Audit Report

OFFICE OF THE INSPECTOR GENERAL

IMPLEMENTATION OF THE DOD MANAGEMENT CONTROL PROGRAM FOR MAJOR DEFENSE ACQUISITION PROGRAMS

Report No. 96-028 November 28, 1995

Department of Defense

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Acronyms

OMB	Office of Management and Budget
USD(A&T)	Under Secretary of Defense for Acquisition and Technology

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

November 28, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Audit Report on Implementation of the DoD Management Control Program for Major Defense Acquisition Programs (Report No. 96-028)

We are providing this final audit report for your review and comments. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Because the Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) did not comment on a draft of this report, we request that they provide comments on the final report by January 29, 1996.

Management comments should indicate concurrence or nonconcurrence with the finding and each recommendation. Comments must describe actions taken or planned in response to agreed-upon recommendations and provide the completion dates of the actions. State specific reasons for any nonconcurrence and propose alternative actions, if appropriate.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. John E. Meling, Audit Program Director, at (703) 604-9091 (DSN 664-9091) or Mr. Brian M. Flynn, Audit Project Manager, at (703) 604-9076 (DSN 664-9076). See Appendix E for the report distribution. The audit team members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 96-028 November 28, 1995
(Project No. 5AE-0009)

Implementation of the DoD Management Control Program for Major Defense Acquisition Programs

Executive Summary

Introduction. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires each DoD Component to implement a management control system that provides reasonable assurance that programs are efficiently and effectively carried out; expenditures comply with applicable laws; and the prevention of waste, fraud, and mismanagement is emphasized. Good management control systems are essential for major Defense acquisition programs because hundreds of billions of dollars are involved over the life of currently designated systems; major Defense acquisition programs are essential to national defense; and the Department could be embarrassed should the programs suffer fraud, waste, or mismanagement. On February 12, 1994, the Secretary of Defense issued a memorandum emphasizing that the Department's management controls constitute a very important element in the overall management system that enables DoD to accomplish its missions efficiently and effectively. The Secretary noted that each manager has a highly important responsibility to monitor management controls, ensure that any deficiencies are promptly identified and disclosed, and take immediate action to make effective corrections.

Audit Objectives. The overall audit objective was to evaluate the effectiveness of the management control program that the Defense Acquisition Executive and the Service Acquisition Executives used for major Defense acquisition programs.

Audit Results. The acquisition community had not effectively integrated DoD Management Control Program requirements into its management assessment and reporting processes. This condition occurred because senior acquisition officials provided no guidance to Program Executive Officers and Program Managers on how the DoD Management Control Program relates to the control structure for acquisition programs. As a result, many of the acquisition workforce efforts to satisfy requirements for management control programs consisted of duplicative paperwork reviews that rarely assessed control objectives and techniques contained in Defense acquisition directives and instructions. Those efforts contributed to the administrative burden on acquisition managers without meeting the goals of the Management Control Program and enabling better management.

Recommendations in this report, if implemented, will facilitate achieving a functional management control program, eliminate ineffective and duplicative management control reviews and reporting requirements, and ensure that sufficient useful documentation is maintained. Appendix C summarizes the potential benefits of the audit.

Summary of Recommendations. We recommend that the Under Secretary of Defense for Acquisition and Technology address DoD Directive 5010.38 requirements in the revision of DoD Directive 5000.1, "Defense Acquisition," February 23, 1991; DoD Instruction 5000.2, "Defense Acquisition Management Policies and Procedures," February 23, 1991; and DoD Manual 5000.2-M, "Defense Acquisition Management Documentation and Reports," February 23, 1991, and clearly identify management control objectives and techniques to be used to ensure a comprehensive annual statement of assurance while avoiding undue administrative burden. We also recommend that the Under Secretary of Defense (Comptroller) assist in the revision of those documents to ensure better coordination between their management control provisions and DoD Directive 5010.38.

Managements Comments. The Under Secretary of Defense for Acquisition and Technology and Under Secretary of Defense (Comptroller) did not respond to a draft of this report. Therefore, we request that they provide comments to the final report by January 29, 1996.

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Part I - Audit Results

Audit Background

The Secretary of Defense stressed the importance of management controls in a February 12, 1994, memorandum. The Secretary emphasized that the Department's management controls constitute an essential element in the overall management system that enables DoD to accomplish its missions efficiently and effectively. The Secretary stated that assuring that management controls are in place and operating as intended is a highly important responsibility of each manager.

Management controls are the organization, policies, and procedures agencies use to ensure that programs achieve their intended results; resources are used consistent with an organization's mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable data are obtained, maintained, reported, and used for program decisionmaking.

