DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO ATTENTION OF:

CERM-P

27 AUG 2004

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY, FINANCIAL MANAGEMENT AND COMPTROLLER (SAFM-FOI, Room 3A322), 109 ARMY PENTAGON, WASHINGTON, DC 20310-0109

SUBJECT: FY04 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 Headquarters, Department of the Army 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. This year we are reporting a material weakness in our USACE audit of Chief Financial Officer (CFO) financial statements. The weakness concerns supporting documentation for property, plant and equipment assets. We have reached agreement with the DODIG on the requirements for supporting documentation. We are now aggressively pursuing resolution of these CFO issues. We also identified credit card management as an area that needs increased management emphasis. Our focus on credit card management this coming year stems from local problems currently under investigation. We are intensely monitoring the investigations.

3. I am proud to highlight some of USACE's significant management control accomplishments (TAB B-3). We will share these good ideas throughout the Command to foster continual improvement in USACE management processes.

FOR THE COMMANDER:

Encl

ROBERT H. GRIFFIN
Major General, USA
Deputy Commander

TAB A-1

How This Assessment Was Conducted

Leadership Emphasis –

During FY04, 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. We discussed what reported Material Weaknesses were systemic and what other internal processes warranted attention and reporting upward.

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.

This year, we took time during Command Strategic Reviews and video teleconferences to ensure that management control responsibilities are included in the performance plans of Commanders, Assessable Unit Managers, and other appropriate personnel.

We continue to emphasize the importance of 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.

These 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 FY04 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.

Four USACE Management Control Administrators from various levels within the command 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 in May 2004.

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 the addition of the seven Management Control Courses and the Management Control Toolbox provided by the Training Subcommittee of the Management Control Steering Committee. In addition, we will continue to link to DA approved websites for training courses in Management Control topics.

Many USACE management control evaluations are integrated into normal management processes such as our Consolidated Command Guidance, 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 FY04, 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.

Internal Review Support –

The HQUSACE Internal Review Office continues to support the Management Control Process in a variety of ways. Internal Review staff at the headquarters and throughout the command reviewed completed management control evaluation, certification statements for reasonableness and clarity. Auditors spoke with responsible personnel, reviewed supporting documentation, and reviewed pertinent regulations. Audits throughout the year included a review of management controls pertaining to that audit. This included Chief Financial Officer Act validations, reviews, and follow-ups to Inspector General findings, if any. During visits, Internal Review personnel review management control working papers, reports, and support for annual assurance statements. During FY04 Internal Review personnel, USACE- wide, provided over 9,000 man-hours of support to the Internal Management Control Process, as a part of evaluating and assessing the various functional areas, and approximately 2000-man -hours of direct evaluation of the Internal Management Control Program.

TAB B-1

FY04 Material Weaknesses

Uncorrected — For HQDA Awareness

MW# (FY Identified)	Description
COE-00-001	Computer System Control
COE-00-002	Sub-Contracting Plans for Small Business
COE-01-002	Information Technology (IT) Capital Planning and Investment Decision Process
COE-04-001	CFO Property, Plant and Equipment Issues

Corrected

MW# (FY Identified)	Description
None	

TAB B-2

Uncorrected

Material Weaknesses

Uncorrected Material Weakness

MW # COE-00-01

Title and Description of Material Weakness: Information Systems Security - 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.

Functional Category: Information Technology

Pace of Corrective Action:

Year Identified: October 2000

Original Target Date: September 2001

Target Date in Last Year's Report: March 2004

Current Target Date: September 2005

Reason for Change in Date(s): Delayed follow up on the GAO – FISCAM Audit and follow up review/validation actions by DoD IG from their draft reports, project No. D2003 FG-0139.000 of 6 July 2004 and No. D2003FG-0139.001 of 14 July 2004. These reports cite needs for additional corrective actions. Of these an item with longest lead time, is dependent upon effective actions to relocate a large processing center to a separate facility.

Component/Appropriation: Army/Military and Civil Works

Validation Process: Validated by USACE CIO and/or DoD IG Audit follow up report.

Results Indicators: Technical teams from HQUSACE, CEEIS, and DoD IG officials have/will validate that corrective actions are completed.

