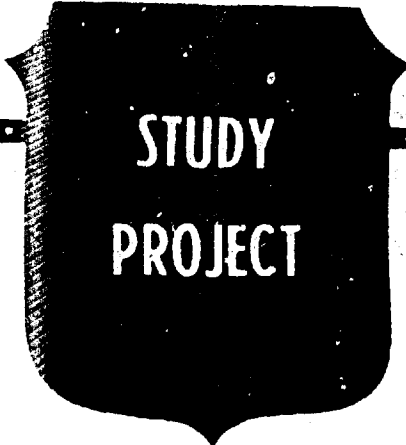


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PROGRESS IN ARMY INTERNAL CONTROL

BY

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United States Army

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USAWC MILITARY STUDIES PROGRAM PAPER

PROGRESS IN ARMY INTERNAL CONTROL
 AN INDIVIDUAL STUDY PROJECT

by

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ABSTRACT

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The Army has come a long way in applying the Federal Managers' Financial Integrity Act of 1982 to its system of internal controls. After several iterations of the Army regulation and continual efforts by HQDA, MACOM, and installation/activity practitioners, the result has been a relatively effective, low cost program achieving reasonable assurance of compliance with Comptroller General standards. Evidence suggests, however, that continued evolution in the program is both possible and desirable. There are several key improvements that could be made, mostly at relatively low cost. The suggested enhancements focus on execution, by improving command emphasis, accountability, training, publicity, and oversight, and putting the most effort on the high priority, high risk areas. Some recommended structural changes are also included, primarily aimed at designing better, shorter internal control review checklists and simplifying the reporting of internal control weaknesses. These changes should go far in improving the program's image both within and outside the Army, and provide far greater benefits than simply assuring compliance with Public Law.

INTRODUCTION

The reason for this paper is to propose certain improvements in the Army's internal control program. To date, the program has been successful in preventing major scandals or significantly adverse media coverage. It has also identified and corrected many material weaknesses. If actively employed in its current state, the internal control program should continue to more than meet the minimum standards imposed by the General Accounting Office (GAO) and Federal Managers' Financial Integrity Act (FMFIA) of 1982.

Experience suggests, however, that this Army program, like many others, may become preempted by seemingly more important events and circumstances. This is already happening in some commands and activities. While probably remaining a legal and regulatory requirement, the program will increasingly be given only lip service by senior Army leadership. This will degrade subordinates' accomplishment of the program's purpose: assuring appropriate control over funds, property, and other assets. Barring changes in program structure and Army leadership attitudes toward internal control, the Army may ultimately become trapped in a costly cycle of incremental improvements in reacting to increasing Congressional scrutiny of its management (including internal control) practices.

INTERNAL CONTROL SYSTEMS IN GENERAL

The need for internal controls has probably existed ever since some person or persons managed the funds, assets, property, or

business affairs of some other person. Man is not inherently untrustworthy, but can be tempted to become so. The prospect of reaping some extra unearned economic benefit at the expense of one's employer has necessitated some form of internal controls in most businesses, including Government.

There are many definitions of internal control. The GAO definition is most applicable to this discussion, however, as it is the basis for all US Governmental internal control systems:

The plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.¹

Pertinent to this definition are the twelve internal control standards established by the Comptroller General (hereafter referred to as the twelve GAO standards): reasonable assurance; supportive attitude; competent personnel; control objectives; control techniques; documentation; recording of transactions and events; execution of transactions and events; separation of duties; supervision; access to and accountability for resources; and prompt resolution of audit findings.²

Closely following the internal control concept of the American Institute of Certified Public Accountants, the GAO approach practically matches that of American private industry. The differences are mostly in execution rather than system design, but there are a few interesting disparities.

Private industry lacks the stated standard of prompt audit compliance, but in practice this standard is rigorously applied. Either the internal auditors enforce prompt in-house correction of

audit findings, or the external auditors refuse to certify the financial statements of the business, which tends to force prompt resolution of the issues. Either way, quick reaction to audit findings ensues.

The private industry approach defines a whole separate set of controls over information systems. Without going into detail, information systems must provide relevant, timely, reliable, sufficiently detailed information in a form which highlights the important data. Distribution of the information must match the ability of the receiver to make use of the information, and finally, the information must be useful.³ Information systems are judged to be of such importance and present such a high degree of risk that they warrant separate consideration.