The importance of management controls is addressed, both explicitly and implicitly, in many statutes and executive documents. On September 8, 1982, Congress passed the Federal Managers' Financial Integrity Act of 1982 (the Act), Public Law 97-255, that requires that appropriate management controls be integrated into each system agency management establishes to direct and guide its operations. Requirements are now, in slightly simplified language, in United States Code, title 31, "Money and Finance," sections 1105, 1106, 1108, 1113, and 3512 (Title 31).

The Office of Management and Budget (OMB), DoD, and each Military Department have issued guidance to implement management control program requirements in Title 31. OMB Circular A-123, "Management Accountability and Control," June 21, 1995*, requires DoD to provide an overall annual statement to the President and Congress explaining the state of the Department's management controls, any control weaknesses, and noncompliant accounting systems. The Secretary of Defense is required to state whether the Department's management controls provide reasonable assurance that the Department's resources are being protected from fraud, waste, and mismanagement. To satisfy this OMB requirement, DoD Directive 5010.38 requires that the Military Departments, Defense agencies, and major joint commands submit annual statements on their management controls to the Secretary of Defense. There are no exemptions for acquisition programs.

* OMB Circular A-123 was issued October 28, 1981, and was revised August 16, 1983, and August 4, 1986.

Audit Objectives

The overall audit objective was to evaluate the effectiveness of the management control program that the Defense Acquisition Executive and the Service Acquisition Executives used for major Defense acquisition programs. See Appendix A for the audit scope and methodology and the summary of prior coverage related to the audit objectives. See Appendix B for definitions of terms.

Management Controls for Major Defense Acquisition Programs

The acquisition community had not effectively integrated DoD Management Control Program requirements into its management assessment and reporting processes. This condition occurred because senior acquisition officials provided no guidance to Program Executive Officers and Program Managers on how the DoD Management Control Program relates to the management control structure for DoD acquisition programs. As a result, many of the acquisition workforce efforts to satisfy requirements for management control programs consisted of duplicative paperwork reviews that rarely assessed control objectives and techniques contained in acquisition directives and instructions. Those efforts contributed to the administrative burden on acquisition managers without meeting the goals of the Management Control Program and enabling better management.

Management Control Policy

Federal Requirement. OMB Circular A-123 provides guidance for establishing, evaluating, improving, and reporting on management controls in programs and administrative activities. The Circular requires that all management levels be involved in ensuring the adequacy of management controls. Further, it directs that executive organizations establish cost-effective management control systems to provide reasonable assurance that resources are protected against fraud, waste, and mismanagement and that program activities be effectively and efficiently managed to achieve the goals of the organization.

Department of Defense Requirement. DoD Directive 5010.38 provides policy, prescribes procedures, and assigns responsibilities for management control systems. The Directive requires that systems meet requirements in the General Accounting Office's "Standards for Internal Control in the Federal Government," which sets forth requirements for management control systems.

Control Objectives and Techniques

Control Objectives. Control objectives are the specific goals, conditions, or levels of control a manager establishes for an assessable unit to provide reasonable assurance that the resources assigned to that organization are adequately safeguarded against waste, fraud, and mismanagement. The Military Departments identified assessable units as either Program Executive Offices or Program Management Offices for major acquisition programs.

Control objectives are to be identified for each organization and are to be logical, applicable, reasonably complete, and tailored to an agency's operations. In tailoring to an agency's operations, the control objectives are to be the positive effects that management tries to attain or the negative effects it seeks to avoid through adherence to established management controls.

For major Defense acquisition programs, basic control objectives involve the program office's ability to adhere to a weapon system's cost, schedule, and performance baseline parameters. Control objectives for major weapon system cost, schedule, and performance parameters are embodied in acquisition program baselines that are established in accordance with DoD Instruction 5000.2, "Defense Acquisition Management Policies and Procedures," February 23, 1991. The requirements validation authority and the milestone decision authority update the acquisition program baselines at milestone reviews. As weapon systems progress through the acquisition process, baseline parameters are refined and the level of detail evolves at succeeding milestone reviews. The objectives evolve from broad, general objectives at Milestone I, Concept Demonstration Approval, to system-specific, detailed objectives at Milestone III, Production Approval. Minimum acceptable requirements for each baseline parameter, known as thresholds, are identified. Values for acquisition program baseline parameters reflect the cost and performance characteristics of the system as it is expected to be produced and fielded as well as critical acquisition schedule events. If these minimum acceptable levels or thresholds are not met, the milestone decision authority may require a reevaluation of alternative concepts or design approaches.