Source(s) Identifying Weakness: GAO Audit Report Number GAO/AIMD-00-235 dated September 2000; Subject: Computer Control Weaknesses over Corps of Engineers Financial Management System. GAO audited using their January 1999 Financial Information System Controls Audit Manual (FISCAM).

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:	Milestone:
October 2000 - January 2001	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.
October 2000- September 2001	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.
December 2000	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 considers the GAO FISCAM guidance. Corrective Action: A memorandum was sent to HQDA.
October 2001 - March 2002	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.

October 2002	Corrective action validated by AAA, USACE IR and CERM-P (MCA).

B. Planned Milestones (Fiscal Year 2004):

Date:	Milestone:
July 2003- October 2004	Corrective action validated by USACE CIO And/or DoD IG Audit.

C. Planned Milestones (Beyond Fiscal Year 2004):

Date:	Milestone:
August 2004 – September 2005	Corrective action from DoD IG review Validated by USACE CIO and IG officials.

OSD or HQDA Action Required: Not Applicable

Points of Contact: CECI-A - Tom Aubin; CERM-F - Mike Walsh; CEFC-Z - Tom Brockman.

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 and Small Business

Pace of Corrective Action:

Year Identified: Fiscal Year 2000

Target Correction Date: Originally Sep 01; however, the Pilot Automated System Development to assist in correcting the weakness was completed Sep 01, but not presented for acceptance; a Beta Test in Corps Districts was planned for Oct 01 – Sep 02; but because of non-acceptance of the system for enhancements the beta test slipped until FY03; the system has now been accepted, but there has not been funding for the testing; the system was briefed to the HQDA PARC's Governance Board which approves the piloting and development of automation systems to enable paperless contracting and improve efficiency in contracting. The HQDA Governance Board assesses and approves systems for funds prioritization to complete the beta testing and piloting of the system to determine proof of principle for Army-wide implementation. The Contract Compliance System's acceptance as a pilot should be determined during 1st Quarter, FY04; therefore system readiness cannot be foreseen until Sep 04. When the Governance Board failed to approve the system for funding, an Unfunded Requirement (UFR) was submitted through USACE, which was also not approved, therefore, the system not being a requirement for corrective action is being removed as a solution to enhance the corrective action. If funding is found, the system will be used to enhance the corrective actions that have now been validated in the reports from the field during 2003.

Current Target Date: NLT March 2005

Reason for Change in Date: Lack of funds is the issue for implementation of the System. The PARC has launched an aggressive strategy to ensure that this system becomes a part of the Enterprise technology infrastructure for the Army by making the Contract Compliance System part of the Army's funding prioritization. The System has been developed and is ready for operational testing as a pilot within a Division with current USACE Projects. The system requires the Prime Contractors to submit names of all Subcontractors to the lowest tier who comprise the approved subcontract plan. Each time there is an outlay of payments to a subcontractor, the subcontractor will independently enter the web-based system specifying: the amount of payment; the service or product provided; contract number; business size; and appropriate comments on participation in the project rather than the government having unilaterally dependence upon the validity of the 294/295 prime contractor submissions for

subcontract plan compliance. Since, it is impossible at this time to obtain funding, an automated solution to enhance the corrective actions that have already been made by the Contracting Activities, will be withdrawn.