The private industry approach stresses a cost-benefit analysis of internal controls. This tends to preclude the establishment of formal, written controls due to the cost involved, except for high risk areas. Once the unique characteristics of the particular business are understood, then a risk analysis of possible outcomes with their associated probabilities of occurrence is performed. Costs of emplacing various controls are compared with the benefits of avoiding the various risks. Control objectives and techniques are then devised and effected for those business segments where the greatest benefit to cost advantage can be derived.⁴

In practice, the high risk areas typically include those conducive to fraud, such as employee travel and automatic data processing.⁵ Fraud control, as opposed to other types of control such as administrative or accounting controls, enjoys relatively

high visibility and management concern. The rest of the internal control program has low visibility, as great faith is placed on the overall control environment to achieve internal control objectives. The control environment is defined as management's exhibited attitude toward internal controls, its expectations of the work force as embodied in a well-publicized work code, and discipline of the work force.⁶

Internal controls are employed only where there is a clear benefit to cost advantage. Redundant controls are ruthlessly purged, as excess cost seems to be more easily identifiable in private industry. There is little training on internal controls except for auditors and some accountants, as considerable trust is placed on job descriptions and supervisory experience.

Usually performed by the internal accounting staff, the evaluation of internal controls is rarely formal. Instead, overwhelming primacy is afforded to the use of budget variances as the means of internal control.⁷ The supervisors of organization segments have their approved budgets, which are themselves subject to considerable scrutiny and analysis in private industry's planning, programming, and budgeting cycles. Actual results are then compared in great detail and frequency, often daily, against budgeted figures. This budget variance concept is directly linked to the profit, or bottom line, orientation of private business and is therefore probably inappropriate for most segments of the not-for-profit US Government.

Also afforded by the control technique of budget variance is a high degree of accountability. To be sure, many private businesses

use performance appraisals to achieve accountability, especially big corporations and companies with large staffs. Performance appraisals tend, however, to be used more for professional development rather than internal control purposes.⁸ Depending on the business structure and management practices, the use of variances as an accountability measure can pervade the entire structure down to the lowest levels of management. Again, this approach would not work in most segments of the Government. In the Army, for instance, the installation is usually the lowest management level responsible for executing a comprehensive budget. Although their expenditures are subject to periodic scrutiny by a Program Budget Advisory Committee, installation activities are not normally subjected to the microscopic inspection accorded by the private sector's emphasis on budget.

Additionally, the Government-wide incentives to economize are simply not the same as in private industry. Without such strong incentives for efficiency and economy, Government management needs relatively stronger accountability measures other than the use of the budget, especially at the lower levels of management. A more definitive requirement for reasonable assurance, with clear objectives and standards, is called for. Because of the stewardship of public resources and the responsibility to fulfill the public trust, Government requires higher performance standards and relatively more training on its internal control systems than does private industry. In fact, without the profit motive, Government may even need internal controls to ensure that basic program objectives are met.⁹

The importance of a strongly supportive control environment in any internal control system cannot be overemphasized. In the absence of effective internal controls, a positive control environment may by itself be enough to preclude fraud most of the time. To achieve it, management must spell out its expectations for the work force, including adherence to the prescribed control system. The internal control system must be conducive to achieving the collective commitment of both management and the work force. This means that it must be simple and practical to understand and implement in every activity at all levels. It must be efficient in its use of time and resources, preferably utilizing any available internal or external performance measure to help evaluate control measures. The very best internal control system would be one which, implemented as a normal everyday management function, does not require any but the minimal extra effort to administer. It would also be effective in preventing abuses and errors, and in identifying and correcting such faults. The totality of its control environment, standards, objectives, and techniques should suffice to solve the tough problems and prevent their recurrence.

The ideal Governmental control system must of course follow the applicable legal and regulatory guidance, which requires enforceability and accountability. To hold management's attention, the system should focus mainly on high risk areas and known problems, especially those identified by external sources. Finally, the ideal internal control system should be self-policing: it should correct itself and maintain its relevance and effectiveness under all conditions. Unless it does all these things, the

internal control system will eventually lose credibility as a management tool. It will continue to exist because the law says it must, but it will not be truly effective.

ARMY INTERNAL MANAGEMENT CONTROL PROGRAM

Internal control has been around the US Army for a long time, ever since General Washington appointed General von Steuben as Inspector General to enforce supply accountability.¹⁰ Controls within Army accounting systems have been in effect for decades. In the recent past, the genesis of the current system of internal controls (now called the Army Internal Management Control Program (IMCP)), was the FIMFIA of 1982.¹¹ Pursuant to the Act, the Office of Management and Budget (OMB) published two directives (OMB Circulars A-123 and A-127) implementing the Act and incorporating the twelve GAO standards for internal control in the Federal Government.

In response to these directives, the Army published Army Regulation (AR) 11-2 in 1983. This first regulation required field activities to design their own internal control objectives, techniques, and checklists. DA Pamphlet 11-6 described how to do this. By 1987 it had become clear that the consistency afforded by centralization was needed. Consequently, The Secretary of the Army directed all Headquarters, Department of the Army (HQDA) and field operating agency (FOA) functional proponents for Army subtasks to develop checklists on all essential event cycles for Army-wide application.¹² These are now contained in several circulars and

other directives (19 and 11, respectively) republished as necessary to incorporate needed changes. Further, HQDA rescinded DA Pam 11-6, rewrote AR 11-2, and published the Army Management Control Plan (MCP) in a DA Circular.

