

***Army in Europe Circular 11-2**
Army Programs
Fiscal Years 2003 and 2004
Management Control Process Annual Assurance Statement
1 November 2002

This circular expires 31 October 2004

*** This circular supersedes USAREUR Circular 11-2, 1 February 2001.**

For the CG, USAREUR/7A:

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Summary. This circular prescribes policy and procedures for preparing the annual assurance statement for fiscal years 2003 and 2004.

Applicability. This circular applies to HQ USAREUR/7A and USAREUR commands (including USAREUR-deployed units).

Forms. AE and higher-level forms are available through the USAREUR Publications System (UPUBS).

Records Management. Records created as a result of processes prescribed by this circular must be identified, maintained, and disposed of according to AR 25-400-2. File numbers and descriptions are available on the United States Army Records Management and Declassification Agency website at <http://www.rmda.belvoir.army.mil>.

Suggested Improvements. The proponent of this circular is the Office of the Deputy Chief of Staff, Resource Management (ODCSRM), HQ USAREUR/7A (AEAGF-C, DSN 370-6279). Users may suggest improvements to this circular by sending DA Form 2028 (Recommended Changes to Publications and Blank Forms) to ODCSRM, HQ USAREUR/7A (AEAGF-C), Unit 29351, APO AE 09014.

Distribution. D (UPUBS). This circular is available only in electronic format.

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Glossary

1. PURPOSE

This circular prescribes policy and procedures for preparing the annual assurance statement (AAS) in USAREUR for fiscal years 2003 and 2004. AASs certify that an organization has effective management controls in place and in use.

2. REFERENCES

- a. Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255).
- b. GAO/AIMD-00-21.3.1, Standards for Internal Control in the Federal Government (<http://www.gao.gov/special.pubs/ai00021p.pdf>).
- c. Office of Management and Budget Circular A-123, Management Accountability and Control (<http://www.whitehouse.gov/omb/circulars/a123/a123.html>).
- d. AR 11-2, Management Control.
- e. USAREUR management control process webpage (<http://www.odcsrm.hqusareur.army mil/rmmp/mcp/mcp.html>).

3. EXPLANATION OF ABBREVIATIONS AND TERMS

The glossary defines abbreviations and terms used in the circular.

4. RESPONSIBILITIES

Heads of USAREUR organizations (glossary) will send AASs to the Office of the Deputy Chief of Staff, Resource Management, HQ USAREUR/7A (AEAGF-C), Unit 29351, APO AE 09014, as follows:

- a. The fiscal year 2003 AAS is due by 31 July 2003.
- b. The fiscal year 2004 AAS is due by 30 July 2004.

5. SUBMISSION REQUIREMENTS

The Federal Managers' Financial Integrity Act and the Office of Management and Budget require the Secretary of Defense to submit an AAS to the President and Congress. This AAS must be supported by information from subordinate assessable-unit managers (AUMs). To help meet this requirement, the CG, USAREUR/7A, must submit an AAS to the Secretary of the Army supported by AASs from USAREUR organizations.

6. PROCEDURES

USAREUR organizations will follow the guidance in appendix A when preparing AASs. USAREUR organizations will also ensure that AASs--

- a. Accurately represent the organization's management controls and support assertions of "reasonable assurance" (AR 11-2).
- b. Identify material weaknesses where reasonable assurance cannot be provided (app B).

APPENDIX A GUIDANCE FOR PREPARING ANNUAL ASSURANCE STATEMENTS

A-1. COVER MEMORANDUM

a. Each annual assurance statement (AAS) requires a cover memorandum. The memorandum is the reporting-organization assessable-unit manager's (AUM's) assessment of the organization's management controls. The memorandum must state whether or not the AUM making the assessment has reasonable assurance that management controls are in place, being used, and operating effectively. This statement must take one of three forms:

(1) Unqualified Statement of Assurance. For example, "I have reasonable assurance that . . ." Each unqualified statement must have a firm, clearly stated basis for that position.

(2) Qualified Statement of Assurance. For example, "I have reasonable assurance that . . . , except for . . ." In the cover memorandum, the AUM should cite the material weaknesses (MWs) in management controls that preclude an unqualified statement ((1) above).