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

Validation Process: The PARC conducted a Survey of all the Districts and other contracting entities in the Corps during Fiscal Year 2003 to obtain a description of the current process of acceptance and validation of Subcontracting Plans; the critical points of negotiation for the plans; how prime subcontracting plans compliance is monitored; the evaluative criteria for acceptance of the plan; documentation of prime contractor performance an whether complaints are being received that Primes are not complying to their approved plans. Overwhelmingly the process throughout the Corps was comprehensive and with much rigor. Excellent and aggressive procedures are being executed with full collaboration with the Contract Specialist, Contracting Officer, SADBU, SBA, ACO and the Contractor. The PARC will promulgate all unique initiatives Corps-wide for continuous improvement. Generally, all subcontracting plans are provided to the procurement analyst for scoring using the AFARS Appendix DD Subcontracting Plan Evaluation Guide. The analyst provides the scoring to the contract specialist who must then negotiate with the contractor on plans, which are unacceptable (usually they are 2 or 3 iterations of the plan until an acceptable one is determined). Once the specialist receives an acceptable plan in his/her opinion, it is again provided to the procurement analyst for re-scoring. The contract is not awarded until an acceptable plan, approved by the procurement analyst, is obtained. Any scores below 70 will be reviewed with the contractor and the areas where the plan is deficient are identified and through discussions with the offerors, the deficiencies are corrected. The plans are also provided to the Small Business Administration (SBA) for their review and comment and the activity SADBU is inextricably linked and involved with Contracting on a day-to-day basis reviewing the Small Business process. Contractor performance is mainly documented by a semi-annual review of the 294s/295s by the Deputy for Small Business. The Deputy then provides the information to the ACO and PCO for their review and documentation in the Performance Evaluation. The review is also provided to the procurement analyst for use in evaluating new subcontracting plans. The internal compliance reviews and training continue to be provided by CT and SADBU at the local contracting entities. The SADBU/KO sign the plan and pass on the ACO for administration. The Subcontract Plan is briefed at the Pre-performance Conference and the Contract Specialist assigned to the Project reviews 294' s/295's. The PARC-generated Surveys launched during FY03 have proven most beneficial by leveraging the initiatives among the field elements. 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 confidence and independent validation of 294/295 submissions by the prime contractors will be greatly enhanced by the administration through the OPARC Pilot automated system for the management of Subcontract Compliance. However, the automated enhancement is now being withdrawn because of an inability to obtain funding for its implementation. The PARC Survey

Results is attached, entitled "Current Processes in the Field Management of Small Business Subcontracting – Subcontracting Plans, 2003-2004 Material Weakness Update".

Results Indicators: The FY03 surveys have indicated that it has been at least two years since the Corps has had specific complaints regarding prime contractors not in compliance with their approved plans. There is aggressive post award administration and cooperation between Contracting Officers and Deputies for Small Business. Liquidated damages for failure to meet subcontracting plan commitments under FAR 52.219-16. The Deputies for Small Business also conducts random compliance reviews to monitor compliance. It is noted in the performance evaluation of contractors not meeting subcontracting plan goals, so that it can be utilized in future selections. The PARC Surveys will be continued on an annual basis. The automated system will ensure timely submission 294/295 reports by contractors or provide "red flag" alerts and notification has been withdrawn as an enhancement to the already improved subcontract management plans' approval and monitoring processes. The capability to ensure accuracy in reporting could have also been administered through the effective use of the OPARC Pilot Program on Subcontract Compliance which could have captured the independent web-based notification from subcontractors of all receipts of payments 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 and then this information could have been validated against the Primes' submission of the SF 294's and SF 295's. Since the Contract Compliance system was only an automated enhancement to the improved processes, it is being withdrawn for lack of funding, but should funding because available, it will be infused into the subcontract management process as an automated enhancement.

Source(s) Identifying Weakness: HQ, USACE Internal Review.

Major Milestones in Corrective Action:

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 be released for pilot testing after 1st Quarter FY 04 should funds be approved by the HQDA Governance Board or the concurrent UFR in the USACE budget process is approved. During the execution of the pilot any additional formal policy, which leverages all lessons learned will be released concurrently. It is now evident in August 2004, that funding will not be received to implement the Contract Compliance System as an automated enhancement to the already corrected field contracting subcontract management procedures.

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" provide by HQDA. The contract was awarded in FY00 (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 (August, 2004): The automated system implementation is the key to ensuring Contract Compliance and funding must be strongly considered to approve a UFR should the system fail to be placed in the funding priority lists of the HQDA Governance Board. The PARC also instituted a Survey Initiative to the field to capture how the process is actually performed without automation. 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 but has not completed beta testing as was planned during FY03 because of lack of funding. 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 SABDU 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 of 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 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. Since it is now evident in 2004 that funding will not be obtained to implement the Contract Compliance System as an enhancement to the improved subcontract management processes, the PARC now withdraws the Contract Compliance System and will continue with the Surveys to the field, promulgating the best practices on the OPARC website for leveraging throughout the Corps. Remaining Project Schedule:

Because funding did not materialize for the implementation of the contract compliance system Corps-wide as an enhancement to the improved field processes for subcontracting plan management, the PARC is withdrawing this system at this time as one of the central solutions to the material weakness identified. The system was an extra and not necessary for effective eradication of the material weakness.