The MCP is unique among the services.¹³ It is an annually updated 5-year plan identifying relative risk for all 347 Army subtasks. It pinpoints responsibility at all levels of command for the scheduled application of the checklists, and lists the related ARs and DA Circulars. As a concise inventory of the Army's entire internal control program, it bridges the gap between the field's programs and the Army's policy statement, AR 11-2.

Since 1983 there have been three revisions of AR 11-2. It now covers the twelve GAO standards and the program's general aspects. While it does not lay out a "code of conduct" for military and civilian personnel, it does suggest that such a code be used to periodically remind personnel of their internal control responsibilities. AR 11-2 also spells out the roles of all the key players in the IMCP, from the Deputy Assistant Secretary of the Army for Financial Operations (DASA(FO)) and Army Internal Control Office (AICO) all the way down to the assessable unit managers (AUMs) and commanders and managers at all levels. Recommended job standards for various internal control personnel are included as well.¹⁴

Under the DASA(FO), the AICO administers the IMCP at the HQDA level. This includes publishing all DA Circulars containing internal control checklists. The AICO periodically informs HQDA functional proponents, and major Army command (MACOM) and FOA internal control administrators (ICAs), of audit/inspection findings on the

program. Finally, the AICO publishes Reminder Lists, 5-year compendiums of weaknesses identified either internally via the IMCP or by external auditors like those from the GAO.

As an overseer of all Army programs, The Inspector General (TIG) is charged with reviewing IMCP implementation during the normal course of inspections. TIG also provides feeder reports twice annually to the AICO on material internal control weaknesses (MWs). This fits in with the mandate to report on the efficiency, effectiveness, and economy of Army programs, as well as TIG's audit follow-up responsibility.¹⁵

Another overseer, the Auditor General, is also charged with biannual feeder reports to the AICO, in addition to a continuing analysis of the IMCP, corrective actions on MWs, and an annual report to the Secretary of the Army assessing the overall IMCP status.¹⁶ The Auditor General accomplishes this by means of the US Army Audit Agency (AAA), an Army FOA subject to public audit standards but reporting only within Army channels.

The internal control role of the commander's own oversight agency, Internal Review (IR), is not covered in AR 11-2 but is addressed in AR 11-7. IR's responsibilities include conducting various types of audits to examine economy, efficiency, effectiveness, and compliance with applicable laws and regulations and previous audits. IR also has the capability of performing functional reviews, trend analyses and, more importantly, troubleshooting on known or suspected problems.¹⁷ Not included in the regulation is the specific function of routinely assessing and reporting on the status of internal controls within the audited

activity, as a matter of course during IR audits. It is, however, included in Governmental auditing standards.¹⁸

This internal control oversight responsibility of auditors and Inspectors General (IGs), as well as the internal control function of leaders at all levels, is not specifically resourced. That is, there are neither personnel spaces nor operating funds earmarked for the IMCP outside of six personnel and a small pot of operating funds at HQDA.¹⁹ The costs of IMCP oversight and administration are included in the general operating budgets of the various commands and activities, but not as separate budget items. From HQDA functional proponents and MACOMs down to ICAs and AUMs at the installation/activity level, the IMCP is generally considered to require only part-time effort and is therefore not a significant budget item. On paper, at least, the IMCP is an extremely low cost program.

Based on its low operating cost and documented results in enabling the Army to meet the GAO standards as well as the spirit and intent of the FMFIA, the Army's IMCP has been a significant achievement. As reflected in the latest report of the Auditor General, the IMCP generally empowered the Army to identify and correct MWs, adequately support the Secretary of the Army's annual assurance statement, and conclude that its accounting systems were in compliance with Comptroller General standards.²⁰ The Auditor General concluded that the Army continued to display reasonable, prudent actions in complying with the FMFIA. Clearly, the IMCP has been highly successful as it has evolved over the past eight years.

CURRENT PROGRAM STATUS

The Army's IMCP, according to a variety of sources, is the best among the services in complying with the FMFIA.²¹ Responsive in correcting identified MWs, especially those uncovered by external agencies, the Army program has evolved into a well-administered program. The Army guidance is sound, meets legal requirements, and enables the key players to understand and execute their roles. With its 5-year inventory of internal control weaknesses (the Reminder Lists and the previous MACOM/FOA annual assurance statements), the program provides a sound basis for necessary improvements. Left alone, the IMCP would probably continue to evolve to meet any new administrative requirements.

Excellence of administration is not, however, the only measure of success. Despite the program's apparent achievement in reducing the number and severity of material weaknesses, there has been a significant deterioration in the execution of the program. This deterioration is due to several factors which will be discussed below. It is important to stress, however, that the weaknesses of the IMCP are primarily in the execution of the program, not the program's structure.