Program exit criteria are also control objectives for major Defense acquisition programs. Exit criteria are the specific minimum requirements that a system must satisfactorily demonstrate before the milestone decision authority will consider approving the system for transitioning to the next acquisition phase.

Control Techniques. Control techniques are mechanisms by which control objectives are achieved. A control technique is any form of organization, procedure, or document flow that is relied on to accomplish a control objective and help safeguard or protect an organization from waste, fraud, and mismanagement. Control techniques include, but are not limited to, specific policies, procedures, plans of organization (including separation of duties), and physical arrangements (such as locks and fire alarms). Management control techniques are to continually provide a high degree of assurance that the management control objectives are being achieved.

For major Defense acquisition programs, the milestone review documentation and periodic program status reports and certifications specified in DoD Instruction 5000.2, Part 11, Sections C and D, provide adequate control techniques to achieve the control objectives. The management control techniques in Sections C and D are shown in the following table.

Management Control Techniques

Control Technique	Objective(s) Controlled	Prepared By	Submitted To
Acquisition Program Baseline Agreements	Cost, schedule, and performance baselines	Program Manager	USD(A&T) SAE PEO
Program Life-Cycle Cost Estimates	Life-cycle cost estimate for the program	Program Manager	USD(A&T) SAE Cost Analysis Improvement Group
Developmental and Operational Test and Evaluation Reports	Results of developmental and operational tests and evaluations	Component developmental and operational test and evaluation activities	USD(A&T) SAE Director, Operational Test and Evaluation PEO Program Manager
Independent Cost Estimates	Assesses the Component's independent life-cycle cost estimate	Cost Analysis Improvement Group	USD(A&T) SAE PEO Program Manager
Cost and Operational Effectiveness Reports	Analyzes the comparative cost-effectiveness of alternative systems	Independent analysis activity	USD(A&T) SAE PEO Program Manager
Defense Acquisition Executive Summary Reports	Status of program progress and early warning of potential or actual baseline breaches	Program Manager	USD(A&T)
Cost/Schedule Control Systems Reports	Contractor costs by work breakdown structure	Contractor	Program Manager Component Cost Analysis offices
Integrated Program Assessment	Independent assessment of the program	Defense Acquisition Board Committee	USD(A&T) SAE PEO Program Manager

Legend

PEO	Program Executive Officer
SAE	Service Acquisition Executive
USD(A&T)	Under Secretary of Defense for Acquisition and Technology

Formats for the required documentation, reports, and certifications are in DoD Manual 5000.2-M, "Defense Acquisition Management Documentation and Reports," February 23, 1991.

OMB Circular A-123 states that Federal managers must carefully consider the appropriate balance of controls in their programs and operations. Appropriate management controls should be integrated into each system the agency management established to direct and guide its operations. However, the Circular notes that a separate management control process need not be instituted, particularly if its sole purpose is to satisfy management control reporting requirements. In this regard, if implemented effectively, the

vulnerability assessment and risk analysis reporting processes instituted for major Defense acquisition programs would duplicate the management control objectives and techniques in DoD Instruction 5000.2 and DoD Manual 5000.2-M.

DoD Directive 5010.38 requires the maintenance of system documentation for management control programs. System documentation includes the policies and procedures, organizational charts, manuals, flow charts, and related written and graphic materials necessary to describe organizational structure, operating procedures, and administrative practices to communicate responsibility and authority for accomplishing programs and activities. This type of management control documentation is in DoD Instruction 5000.2 and the prescribed reporting formats are described in DoD Manual 5000.2-M.

Management Control Programs

The management control programs implemented for major Defense acquisition programs varied significantly among Military Departments and even within a Military Department. Usually, the Military Departments completed and processed required paperwork, such as vulnerability assessments, control checklists, risk analyses, and statements of assurance. However, these management control paperwork exercises rarely focused on management control objectives and techniques identified in DoD Instruction 5000.2.

Further, implementation of an effective management control program was impacted by the belief among many Office of the Secretary of Defense and Military Department acquisition personnel that management controls were a "paper exercise" that applied only to financial activities and property accountability. These management officials believed that management controls did not apply to acquisitions of major Defense acquisition programs, but only to such matters as security controls over property and computers. Consequently, management control programs for major Defense acquisition programs were generally concerned with processing and submitting various prescribed forms, checklists, and statements of assurance that were more of a "paper exercise" than a means to monitor, evaluate, and improve management controls.

