INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

REPORT
NO. 90-047

March 12, 1990

MEMORANDUM FOR COMMANDER IN CHIEF, U.S. ATLANTIC COMMAND

SUBJECT: Report on Fiscal Year 1989 Evaluation of the Implementation of the Federal Managers' Financial Integrity Act of 1982 at the U.S. Atlantic Command (Project No. 0FC-4002)

Introduction

We are providing this final report on the FY 1989 evaluation of the implementation of the Federal Managers' Financial Integrity Act of 1982 (the Act) at the U.S. Atlantic Command for your information and use. The overall objective of our review was to determine whether the Command effectively implemented the requirements of the Act; Office of Management and Budget Circular No. A-123, "Internal Control Systems"; and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We reviewed assessable units, risk assessments, internal control reviews, and corrective actions taken or planned to correct reported material internal control weaknesses. We also reviewed inspection reports to determine if additional material internal control weaknesses had been identified. The review was performed from October 16, 1989, through November 2, 1989.

Scope of Evaluation

We interviewed personnel assigned to the U.S. Atlantic Command and evaluated internal policies and guidance, organization charts, and documentation supporting the Command's self-evaluation process. The evaluation was also made to determine if the internal management control program included a system to monitor the progress of actions to correct current and previously identified material weaknesses.

This audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary.

Background

On October 28, 1981, the Office of Management and Budget (OMB) issued Circular No. A-123, "Internal Control Systems." This Circular prescribed policies and procedures to be followed by agencies in maintaining effective systems of internal controls, and required all levels of management to be involved in assessing the adequacy of controls. The Circular also required ongoing evaluations of internal control systems.

In 1982, Congress enacted the Federal Managers' Financial Integrity Act. This Act required the Secretary of Defense to submit a statement annually to the President and the Congress as to whether DoD agencies have established systems of internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General.

On August 4, 1986, OMB Circular No. A-123 was revised to provide for development of a 5-Year Management Control Plan that identifies the assessable unit inventory, shows risk assessment ratings, and requires evaluations over a 5-year period. The purpose of this revision was to streamline the internal management control review processes, including audit reports, inspection reports, and management or consultant studies. The new guidance gave managers more flexibility in performing their self-evaluations. DoD Directive 5010.38 was revised on April 14, 1987, to implement these changes.

The U.S. Atlantic Command conducts normal peacetime operations. In periods short of hostilities, the Command conducts offensive and defensive military operations, supports adjacent unified commands and allied nations, and defends the United States and its possessions. The Command maintains essential sea and air lines of communications, supports U.S. policy, and assists in the achievement of national objectives. In FY 1988, the Command had 853 personnel and a budget of $14.3 million, which increased to 868 personnel and $22.8 million in FY 1989. However, due to Command changes and consolidation of smaller units, the inventory of assessable units was reduced from 88 in FY 1987 to 50 in FY 1989. This reduction eliminated 46 units and created 8 new units. Currently, one new organization is being established in the Caribbean to assist in drug interdiction.

Prior Audit Coverage

We issued four reports on the "Evaluation of the Implementation of the Federal Managers' Financial Integrity Act of 1982" at the U.S. Atlantic Command. Report No. 85-045 (November 9, 1984) and Report No. 86-030 (November 1, 1985) concluded that the Command's internal control process did not

comply with the requirements of the Act and the Circular. Each report identified several deficiencies in the internal control process. Report No. 87-041 (November 5, 1986) and Report No. 88-008 (October 2, 1987) stated that the previously reported deficiencies in organizing internal control evaluations, segmenting the Command, and conducting vulnerability assessments and internal control reviews had been corrected and that the Command's program was in compliance with the Act and the Circular. There was no review for FY 1988.

Discussion

In our opinion, the U.S. Atlantic Command's FY 1989 internal management control program is in compliance with the Act and with OMB Circular A-123. Of the 11 reviews scheduled on the 5-Year Management Control Plan, 10 were completed. The internal management control program has a system to monitor the progress of actions to correct identified weaknesses. Therefore, the FY 1989 annual statement to the Secretary of Defense should show that the Command is in compliance with the Act.

We provided a draft of this memorandum report to the addressees on December 7, 1989. Because we made no recommendations, comments were not requested, and none were received. No unresolved issues exist. Accordingly, additional management comments on the final report are not required.

The cooperation and courtesies extended to the audit staff are appreciated (Enclosure 2 lists audit team members). If you have any questions about this report, please contact Mr. James McGuire at (804) 766-9108. Copies of the final report are being distributed to the activities shown in Enclosure 3.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Comptroller of the Department of Defense

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982

The Federal Managers' Financial Integrity Act of 1982 (the Act) requires each executive agency to periodically evaluate its systems of internal accounting and administrative control in accordance with Office of Management and Budget guidelines and to report annually (by December 31 of each year) to the President and the Congress. The agency's report should state whether or not the agency's systems comply with the requirements of the Act and identify the agency's material control weaknesses, if any, and plans for correcting the weaknesses.

The Secretary of Defense has determined that his internal control statement will be based primarily on data furnished by DoD Component heads, to be received no later than November 15. The Inspector General, DoD, is tasked with providing technical assistance and evaluating the adequacy of the internal control evaluation process at those DoD Components for which the Inspector General, DoD, has audit cognizance. The Inspector General, DoD, also provides each DoD Component a statement of its implementation of the Act before the annual statement is submitted to the Secretary of Defense.

The Office of Management and Budget guidelines required by the Act give each agency's management officials guidance in their development of specific plans for performing their self-evaluations. The guidelines provide a detailed, seven-stage approach for evaluating, improving, and reporting on internal controls. This approach describes procedures for organizing the internal control evaluation, segmenting the agency into assessable units, conducting risk assessments, developing plans of subsequent action, performing internal control reviews, taking corrective actions, and reporting on the status of internal controls. The Comptroller General's directive, "Standards for Internal Control in the Federal Government," June 1, 1983, defines the minimum level of quality acceptable for internal control systems and constitutes the criteria against which systems are to be evaluated.

In August 1986, the Office of Management and Budget issued Circular No. A-123 (Revised), "Internal Control Systems." This circular prescribes policies and standards to be followed by executive agencies in establishing, maintaining, evaluating, improving, and reporting on their systems of internal control. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, updated the DoD program for internal controls; incorporated the requirements of the Act, the revised OMB circular, and the Comptroller General's standards; and provided policies, prescribed procedures, and assigned responsibilities to the DoD Components.

AUDIT TEAM MEMBERS

Nancy L. Butler	Director, Financial Management Directorate
James G. McGuire	Program Director, Health and Human Resources Management
Richard Hanley	Auditor
Cheri Givan	Auditor
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FINAL REPORT DISTRIBUTION

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