At the top of the list is a lack of command interest in the IMCP. Practitioners (MACOM, FOA, and installation ICAs; installation and activity AUMs and line managers) almost unanimously agree that decreased command emphasis in recent times has hurt the program.²² This is supported by the Auditor General's 1990 report, in which he stated that of all the audits performed on

activities and installations, only 37% indicated proper implementation of the IMCP. The figure for 1989 was 60%.²³

It would appear that there is a wide variance in the degree of emphasis placed on the program. Some commanders lend their full support throughout the year, making the IMCP a matter of keen command interest. Unfortunately, these comprise the exception rather than the rule. Most senior leaders concern themselves with the program only near the end of the year when they must submit their annual assurance statements. Their commands and activities then scramble: internal control reviews are performed, checklists completed, feeder assurance statements submitted up the chain, and the command's assurance statement and supporting documents prepared.²⁴ Because of this approach, some checklists are hurriedly completed, sometimes incorrectly. Some checklists are not completed in time to support the annual assurance statement, so commanders submitting assurance statements under this condition do so on faith.²⁵

Another result of the last minute approach (or perhaps an underlying cause) is that many of the people involved in IMCP administration, from the line manager up to the commander or senior manager signing his assurance statement, perceive the whole exercise as a bureaucratic, costly paperwork drill.²⁶ At one large installation, the commander has even directed his ICA to perform all internal control reviews (and complete all checklists) to spare the installation staff the effort of dealing with the program.²⁷ This attitude, starting with top management, tends to drastically undercut the program's effectiveness. As with any Army program, the IMCP draws its strength (or weakness) from the leader.

There are probably several causes for the lack of command emphasis. As always, Army leaders have "full plates". There are many programs and priorities competing for the commander/manager's interest and effort, and internal control is just one of a myriad. Now that the IMCP is an established Army program with which the command structure is at least familiar, if not totally comfortable, it's no longer a "hot" issue.²⁸ Other issues have taken precedence. Additionally, the IMCP is not linked to any other management improvement program. It therefore operates "on a shoestring", with little external support other than the legal requirement for compliance.

Internal control is often perceived as accountant, auditor, or IG business. The HQDA proponent for the IMCP is the DASA(FO), which links the program to "beancounters". Similarly, other high level players like the Inspector General, AAA, Comptroller General, and GAO are viewed with a jaundiced eye by many senior leaders. Commanders typically view auditors with mistrust, accountants with suspicion, and IGs with consternation. With these biases built into our senior commanders and managers, it comes as no surprise that IMCP receives only the grudging support of many.

Some commanders have little interest in items not directly connected with warfighting. Preferring to remain in the domain of operations, these commanders leave administration to some unfortunate subordinate to handle. IMCP problems in such commands are typically submerged until they become too big to handle, resulting in inefficient and sometimes ineffective solutions.²⁹

There is also a very real human tendency not to report

problems. Senior commanders and managers want to be seen as capable of handling anything thrown their way. Reporting material weaknesses which could be seen as a failure of command or leadership is anathema to such commanders or managers. Alternatively, there are commanders who report material weaknesses which they themselves have no hope of solving at their level, but fail to report weaknesses which are (or should be) well within their capability of resolving.³⁰ Finally, some commanders abuse the IMCP by reporting weaknesses as a resource-garnering method rather than in relation to the degree of materiality of the risk.³¹

Whatever the case, this brings us to the next fault in the system, that of a lack of uniform application of the term "material weakness". This concept looks great on paper. An MW is defined as the relatively serious absence of or noncompliance with an internal control, the correction of which is required to support or reestablish reasonable assurance.³² The concept does not, however, work well in practice when the application and definition of MW is left up to leaders who have a vested interest in how it applies to their commands and activities. Currently, each management echelon is empowered to make the decision on the relative significance of the internal control problem. In turn, this allows each echelon to decide whether to report it to the next higher level as an MW or a lesser internal control weakness needing correction, or to omit it entirely. Consequently, there are wide variations in what sorts of MWs are reported. Some commanders report few MWs; some report voluminously. The differences cannot be ascribed totally to differences in leadership or to command-unique problems.

In a similar vein, there are some MWs not identified by the IMCP which probably should have been. A quick look at the Army's nine outstanding MWs reveals that only three were identified via the IMCP.³³ Four of the nine were identified solely by the GAO. Most of the MWs corrected in 1990 were detected and reported through the IMCP, but the especially tough and yet unresolved problems were identified by agencies external to the Army management structure. Consequently, the Army has been forced to react with corrective action, instead of preventing the deficiencies or at least identifying them early. Sadly, someone in the Army probably knew about each of these tough problems but was somehow prevented from reporting on them.