Within the Office of the Secretary of Defense. The Under Secretary of Defense for Acquisition and Technology (USD[A&T]) provided his 1994 annual Statement of Assurance to the Secretary of Defense on November 10, 1994, before vulnerability assessments for all assessable units within his office had been prepared. This condition occurred because the individual assigned responsibility for preparing the annual Statement of Assurance was not familiar with the requirements in DoD Directive 5010.38 and was assigned this responsibility on very short notice. This individual also advised that vulnerability assessments had not been performed within the Office of the USD(A&T) since 1990, even though a major event, the revision of DoD Directive 5000.1 and DoD Instruction 5000.2, had occurred in February 1991.

Within the Army. The Army's Management Control Plan provided a regular review cycle for acquisition programs over a 5-year period. Though the Army was revising its system at the time of our audit, all management control assessments were made through the use of checklists. The Assistant Secretary of the Army (Research, Development and Acquisition) developed two checklists for assessing acquisition management: "Airworthiness of Systems, Subsystems, and Allied Equipment" and "Nonmajor Systems." The Airworthiness of Systems checklist pertained to major systems and assessed whether aircraft or allied equipment operated with acceptable certification of airworthiness. The Nonmajor Systems checklist involved assessment of requirements, adherence to military standards, and logistics support for the acquisition and development of environmental control equipment. Neither checklist addressed the most important systems acquisition control objectives and techniques related to system cost, schedule, and performance. Thus, completed prescribed checklists did not provide meaningful information on the effectiveness of management controls for Army major and nonmajor acquisition programs.

Within the Navy. The Naval Sea Systems Command and the Space and Naval Warfare Systems Command had implemented good management control reporting structures for assessing their major Defense acquisition programs. However, the prescribed risk assessment forms, when used as designed, could not always be relied upon to indicate whether management control systems identified and corrected control weaknesses.

For example, within the Naval Sea Systems Command, the Project Manager completed and the Deputy Program Manager approved the risk assessment form for the TAO 187 Fleet Oiler, a ship for which the contract was subsequently terminated for default. While the Project Manager and Deputy Program Manager were well aware of the adverse financial situation at the shipyard, which posed significant risk for the program, proper completion of the prescribed risk assessment form provided no means to recognize this situation or its potential impact. Consequently, even though the formula used on the form resulted in a conclusion of medium risk for the TAO 187 Program, the program office added a comment at the bottom noting there was high risk due to the shipyard's negative financial condition.

Management Control Reviews must be conducted within a defined period, depending on the level of risk identified by the risk assessment. While adherence to the risk assessment form for the TAO 187 Oiler would have determined a medium risk, indicating a need to do a Management Control Review within 5 years, the Program Office by designating the Program to be high risk elected to perform a Management Control Review within 1 year. The office of the Program Manager for Support Ships, Boat, and Craft Programs developed its own Management Control Review form. This Management Control Review form was structured based on DoD Instruction 5000.2 events governing the acquisition process and identified acquisition program event cycles and referenced documents that delineated policies, procedures, program status, testing of controls, and program decisions. The Program Office contended that even though the completed Management Control Review form did not lead to a discussion of the shipyard's negative financial condition as

noted in the risk assessment form, other top level documents thoroughly covered this information, such as the Defense Acquisition Executive Summary, which, as structured, is not part of the management control program.

The Naval Air Systems Command's management control program was inactive. The Command delegated to its program executive officers responsibility for administering all management control systems. In December 1992, the Command also adopted the policy that assessable unit managers (program managers) were not required to file annual Statements of Assurance unless a material weakness was identified. In addition, officials at the Program Executive Offices advised that management control reviews of individual programs were made only when requested by the Commander, Naval Air Systems Command. The Commander had not made a request since 1992. As a result, no program managers within the Naval Air Systems Command had submitted annual statements of assurance since December 1992.

Within the Air Force. Air Force Materiel Command established a structured management control reporting process that provided specific instructions and formats for reporting the results of management control evaluations. For the programs we reviewed at the Aeronautical Systems Center, the Electronics Systems Center, and the Space and Missile Systems Center, however, documentation was not readily available to support their risk assessments. For example, the management control coordinators maintained a data base of all assessable units and feeder statements of assurance as provided by the reporting managers. However, the coordinators did not perform reviews to ensure that reporting managers maintained supporting documentation for their risk assessments. Reporting managers for major Defense acquisition programs visited at the Aeronautical Systems Center did not maintain documentation to support their risk assessments. At Aeronautical Systems Center and the Space and Missile Systems Center, reporting managers did not design or conduct risk assessments to provide reasonable assurance that programs and administrative functions were efficiently and effectively implemented in accordance with management control objectives and techniques in DoD Instruction 5000.2.

