Statement. Targeted Correction Date has always been September 2003.

Component/Appropriation/Account Number: Army / Multiple Military and Civil Works appropriations.

Validation Process: AAA follow-up Audit as part of the annual Chief Financial Officers Act (CFO) Audit.

Results Indicator: The ability to capture the business-related benefits of our IT investments and their contribution to the USACE mission, and the reconciliation of programming and execution of USACE IT investments.

Source Identifying Weaknesses: USACE Command/Staff inspections/audits/reviews.

Major Milestones in Corrective Actions:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone</u>
Mar 02	The publication of Engineer Regulation 25-1-103, Information Technology Capital Planning and Investment Decision Policy. The policy for IT capital planning and investment decision was published in Engineering Circular 25-1-303, Information Technology Investment Management (ITIM), 1 Aug 2002.

B. Planned Milestones (Fiscal Year 2002):

<u>Date:</u>	<u>Milestone</u>
Dec 02	The publication of EM 25-1-XXX, Information Technology Capital Planning and Investment Decision Process. Completion of this item was delayed due to other directorate priorities, e.g., OMB E-Gov initiative. Target date for completion is December 2002.

C. Planned Milestones (Beyond Fiscal Year 2002):

<u>Date:</u>	<u>Milestone</u>
Mar 03	Conduct three regional training sessions for Division, District, Field Operating Activity, and Lab Planners responsible for IT Capital Planning for their organization between March 2002 and March 2003. The regional training sessions have not been conducted as planned due to reduced funding in FY02. However, we conducted training sessions during the DIM/CIM Conference in Kansas City in April 2002 and provided guidance/training during two regional Division meetings (NAD and MVD) via video teleconference.
Sep 03	Conduct Command Staff Inspections of Division/District/FOA/Lab for implementation of IT Capital Planning and Investment Decision Process between September 2002 and September 2003. Not started.
Sep 03	Brief the USACE Command Council on the IT Capital Planning and Investment Decision Process. Not started.
Oct 03	USACE IR and CERM-P (MCA) validate corrective actions.

HQDA Functional Proponent Participating in Corrective Action: N/A

Point of Contact: W. Ward Sevila (CECI-TR) (202) 761-7700

TAB B-3

Corrected

Material Weaknesses

CORRECTED MATERIAL WEAKNESS

(NONE)