There are probably some major MWs which have not yet been identified as such, much less resolved. As an example, the 1950 Budget and Accounting Procedures Act, as amended in 1956, requires all public agencies to use accrual basis accounting.³⁴ Other basic and generally accepted accounting principles include depreciation of capital equipment, capital budgeting, and the production of one and only one set of financial statements truly reflecting all operations. The US Government, including the Army, persists in using receipt and outlay accounting, without depreciation or capital budgeting, and making off-budget expenditures. Not only contrary to generally accepted accounting rules and concepts, these practices also violate Public Law. This condition has yet to be identified as an MW. Perhaps the fault is too obvious and therefore overlooked, but a more likely explanation is that it is perceived as too tough to handle, at least for now. This is

unfortunate, because the "up front" identification of tough problems to Congress can often lead to the grant of funds specifically earmarked to solve such problems.³⁵

Similarly, there have been long-standing recurring deficiencies which somehow persist despite continuing efforts to resolve them. Examples are property accountability and contracting.³⁶ While corrective changes in systems, structures, and regulations are constantly being made, there seems to be a lag in accountability measures. This is an important issue because it is linked to the public trust and confidence placed in Army commanders and managers. A former Chief of Naval Operations rightfully observed that the lack of accountability results in a loss of credibility and ultimately, a loss of authority.³⁷ While there is legal accountability for certain agents of the Government (finance and accounting, contracting, and civilian personnel officers), experience shows that few of the accountable officers are truly held accountable, pecuniarily or otherwise. Most other officials are not legally responsible for their acts or omissions. This fact makes accountability a most formidable problem, as it devolves upon senior leaders to hold their subordinates accountable.

One of the rules in the IMCP is that those personnel with key internal control responsibilities will have standards established regarding those responsibilities in their job performance agreements.³⁸ Unfortunately, this does not guarantee enforceability. The inclusion of an item on an Officer Evaluation Report (OER) Support Form does not require that a corresponding comment be made on the officer's OER. Even though internal control is a special

interest item which should, according to Army policy, be evaluated in the OER, there is no mandatory comment.³⁹ Additionally, as the OER Support Form is not made a part of the officer's official file, the failure to meet a stated goal on internal control cannot be detected once the completed OER is sent to HQDA, unless specifically addressed on the OER.

The Noncommissioned Officer Evaluation Report has a section regarding accountability, but no bullet comment is necessary unless the standard is exceeded or not met.⁴⁰ Similarly, a performance standard for a critical job element in a civilian's performance plan requires a comment on the Civilian Performance Rating only when a job element rating of "exceeded" or "not rated" is rendered, or when the overall rating is other than "fully satisfactory".⁴¹ Even if comments on the various rating forms are made regarding internal control responsibilities, there is no true accountability unless the rating officials choose to enforce it and make cogent remarks on the ratings.

There are some other problems with accountability in the IMCP. Apparently there are still some internal control practitioners who have key internal control responsibilities but lack corresponding job standards.⁴² One reason for this is that AR 11-2 does not spell out a sample job standard for "all others", such as line managers or commanders below the installation commander. A standard for line managers is especially needed, because the line manager is usually the one charged with installing, checking, and reporting on the internal controls in his area of responsibility.

Another reason for a lack of established internal control

standards is the turnover of personnel involved with the IMCP.⁴³ Promotions or permanent changes of station can make it difficult to stay in compliance with the regulation. Turnover of personnel also foments recurring deficiencies. The subordinate managers responsible for internal controls can rotate and thus escape accountability for deficiencies, or the superior leaders can rotate and miss/avoid holding subordinates responsible.

A related problem is the Army's fragmentation.⁴⁴ There are literally hundreds of subordinate tenant units on Army installations, geographically separated from their parent units. This separation makes them uniquely vulnerable to internal control deficiencies, particularly if their installation support agreements or arrangements with parent units do not spell out internal control responsibilities. Personnel turnover, together with this geographic fragmentation, results in a very real potential for severe internal control problems.

Training is another problem area. Personnel who do not understand their roles in the IMCP cannot be expected to properly implement it. Commanders or senior managers who do not understand the IMCP cannot reasonably be expected to support it. As pointed out by a former Comptroller of the Army, people do not accept readily something they do not fully comprehend, especially when it affects their interests.⁴⁵

IMCP practitioners universally agree that training on the program needs improvement.⁴⁶ Some ICAs and many AUMs have not been trained on the IMCP. This inhibits their effectiveness in applying the checklists and administering the program. Likewise, many

auditors and IGs apparently lack IMCP training and tend to focus exclusively on regulatory compliance.⁴⁷ Materiality is generally ignored by auditors/IGs; hence, any deviation from regulation or law regardless of severity constitutes an MW.⁴⁸ There is a fundamental disconnect between the auditor/IG focus on objective measures and the subjective concept of reasonable assurance; this can be rectified by training.