(3) Negative Statement. For example, "I do not have reasonable assurance that . . . "

b. In assessing the organization, the AUM will consider whether or not the management controls provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were met. Reasonable assurance for an AUM may involve accepting certain levels of risk, if the cost of eliminating the risk through tighter management controls would exceed the benefits derived.

c. To provide objective assessments, DOD, DA, and USAREUR submitted qualified statements for fiscal years 1997 through 2002. A qualified statement (a(2) above) admits MWs. Acknowledging MWs and identifying what will be done to improve management controls makes a positive statement and displays leadership. AUMs of reporting organizations should consider submitting qualified statements when appropriate.

d. The AUM of the reporting organization must sign the cover memorandum.

A-2. ENCLOSURES

The cover memorandum will include enclosures according to the following:

a. Enclosure A will describe and substantiate how the AUM conducted the assessment. This enclosure is not optional. AUMs will describe what led them to determine their assessment of reasonable assurance. This description may cite processes such as management control evaluations, audit or inspection reports, and other senior management reviews. AUMs should give as many examples as possible of how their assessed organizations improved the management control process by specifically addressing the following areas:

- (1) Command emphasis.
- (2) Communication and awareness.
- (3) Training.
- (4) Discovery and resolution of MWs.
- (5) Program administration.

b. Enclosure B will be used to report each new, corrected, or uncorrected MW. If there are no new, corrected, or uncorrected MWs, there will be no enclosure B. Appendix B (fig B-1) provides instructions for reporting MWs; it also shows how to format the required information.

A-3. MW DETERMINATIONS

a. Identifying and correcting weaknesses in management controls is a management responsibility. Audit and inspection reports may recommend reporting problems as MWs, and managers should consider these recommendations. The decision,

however, as to whether or not a weakness is material and reported in the AAS is management's. Management must, however, report an MW when an organization has agreed to a finding that auditors or inspectors clearly state is material.

b. To be considered an MW, a weakness must--

(1) Involve a problem with management controls (for example, management controls are not in place, are not being used, are inadequate, or any combination of these findings).

(2) Warrant the attention of the next higher level of command for corrective action or for awareness.

c. The decision to report an MW should not be based on whether or not the MW has been corrected. The decision not to report a problem as an MW should be based solely on the significance of the weakness. A serious management control problem that is identified and corrected during fiscal year 2003 or 2004 should be reported. Reporting corrected MWs makes a positive statement about the reporting organization.

d. Whether or not the next level of command needs to be aware of a management control weakness is a management decision. In making this decision, managers should consider the following:

(1) Actual or potential loss or risk to sensitive information or resources (such as, assets, finances, information systems, and personnel).

(2) Current or probable media or Congressional interest in the weakness (adverse publicity).

(3) Loss of Government services needed by the public.

(4) Diminished credibility or reputation of Army management.

(5) Unreliable information, which causes unsound management decisions.

(6) Frequency of actual or potential loss, or both.

(7) Degradation of information security.

(8) Inability to accomplish essential missions.

(9) Magnitude of funds, property, or other resources involved.

(10) Violation of statutory or regulatory requirements.

e. Each MW reported must list one of the following DOD functional categories:

(1) Communications, intelligence, and security.

(2) Comptroller and resource management.

(3) Contract administration.

(4) Force readiness.

(5) Information technology.

(6) Major systems acquisition.

(7) Manufacturing, maintenance, and repair.

(8) Personnel and organization management.

(9) Procurement.

- (10) Property management.
- (11) Research, development, test, and evaluation.
- (12) Security assistance.
- (13) Supply operations.
- (14) Support services.
- (15) Other.

APPENDIX B INSTRUCTIONS AND FORMAT FOR REPORTING MATERIAL WEAKNESSES

Figure B-1 shows the required information and format for reporting each new, corrected, and uncorrected material weakness (MW). The MW report or reports will be enclosure B of the annual assurance statement (AAS) memorandum.

USAREUR identification (ID) number: (Assigned by ODCSRM)

Title and Description of Material Weakness. The title should be short. The description should fully convey the problem, its cause, and its effect to a member of Congress or the general public. If an MW was previously reported as corrected and must be reopened, it should retain its earlier title and ID number with a parenthetical notation in the description that it was previously reported as closed in the AAS for fiscal year (FY) (enter the applicable year).

Functional Category. Cite one of the broad DOD functional categories (para A-3e).

Pace of Corrective Action.