B-2 Bomber Program Office. The reporting manager at the B-2 Program Office stated that management control objectives and techniques in DoD Instruction 5000.2 were not being identified and documented as part of the management control evaluation. The reporting manager indicated that he now realized that management controls should be identified and documented so that existing processes may be made more efficient and effective. The reporting manager also indicated that a lack of documented controls and processes may have caused management not to be proactive in responding to cost, schedule, and performance issues for the B-2 Bomber Program.

Navigational Satellite Tracking and Ranging/Global Positioning System. The reporting manager for the Navigational Satellite Tracking and Ranging/Global Positioning System Program Office could not describe or provide us with information on management control objectives and techniques used to evaluate the program even though he had conducted a vulnerability assessment for one of the Program Office's subordinate organizations.

Causes

Senior acquisition officials relied on Program Executive Officers and Program Managers to determine how to comply with requirements in DoD Directive 5010.38; however, no guidance was provided as to how the DoD Management Control Program relates to the management control structure for DoD acquisition programs and, consequently, interpretations varied widely.

Further, the Air Force Materiel Command stated in its 1994 Statement of Assurance that personnel downsizing, budget cuts, merging, and transferring of DoD activities and personnel contributed to the problems of adequate implementation of management controls. The Command also indicated that turn-over in offices of primary responsibility for management control programs and experienced managers and reduction in staff at headquarters and systems centers had hampered the Command's ability to involve knowledgeable people at all systems centers.

Other acquisition managers indicated a view that performing vulnerability assessments and management control reviews wasted time because the assessments and reviews duplicated requirements in DoD Directive 5000.1 and DoD Instruction 5000.2.

Conclusion

The management control program implemented for major Defense acquisition programs varied depending upon the commitment of the management responsible for each program. However, even in those instances in which management had well-defined systems for reporting on their assessable units, their efforts were generally a paper exercise in which lower level staff prepared proforma assessments, checklists, and reports indicating that the management control system had no weaknesses. These reports were usually prepared without reviewing information on the actual cost, schedule, and performance status of major Defense acquisition programs available in reports and supporting documentation required by the DoD 5000 series of directives, instructions, and manuals.

DoD Directive 5000.1 and Instruction 5000.2 identify key management control objectives for major Defense acquisition programs, such as milestone reviews to assess weapon system costs, production and delivery schedules, and system performance against established baselines. Techniques to ensure that control objectives are achieved also exist in the preparation and presentation of the various reports the Directive and Instruction require, such as the Acquisition Program Baseline Agreement, Cost and Operational Effectiveness Analysis, Defense Acquisition Executive Summary, and Cost and Schedule Control Systems.

Additionally, all members of the acquisition workforce are familiar with the acquisition concepts and requirements in DoD Directive 5000.1 and DoD Instruction 5000.2. Accordingly, clarification within this guidance of the concepts, requirements, and benefits of good management controls for Defense acquisition programs is a viable means of effectively implementing requirements of DoD Directive 5010.38 within the acquisition community. Currently, DoD Directive 5000.1 and DoD Instruction 5000.2 are under major revision. We have addressed our recommendations to specific sections of the currently approved regulations.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense for Acquisition and Technology:

a. Address DoD Directive 5010.38 requirements in the revision of DoD Directive 5000.1, "Defense Acquisition"; DoD Instruction 5000.2, "Defense Acquisition Management Policies and Procedures"; and DoD Manual 5000.2-M, "Defense Acquisition Management Documentation and Reports." At a minimum:

(1). DoD Instruction 5000.2, Part 11, Section A, "Program Objectives and Baselines," should be revised to clarify that:

(a). Acquisition program baselines, thresholds, and exit criteria established are management control objectives for major Defense acquisition programs.

(b). Milestone review documentation and periodic program status reports and certifications specified in DoD Instruction 5000.2, Part 11, Sections C and D, are management control techniques to achieve the control objectives.

(2). DoD Manual 5000.2-M, Part 16, "Defense Acquisition Executive Summary," should be revised to provide a summary vulnerability assessment of the major Defense acquisition programs based on the information presented in the other sections of the report. This assessment of the program's vulnerability should be the basis for preparing the annual statement of assurance for the program.

b. Obtain approval from the Under Secretary of Defense (Comptroller) to use a vulnerability assessment in the Defense Acquisition Executive Summary report to satisfy reporting requirements specified in DoD Directive 5010.38 and eliminate existing "paperwork/checklist" proforma vulnerability assessments.