Another training deficiency is the dearth of training for military leaders on the IMCP, specifically on the twelve GAO standards. This subject is not covered in any noncommissioned officer schools, nor is it broached in most commissioned officer courses. There are probably some basic or advanced officer courses, depending on the branch, which touch on the IMCP. The installation management course has a block of instruction which normally includes the IMCP.⁴⁹ However, the first time many senior commanders receive instruction on the IMCP is as they prepare to put pen to paper on their annual assurance statements. If, as indicated in AR 11-2, all Army military and civilian managers must understand and apply the GAO standards, then some instruction is called for.⁵⁰

Despite the plethora of oversight agencies looking at the IMCP, there has been a deterioration in the program's execution, as described earlier. IGs, IRAC (Internal Review and Compliance) offices, and AAA all inspect, audit, or examine the implementation of the IMCP and report their findings IAW their applicable regulations. According to Army policy, the efforts are complementary.⁵¹ In practice, however, the efforts may overlap to the

extent that the field is bombarded with input.

As the fiscal year grinds on, the findings of AAA and TIG are fed to the AICO, who adds them to the Reminder Lists and periodically publishes "lessons learned" to the MACOMs and FOAs as technical advice. These items in turn are passed down to ICAs, and at some installations, on to AUMs in their appropriate areas. This is probably valuable advice, but it loses its oomph when overdone. That is, the general perception is that there is a flood of information on the IMCP, perhaps too much, and that it is all considered to be of prime importance.⁵² There is no separation of what is "nice to know" from what is viewed as of overriding concern at higher headquarters.

On the other hand, there seems to be a lack of reaction to media coverage. Although AR 11-2 includes language regarding adverse publicity as an indicator of material weakness, there appears to be little application of the principle. A case in point is the coverage regarding the extensive loss of arms, training ammunition, and explosives by various elements of the Reserve Component.⁵³ This is a subject of intensifying Congressional scrutiny, and yet the Physical Security subtask continues to be rated as "low" risk and Ammunition Accountability as "medium" risk in the most recent MCP.⁵⁴ This is not to say that the IMCP should be totally driven by the media, but there probably should be more sensitivity to such coverage in light of the Army's stewardship of public resources. In this regard, there are a number of risk assessments which could be way off base. As events occur and circumstances change significantly, risk assessments performed by the HQDA proponents

should be more subject to revision than they are now.

Structurally speaking, there appears to be little consensus on how to change the IMCP. There is, however, near unanimity in stating that the program should somehow be simplified or streamlined.⁵⁵ At present, AUMs and line managers typically do not use the checklists as a management tool. If they did, the Auditor General indicates that they could identify and correct the same problems identified by the auditors.⁵⁶

The checklists run in length from one page to thirteen pages. A few are clearly too short and do not cover all the necessary event cycles. Most of the rest are way too long for use by management in the conduct of everyday operations.⁵⁷ For example, there is a checklist requiring, among other things, an inventory of toilet paper holders to ensure that they are of the roll type (to allow easy dispensing of the toilet paper).⁵⁸ This is an important issue, but not a key internal control. The recent submission of another checklist by a HQDA functional proponent was prepared by a contractor at Army expense.⁵⁹ As might be expected, it contains far too many event cycles and tests of internal controls to be of any practical use, but probably maximizes the contractor's profit.

All of the checklists contain considerable "boilerplate". This satisfies FMFIA requirements for identification of event cycles, internal control objectives, techniques, and the like, but it is mostly unnecessary for the AUM or line manager. Instead, most managers use the ARs and their own managerial judgment in running their operations, and only use the checklists under duress.

At present, there are three high, three medium, and seventeen

low risk subtasks for which there are not yet any published checklists.⁶⁰ The high risk subtasks have been considered so far at least a year, so the field has had to prepare assurance statements on these areas without the benefit of approved checklists. The failure of the functional proponents to prepare checklists, particularly for high risk areas, tends to devalue the risk assessments or the IMCP itself.

As currently produced, all event cycles are of equal importance in the checklists. Each test question is likewise of equal weight compared to all other test questions. There is no identification of relative risk or importance. For example, a test question regarding the presence of the applicable regulations is of equal weight compared to a test question concerning performance indicators of success or failure of the internal control measure. Both questions are indeed important, but the line manager will normally skip over the first one. The point is that the current checklists do not focus on the more important issues.

Finally, the checklists are published seemingly haphazardly without a clearly understandable index. The DA Circulars contain a varying number of checklists which are either totally new or revised from previous checklists, apparently randomly published as received by the AICG. The changes are not highlighted, either. Since the checklists are published separately from the supporting ARs, some mismatches are inevitable. The checklists tend to contain the latest changes in Army policy and procedures, because it is far simpler and quicker to publish a DA Circular than an AR. Unfortunately, the resulting confusion can allow a manager undue

leeway in interpreting how his program should run, and it can also contribute to a loss of confidence in the IMCP itself.

As a management tool, the IMCP is highly dependent for its effectiveness upon everyone's belief in the program. The deficiencies in the program identified above, by detracting from confidence and credibility, must therefore be corrected.