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 the compliance with the PARC's policy and guidance on small business subcontracting. Target Date: 01 Dec 00. September 2003 Update Task Completed. Progress in Monitoring of Subcontract Plans is reported to the Deputy Chief of Engineers during each Command Staff Inspection for 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 (CMRs) and during the Weekly Staff Meetings when there are issues regarding unrestricted competitions that the small industry believes should be set-aside. The CMR has been selected as the official forum 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 o the effectiveness of the on-going report outs and the plans after the implementation of the automated system, this task is complete.

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. Oversight ongoing in SB field reviews. PARC has requested that the Internal Review Office provide a follow-up to continue validation of the improvements.

Corrective Actions validated by Internal Review and CERM-P, Management Control Administrator. Original Target Date: 30 October 2002. New Target Date: March 2005.

HQDA Functional Proponent Participating in Corrective Action: N/A

Point of Contact: Ms. Bunnatine H. 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, which 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: Information Technology (formerly Automation)

Pace of Corrective Action:

Year Identified: 2001

Original Target Date: September 2003

Target Date in Last Year's Report: September 2003

Current Target Date: October 2005

Reason for Change in Date: USACE addressed this weakness on an interim basis through a temporary Engineer Circular (EC). Final correction of this weakness requires promulgation of guidance in a permanent [illegible] gulation (ER). The proposed ER requires completion of ongoing staffing. This will [illegible] shed in FY05.

Component/Appropriation: 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 and reviews.

Major Milestones in Corrective Actions:

A. Completed Milestones:

Date: December 2001 – August 2003

Milestone: Plans and actions undertaken for development and publication of ER 25-1-103, Information Technology Capital Planning and Investment Decision Policy.

Corrective Action: Temporary policy (2 years) for IT capital planning and investment decision was published 1 August 2002 in EC 25-1-303, Information Technology Investment Management (ITIM), pending establishment of permanent policy under ER 25-1-103.

Date: March 2002 – December 2003

Milestone: Provide 3 regional training sessions for Division, District, Field Operating Activity, and Lab Planners responsible for IT Capital Planning for their organizations.

Corrective Action: Conducted training sessions for Division, District, Field Operating Activity, and Lab Planners responsible for IT Capital Planning for their organizations as follows:
DIM/CIM Symposium held in Kansas City in April 2002 (Central)
Two regional Division meetings (NAD and MVD) via video teleconference.
DIM/CIM Symposium in Orlando, July 2003 (East).
3 VTC training sessions for the Regions and 2 training sessions for Headquarters, HECSA, and other FOAs in the National Capital Region In the First Qtr, FY04.

B. Planned Milestones (Fiscal Year 2004)

Date: October 2003 – March 2004

Milestone: Staff and promulgate ER25-1-103, Information Technology Capital Planning and Investment Decision Policy.

C. Planned Milestones (Beyond Fiscal Year 2004):

Date: October 2004 – October 2005

Milestone: Vet, re-staff, and promulgate ER 25-1-103, Information Technology Capital Planning and Investment Decision Policy, and any other needed supporting publications.

OSD or HQDA Action Required: Not Applicable

Points of Contact: CECI-B – Brenda Gooden, and CERM-P – Management Control Administrator

Uncorrected Material Weakness

MW # COE-04-001

Title and Description of Material Weakness: CFO Property, Plant and Equipment Issues

Construction in Progress (CIP): During the FY02 and 03 audit work DoDIG projected that $10B of the beginning balance for FY03 was overstated by $7.8B due to expense type events being erroneously capitalized, (i.e. Bank Stabilization Work, Beach Nourishment, Dredging, Fish Mitigation Work, Reimbursements to Sponsors), untimely transfers of completed projects, non-federal cost share projects erroneously capitalized, CIP costs could not be reconciled to source data, and $41M in negative CIP balances.

Real Property: During FY02 and 03 audit work DoDIG identified 7 major issues: (1) Placed in Service Dates, (2) Useful Life, (3) Physical Existence, Impairment and Usefulness of Assets, (4) Bank Stabilization, (5) Non-Federal Lease Classifications for Buildings and Other Structures, (6) Supporting Documentation, and Classification of Assets.