2. We recommend that the Under Secretary of Defense (Comptroller) assist in the revision of DoD Directive 5000.1, "Defense Acquisition"; DoD Instruction 5000.2, "Defense Acquisition Management Policies and

Procedures"; and DoD Manual 5000.2-M, "Defense Acquisition Management Documentation and Reports" to ensure better coordination between their management control provisions and DoD Directive 5010.38.

Management Comments. The Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) did not respond to a draft of this report.

Audit Response. The Under Secretary of Defense for Acquisition and Technology and the Under Secretary of Defense (Comptroller) are requested to comment on the final report.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

We assessed the process for recognition and correction of material management control weaknesses. We visited the Offices of the Under Secretary of Defense for Acquisition and Technology, Under Secretary of Defense (Comptroller), and Service Acquisition Executives and examined management control systems under their cognizance. We selected the following major Defense acquisition programs:

- o Blackhawk Helicopter, UH-60-L
- o Army Tactical Missile System
- o M1A2 Abrams Tank Upgrade
- o T-AO 187 Fleet Oiler Ship
- o T-AGOS Surveillance Ship
- o C/MH-53E Helicopter
- o Multifunctional Information Distribution System
- o B-2 System Program Office
- o Defense Meteorological Satellite Program
- o Navigation Satellite Tracking and Ranging Global Positioning System
- o Military Satellite Communications Terminal System

We reviewed their management control programs. Specifically, the audit assessed:

- o compliance with requirements for management control documentation;
- o adequacy of the process for recognition and correction of material management control weaknesses identified by management, auditors, or others;
- o procedures used to safeguard assets against waste, loss, or unauthorized use and to ensure that revenues and expenditures applicable to DoD operations are recorded and accounted for properly so reliable reports are prepared and accountability over the assets is maintained; and

o use of the existing Defense Acquisition Executive Summary system for vulnerability assessments and management control reviews.

To determine whether managers had implemented management control systems that identified and corrected weaknesses, we evaluated risk exposure, accountability, management support and attitude towards implementing controls, competency of personnel, consistency of implementation of controls, documentation of controls, and managers' identification of material weaknesses. We interviewed personnel and examined risk assessments, management control reviews, and, to a limited extent, documents and reports on major Defense acquisition programs within the Office of the Secretary of Defense, the three Service Acquisition Executives' Offices, and each Military Department.

Methodology

Use of Computer-Processed Data. Managers of major Defense acquisition programs used non-integrated computer-based systems to oversee or manage programs through the acquisition cycle. However, since we did not rely on data these systems generated, we did not perform tests of controls on the systems to determine the reliability and accuracy of computer-generated data.

Audit Period, Standards, and Locations. We performed this audit of management control programs from November 1994 through July 1995 and reviewed data from August 1976 through June 1995. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Appendix D lists the organizations visited or contacted.

The following sampling method was used during the audit.

Audit Universe. The Offices of the USD(A&T), the Service Acquisition Executives, and major Defense acquisition programs for the Military Departments comprised the audit universe.

Sampling Plan. The sample plan was to include representative acquisition programs from each Military Department and phase of the acquisition cycle, which were less than 90 percent completed. An additional sampling factor sought, to the extent practicable, to include only major Defense acquisition programs that had not recently been audited by the Office of the Inspector General, DoD.

Sample Results. This selection process provided major Defense acquisition programs from major acquisition commands within each Military Department. Of the 104 programs the USD(A&T) designated as major Defense acquisition programs in August 1994, we judgmentally selected 11 programs.

Summary of Prior Audits and Other Reviews

In FY 1994 and the first 9 months of FY 1995, the Acquisition Management Directorate of the Office of the Assistant Inspector General for Auditing issued 52 audit reports addressing major Defense acquisition programs and processes: 25 of the 52 reports identified management control weaknesses and made recommendations to correct those weaknesses; 21 of the 25 reports identified management control weaknesses that were considered material.

Appendix B. Definitions of Terms

Assessable Unit. Any organizational, functional, programmatic, or other applicable division capable of being evaluated by management control risk assessment procedures, management control reviews, alternative management control reviews, or other actions.

Control Objectives. Specific goals, conditions, or levels of control a manager established for an assessable unit to provide reasonable assurance that the resources allocated to that activity are safeguarded or protected adequately against waste, fraud, or mismanagement.

Control Procedures. The specific steps management established to provide reasonable assurance that control objectives are achieved.

Control Technique. Any form of organization, procedure, or document flow that is being relied on to accomplish a control objective and to help safeguard or protect an activity from waste, fraud, or mismanagement.

Internal Controls. The objectives and control procedures used to provide reasonable assurance that goals and objectives are met; resources are adequately safeguarded and efficiently used; reliable data are obtained, maintained, and fairly disclosed in reports; and laws and regulations are complied with, using management's accounting and monitoring system.