RECOMMENDATIONS FOR CHANGE

The focus of the recommended changes to the IMCP is on enhancement of the program's execution, with a corresponding set of key structural alterations to simplify that execution. Publicity should necessarily attend these changes. As a key means of introducing change and winning support, publicity would be particularly effective if done through command channels, since the IMCP is a command/management program. Attention should be focused on the positive, management improvement, and simplification aspects of the changes, although any accountability issues should also be addressed. In this manner, the field, including leaders at all levels, will see the IMCP improvement effort as an integrated approach to making their jobs easier. The natural resistance to change will be overcome, and implementation and enforcement will be easier. Consequently, the basic control environment for internal control will be strengthened.

To infuse new life into the program, command emphasis must be increased. It must start at the top, trickle down throughout the

Army, and pervade the entire force, both active and reserve components. A suitable forum to kick off the program changes might be the Army Commanders' Conference or some other senior leaders' conference. Whichever forum is used, top Army civilian and military leadership should be in attendance. This will demonstrate the Secretary of the Army's commitment to making the IMCP work.

The notion that the IMCP is a management tool, a "force multiplier" by virtue of its enhancement of resource management, should be stressed. Many people regard any internal control as an unnecessary cost. This perception can be effectively combatted if the benefits of internal control, in terms of hard cost savings or fraud, waste, and abuse prevention, can be demonstrated.

A related concept that will help win support is that the IMCP is also a wartime program. Internal control over scarce resources will conserve their availability for both wartime and peacetime operations. The Chief of Staff of the Army recently published a memorandum cautioning commanders to confine the use of funds earmarked for Operation Desert Shield (now Desert Storm) to that operation only.⁶¹ This exemplifies the fact that internal control applies equally to wartime operations.

Yet another key idea is that commanders and managers are stewards of public resources which must be carefully husbanded. The various oversight agencies such as GAO, AAA, and TIG cannot successfully police the Army alone. Leaders at all levels, adhering to the twelve GAO standards and employing the IMCP as a tool, must maintain the proper control environment and enforce the rules.

Another way to add to command emphasis is to provide periodic

feedback to commanders, as opposed to ICAs or other staff technicians, on the status of the IMCP. This will keep the program on the front burner, even if on "low heat". A related method that could be recommended to commanders is to use their review and analysis programs to keep themselves apprised of IMCP actions in their own commands. This would increase the awareness and interest levels in their commands.

Increased command emphasis can also be achieved through improved accountability, but this must be done carefully. Commanders and senior managers are already responsible for everything their subordinates do or fail to do. There is a requirement for a comment on the OER or Civilian Performance Rating addressing the ineffectiveness of corrective actions on audit findings, although this is not a well-known fact.⁶² This provision could be added to AR 11-2, as could language recommending the use of IMCP results as a performance measure. The new version of the OER, when fielded, could include a block on "accountability" on the front side and/or a mandatory reference to IMCP implementation or audit results. The same goes for the Civilian Performance Rating, in which a job element called "Internal Control" could be made mandatory for supervisors. After all, the law applies to commanders and managers at all levels. In any case, every leader with key internal control responsibilities should have those responsibilities documented in a job element or OER support form. This is already a well-known requirement, so there is no excuse for deviation.

With respect to the Total Army workforce, a solid contribution to the control environment could be made by publishing a "code of

conduct" or set of expectations for conduct at all levels. This could be published either separately or as a part of AR 11-2. A good start point is the management framework described by the Secretary of Defense in the Defense Management Review, where he laid out expectations for individuals, managers, and senior leaders.⁶³

Commanders and managers usually respond well when allowed to participate in objective and goal-setting (management by objectives (MBO)). That concept is already a part of the IMCP through the application of the term "reasonable assurance". By rendering assurance statements, managers implicitly examine actual performance against their own goals and standards as they determine whether reasonable assurance has been achieved.

A way to demonstrate to leaders that they have a crucial role in the IMCP is to recommend they set explicit performance goals or standards on reasonable assurance for the various controls within their commands or activities. This could be 80%, 95%, 99%, or even an absolute 100% depending on the subject, whatever is right for that command or activity. The idea to get across is that although the IMCP is mandated by Public Law and administered at the HQDA level, senior leaders play a key role by establishing their own appropriate standards. This would combat the perception of the IMCP as just another mandatory program which interferes with the real business of command or management. Similarly, the program should be promoted as a means of ultimately improving productivity. While there are definitely short term costs in rigorously applying any internal control program, there are long term productivity payoffs through the reduction of losses due to fraud, waste, and abuse.

The application of goals and standards has another benefit, that of allowing commanders and supervisors to apply management by exception (MBE). This technique encourages management to exert effort on areas not in compliance with the established goals or standards. Headquarters, USAREUR and Seventh Army has applied this technique by removing the requirement for feeder assurance statements from subordinate commands, and letting the MW reports suffice to show any significant problem areas.⁶⁴ Perhaps this could be done in other MACOMs or even Army-wide.