- a. **Year Identified:** The FY in which the MW was first reported in the organization's assurance statement.
- b. **Original Targeted Correction Date:** The FY targeted for correcting the MW when the MW was first reported.
- c. **Targeted Correction Date in Last Year's Report:** The FY targeted for correcting the MW in the preceding year's report. If this is a new MW, enter "N/A."
- d. **Current Target Date:** The FY currently targeted for correcting the MW. If this is a new MW, enter "N/A."
- e. **Reason for Change in Dates:** If the "Current Target Date" is later than the "Targeted Correction Date in Last Year's Report," explain what caused this change. If both dates are the same or are "N/A," enter "N/A."

Component, Appropriation, and Account Number. The component is "Army." Identify the appropriations or account numbers associated with this correction (for example, Army/Other Procurement, Army/account number).

Validation Process. Indicate the method to be used to validate the effectiveness of the corrective action and the date the validation will take place. Indicate if the Internal Review and Audit Compliance Office, HQ USAREUR/7A; the United States Army Audit Agency (USAAA); or the DA Inspector General (DAIG) will be involved in the validation.

Result Indicators. Describe the beneficial results for the Army that have been or will be achieved by the corrective actions, using quantitative and qualitative measures, as appropriate.

Sources Identifying Weakness. List sources, to include management control evaluations; General Accounting Office (GAO), DOD Inspector General, USAAA, or DAIG findings (cite the title, number, and date of the audit and inspection report); local inspector general or internal review findings; or other management evaluations.

Major Milestones in Corrective Action. Indicate the major milestones (primary corrective actions) required to correct the MW. Milestones should be directly related to correction of the MW and should be stated in the present tense.

a. Congress and the GAO continue to give increased attention to validation of corrective actions. DOD policy requires validation before an MW is reported as closed. Each MW must include a validation milestone as the last corrective action. The Comptroller General continues to express concern that the corrective action for a third of all MWs, many of which are caused by failure to comply with existing policy, involves policy changes. For this reason, it is crucial to validate whether or not a policy change actually corrects an MW.

b. Milestone dates should be established only for March or September. These are based on the "as of" dates for the mid-year status report (31 Mar) and the annual statement (30 Sep). Using only these two dates will reduce the need to explain minor slips in milestones.

c. Milestones may be added or deleted for previously reported MWs; but if they are, an audit trail must be provided. When adding a milestone, enter “(added)” under the new milestone date. When deleting a milestone, enter “(deleted)” under the date and provide a short explanation of why it was deleted at the end of the milestone description. Milestones should be presented as follows:

(1) Completed Milestones:

Date: Milestone:

(2) Planned Milestones (FY 03 or 04):

Date: Milestone:

(3) Planned Milestones (Beyond FY 03 or 04):

Date: Milestone:

HQDA Functional Proponent Participating in Corrective Actions. For weaknesses that require HQDA involvement to correct, reporting organizations should specify which HQDA functional proponent’s involvement is needed (for example, Deputy Chief of Staff, G3, or Deputy Chief of Staff, G4). The reporting organization should also include that proponent’s office symbol, POC, telephone number, and e-mail address. If reporting the weakness for information only, enter “N/A”.

POC. Enter the name, office symbol, telephone number, and e-mail address of the individual who knows the most about the MW.

Management Control Process Administrator. Enter the name, office symbol, telephone number, and e-mail address of the reporting organization’s management control process administrator.

Figure B-1. Format and Instructions for Reporting Material Weaknesses

GLOSSARY

SECTION I ABBREVIATIONS

AAS	annual assurance statement
AE	Army in Europe
AUM	assessable-unit manager
DA	Department of the Army
DAIG	Department of the Army Inspector General
DOD	Department of Defense
FY	fiscal year
GAO	General Accounting Office
HQDA	Headquarters, Department of the Army
HQ USAREUR/7A	Headquarters, United States Army, Europe, and Seventh Army
ID	identification
MW	material weakness
N/A	not applicable
ODCSRM	Office of the Deputy Chief of Staff, Resource Management, HQ USAREUR/7A
POC	point of contact
USAAA	United States Army Audit Agency
USAREUR	United States Army, Europe

SECTION II TERMS

assessable-unit manager

Head of a USAREUR organization. Normally an AUM is a colonel or GS-15 or above; however, a waiver to this policy is granted to accommodate excessive span of control or geographic dispersion of subordinate units.

USAREUR organizations

Commands and staff offices assigned to USAREUR.