Management Control. The plan of organization, methods, and procedures management adopted to provide reasonable assurance that objectives of United States Code, title 31, sections 1105, 1106, 1108, 1113 and 3512 are met.

Management Control Evaluation. A detailed evaluation of an assessable unit to determine whether adequate control techniques exist and are implemented to achieve cost-effective compliance with United States Code, title 31, sections 1105, 1106, 1108, 1113 and 3512.

Management Control Plan. A brief, written, 5-year plan, which is updated annually, that indicates the number of DoD Component risk assessments and the number of followup actions planned for each functional reporting category.

Management Control Program. The formal effort of an organization to ensure that management control systems are working effectively through assignment of responsibilities at the policy level, issuance and implementation of guidance, conduct of risk assessments and management control reviews, provisions for quality control, and reporting to senior management.

Management Control System. The sum of the DoD Component's methods and measures used to achieve the Federal managers' and management control objectives. It is not a separate system, but an integral part of the systems used to operate programs and functions.

Material Weakness. A specific instance of noncompliance with the Federal Managers' Financial Integrity Act of sufficient importance to be reported to the next higher level of management. Such a weakness significantly impairs the fulfillment of a DoD Component's mission; deprives the public of needed services; violates statutory or regulatory requirements; significantly weakens safeguards against fraud, waste, or mismanagement of funds, property, or other assets; or results in a conflict of interest.

Monitoring System. Management's methods for following up performance to ensure that control and accounting procedures are complied with. It includes internal auditing functions and systems for following up on needed corrective actions.

Reasonable Assurance. A judgment by a DoD Component Head based upon all available information that the DoD Component's systems of management controls are operating as the Federal Managers' Financial Integrity Act intended.

Review Documentation. Indicates the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions.

Risk Assessment. A documented review of a DoD Component that rates an assessable unit's susceptibility to fraud, waste, and mismanagement. Alternative risk and vulnerability are the two types of risk assessments.

Risk Exposure. The overall assessment of probability that the subject matter or the objective of the audit will have experienced significant misuse of resources; failure to achieve program objectives; or noncompliance with laws, regulations, and management policies.

System Documentation. Includes policies and procedures; organizational charts, manuals, flow charts, and related written and graphic materials necessary to describe organizational structure; operating procedures; and administrative practices needed to communicate responsibilities and authorities for accomplishing programs and activities.

Vulnerability Assessments. Risk assessments for evaluation and improvement of and reporting on management control systems in the Federal Government.

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefits	Type of Benefits
1.a.	Management Controls and Program Results. Facilitates attainment of a more effective management control program.	Nonmonetary.
1.b. and 2.	Management Controls. Eliminates unnecessary and duplicative reviews and reporting requirements. Also, ensures that sufficient documentation is maintained to meet statutory and regulatory requirements.	Nonmonetary.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
  Director, Acquisition Program Integration, Washington, DC
  Director, Defense Procurement, Washington, DC
  Director, Strategic and Tactical Systems, Washington, DC
Under Secretary of Defense (Comptroller), Washington, DC
  Director, Program Analysis and Evaluation, Washington, DC
Director, Operational Test and Evaluation, Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller), Washington, DC
Assistant Secretary of the Army (Research, Development and Acquisition), Washington, DC
  Program Executive Officer, Armored Systems Modernization, Warren, MI
  Program Executive Officer, Aviation, St. Louis, MO
  Program Executive Officer, Tactical Missiles, Redstone Arsenal, AL
U.S. Army Aviation and Troop Command, St. Louis, MO
  Program Manager, Utility Helicopters, St. Louis, MO
U.S. Army Missile Command, Redstone Arsenal, AL
  Program Manager, Army Tactical Missile System - Brilliant Anti-Armor Submunition, Redstone Arsenal, AL
U.S. Army Tank-Automotive and Armaments Command, Warren, MI
  Program Manager, M1A2 Abrams Upgrade Program Office, Warren, MI

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, DC
Assistant Secretary of the Navy (Research, Development and Acquisition), Washington, DC
  Program Executive Office, Air Anti-Submarine Warfare, Assault and Special Missions Programs, Arlington, VA
  Program Executive Office, Cruise Missiles Project and Unmanned Aerial Vehicles Joint Project, Arlington, VA

Department of the Navy (cont'd)