Functional Category:

Pace of Corrective Action:

Year Identified: 2003

Original Target Date: December 2003

Target Date in Last Year's Report: December 2003

Current Target Date: 31 October 2004

Reason for Change in Date(s): The Corps has struggled in providing DODIG with original support documents for its older assets. The Corps and DODIG have worked over the past three years to agree on what supporting documentation is satisfactory for older assets. In May 2004, DODIG and the Corps finalized a memorandum of agreement, which provides the Corps the ability to comply with the audit requirements for supporting its older assets. This is a significant agreement for the Corps, and also for the rest of DOD, as this agreement will serve as a model for the rest of DOD to meet this audit requirement.

Component/Appropriation: Army (DODIG estimate $35.2M for FY05 audit)

Validation Process: FY05 Audit

Results Indicators: FY05 Audit Opinion

Source(s) Identifying Weakness: FY02 and 03 DODIG CFO Audit

Major Milestones in Corrective Action:

Real Property: We continue to work issues identified during the FY03 audit concerning placed-in-service dates, useful lives and supporting documentation. CERM has revised CFO Self Assessment paper # 10 regarding Buildings and Other Structures to identify the FY03 audit issues. In addition, we have a revised useful life table and plan to seek a waiver form OSD(C) for the assets, which are unique to the Corps. USACE and DoDIG developed an alternative methodology for providing supporting documentation for pre-CEFMS Building and Structures and Land assets, which will be instrumental in resoling the support for older property items.

A. CIP Completed Milestones

CERM has issued a revised information paper on CIP to ensure corrective actions are completed by 31 October 2004. Based on the revised Information Paper #2 for CIP we continue to scrub the CIP accounts to remove expense-type events, cost share projects and completed projects. In FY03 UFC did a $3.7B statement-level adjustment to reduce the Non-Federal Cost Share Projects for the FY03 statements and a $285M statement level adjustment to reduce the FY03 CIP balance for two COEMIS Fish Mitigation Items. The Corps also reduced the negative CIP balance down to $1M and developed a reconciliation report "CIPREC" to assist field activities identify supporting documentation for CIP projects. Finally the Corps and DODIG signed a MOA to develop an alternative methodology for providing supporting documentation for pre-CEFMS CIP assets. This agreement will be instrumental in resolving a long-standing problem of supporting our older assets.

B. Planned Milestones (Fiscal Year 2005):

Real Property Planned Milestones:

Date:	Milestone:
Jul 04	Finalize Draft CFO Self Assessment, and Useful Life Table
Aug 04	Seek OSD(C) Waiver for Corps Useful Life Table
Oct 04	Complete remaining corrective actions from DODIG FY03/04 audit reports
Dec 04	DODIG validate corrective actions

C. Construction in Progress Planned Milestones:

Date:	Milestone:
Oct 04	Complete remaining corrective actions from DODIG FY03 audit report
Dec 04	DoDIG validate corrective actions

OSD or HQDA Action Required:

Point of Contact: Edsel Fraley CERM-F 202-761-0549

TAB B-3

Management Control Program And
Related Accomplishments

Management Control Training

Description of the Issue:

US Army Corps of Engineers Management Control Administrators needed easy access to management control training materials to share with commanders, Assessable Unit Managers, and other interested parties at all levels.

Accomplishments:

The Headquarters and subordinate command Management Control Administrators within USACE now use email and web-based presentations to share Management Control materials and train at all levels.

The presentations we share are auto-tutorial and can be changed to accommodate special emphasis or needs within a given office or District when used to train groups.

The recent Army-level initiative to provide a modular training program will greatly enhance this locally developed program.

Huntsville Center developed both an internal and external customer survey process

Description of the Issue:

Developed a customer survey process to determine both internal and external customer satisfaction with Huntsville Center services.

Accomplishments:

Huntsville Center established a survey that provides results in the form of scores to determine if products and services are meeting the needs and requirements of both their internal and external customers.

South Atlantic Division (SAD) Shares Good Ideas

Description of the Issue:

The Wilmington District of SAD implemented a process called Objective Organization. This process looks at projected revenue for the next five years and the type of work that will be performed, identifies the skills required and required staffing by organization.

Accomplishments: This process allows the district to predict manpower usage more efficiently. This process will be adopted by four of the five SAD districts by year end.