Program Executive Office, Mine Warfare, Arlington, VA
Program Executive Office, Space Communications and Sensors, Arlington, VA
Program Executive Office, Submarines, Arlington, VA
Program Executive Office, Tactical Aircraft Programs, Arlington, VA
Program Executive Office, Theater Air Defense, Arlington, VA
Program Executive Office, Undersea Warfare, Arlington, VA
Direct Reporting Program Manager, Advanced Amphibious Assault, Arlington, VA
Direct Reporting Program Manager, AEGIS, Arlington, VA
Direct Reporting Program Manager, Strategic Systems Programs, Arlington, VA
Naval Air Systems Command, Arlington, VA
Program Manager, C/MH-53E Helicopter, Arlington, VA
Naval Sea Systems Command, Arlington, VA
Director, Surface Ship Directorate, Arlington, VA
Program Manager, T-AGOS Surveillance Ship, Arlington, VA
Program Manager, T-AO 187 Oiler, Arlington, VA
Space and Naval Warfare Systems Command, Arlington, VA
Program Manager, Multifunctional Information Distribution System - Low Volume Terminal, Arlington, VA

Department of the Air Force

Assistant Secretary of the Air Force (Acquisition), Washington, DC
Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Program Executive Office, Space, Washington, DC
Air Combat Command, Langley Air Force Base, VA
Air Force Materiel Command, Wright-Patterson Air Force Base, OH
Aeronautical Systems Center, Wright-Patterson Air Force Base, OH
Program Manager, B-2 System Program Office, Wright-Patterson Air Force Base, OH
Electronic Systems Center, Hanscom Air Force Base, MA
Program Manager, Military Satellite Communications Terminals Program Office, Hanscom Air Force Base, MA
Space and Missile Systems Center, Los Angeles Air Force Base, CA
Program Manager, Defense Meteorological Satellite Program, Los Angeles Air Force Base, CA
Program Manager, Navigation Satellite Tracking and Ranging Global Positioning System, Los Angeles Air Force Base, CA
Air Force Space Command, Peterson Air Force Base, CO
Air Mobility Command, Scott Air Force Base, IL

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Deputy Under Secretary of Defense (Acquisition Reform)
  Director, Acquisition Program Integration
  Director, Defense Logistics Studies Information Exchange
  Director, Defense Procurement
  Director, Strategic and Tactical Systems
Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program and Budget)
  Director, Program Analysis and Evaluation
Director, Operational Test and Evaluation
Director, Administration and Management
Deputy Under Secretary of Defense (Space Acquisition and Technology Programs)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Research, Development and Acquisition)
  Program Executive Officer, Armored Systems Modernization
  Program Executive Officer, Aviation
  Program Executive Officer, Tactical Missiles
Commander, U.S. Army Aviation and Troop Command
  Program Manager, Utility Helicopters
Commander, U.S. Army Missile Command
  Program Manager, Army Tactical Missile System/Brilliant Anti-Armor Submunition
Commander, U.S. Army Tank-Automotive and Armaments Command
  Program Manager, M1A2 Abrams Upgrade Program Office
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Assistant Secretary of the Navy (Research, Development and Acquisition)
  Program Executive Office, Air Anti-Submarine Warfare, Assault and Special Missions
  Program Executive Office, Cruise Missiles Project and Unmanned Aerial Vehicles Joint Project
  Program Executive Office, Mine Warfare
  Program Executive Office, Space Communications and Sensors

Department of the Navy (cont'd)

Program Executive Office, Submarines
Program Executive Office, Tactical Air Programs
Program Executive Office, Theater Air Defense
Program Executive Office, Undersea Warfare
Direct Reporting Program Manager, Advanced Amphibious Assault
Naval Air Systems Command
Naval Sea Systems Command
Program Manager, T-AGOS Surveillance Ship
Program Manager, T-AO 187 Oiler
Space and Naval Warfare Systems Command
Program Manager, Multifunctional Information Distribution System - Low Volume Terminal
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Program Executive Office, Bombers, Missiles and Trainers
Program Executive Office, Space
Air Combat Command
Air Force Materiel Command
Aeronautical Systems Center
Program Manager, B-2 System Program Office
Electronic Systems Center
Program Manager, Military Satellite Communications Terminals Program Office
Space and Missile Systems Center
Program Manager, Defense Meteorological Satellite Program
Program Manager, Navigation Satellite Tracking and Ranging Global Positioning System
Air Force Space Command
Air Mobility Command
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Defense Contract Management Command

Non-Defense Organizations and Individuals

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division, General Accounting Office
Chairman and ranking minority member of the following congressional committees and subcommittees:
- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on National Security, Committee on Appropriations
- House Committee on Government Reform and Oversight
- House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
- House Committee on National Security

Audit Team Members

This report was prepared by the Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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