In its recognition that only a few problems are of a truly critical nature, MBE is also applied by focusing the internal control effort on areas most vulnerable to fraud, waste, or abuse. The MCP does this by requiring internal control reviews of high risk areas every two years, as opposed to once every five years for low and medium risk areas. Because of the submission of assurance statements annually, consideration should be given to changing the requirement to an annual review of high risk areas. In all probability this is being done by AUMs anyway.

The AICO periodically publishes lessons learned, as discussed earlier. By applying MBE, the AICO would publish only the most important items as they become known, and save the rest for inclusion with the semiannual Reminder Lists. Alternatively, the AICO could establish a "top ten", "top twenty", or "Army MW List" based on the Secretary of the Army's annual assurance statement and the 5-year history embodied in the Reminder Listings. Audit findings or information from other sources pertaining to these MWs or other critical weaknesses would then immediately go out when received by

the AICO to the ICAs and HQDA/FOA functional proponents. Presumably, MWs would constitute the majority of AICO's key issues; adverse reports of inadequate follow-up action would also be of the utmost concern to the field. All other audit results, indicators, or lessons learned would be included with the Reminder Lists.

The application of MBE would also pertain to HQDA/FOA functional proponents for the various Army tasks and subtasks. For example, when internal controls fail to achieve their intended purpose, the result is often manifested in adverse media publicity or external reports such as reports of audit from the GAO. This "out-of-balance" condition should theoretically initiate MBE and cause some reactions.

One, there should normally be an immediate effort at HQDA to research and fix the problem, if a problem of great magnitude truly exists. Problems at an audited installation or activity often indicate Army-wide problems. If necessary, due to the immensity or sensitivity of the problem, a "Tiger Team" consisting of high-powered functional experts should be formed to troubleshoot. This approach is ideal in resolving long term recurring deficiencies, but applies equally well in fixing short term, high risk problems. Causative research to get at the root causes of problems should also be used when appropriate.

Two, the functional proponent should review the reported corrective action, if any, to determine its efficacy. If the corrective action will be insufficient to solve the problem, either in the short or long run, then the functional proponent should take steps to improve the solution as appropriate.

Three, the functional proponent should compare the publicity/audit results with the risk assessment already performed, to determine whether a change in the latter is in order. There are provisions for this in the IMCP, but they are apparently not routinely invoked. In November 1989, for example, the GAO reported that the Army had failed to properly control contractor access to the supply system and devise an appropriate accounting system.⁶⁵ Corrective action on this MW is underway, but there has been no upgrade of the risk assessment for at least two of the related subtasks (wholesale stock control and inventory control; by coincidence, the latest MCP indicates that there is not yet a published checklist on wholesale stock control).⁶⁶ As all 347 Army subtasks are scheduled for risk reassessment in FY91, some of them should reflect the impact of adverse publicity or audit results of previous months. A way to improve the reaction to adverse publicity might be to have the Army Public Affairs Office feed such input to the AICO, for further dissemination to HQDA/FOA functional proponents as appropriate. Additionally, the AICO should be required to review and chop on the functional proponents' risk assessments in light of external reports and indicators, as the honest broker for the IMCP.

Four, the functional proponent should evaluate the applicable ARs for possible changes, not to mention the related internal control checklists. There is usually a prompt attempt by well-meaning commanders and managers to solve newly-identified problems, but the corresponding changes to Army policies/regulations seem to be longer in coming. The application of MBE might speed this process.

Another method that has been suggested is to apply Total

Quality Management (TQM) to the IMCP to improve its efficiency. A DCSSLOG study on this concept indicates that there might be strong support for such a course of action at lower levels, but top Army leadership support at this time is doubtful.⁶⁷ Key TQM concepts such as quality circles and statistical measurement easily lend themselves to application within the IMCP. Others, such as direct customer feedback and employee ownership of the process, are not so easily employed. In the early days of the effort to comply with the FMFIA, the initial approach to decentralized development of internal control checklists would probably have supported the application of TQM if the concept had been in vogue at that time. Now, with the centralized approach to internal control, TQM would be tougher to employ. Still, the idea bears further consideration.

The next major problem area of execution is training. In this era of declining resources, it would be difficult to justify instituting an Army-wide training program on the IMCP. Within existing programs of instruction for military personnel, however, there should be some coverage of the IMCP and the twelve GAO standards. NCOs should be exposed to it in their advanced NCO course; officers should get it in their basic and advanced courses. Installation commanders and their deputies should continue to receive such instruction in the installation management course. It should be briefly touched upon in the battalion and brigade pre-command course. In all cases, including civilian training courses on the subject, emphasis should be placed on basic management responsibilities, especially stewardship of public resources, and the use of the IMCP as a management tool. Improved training of commanders

and managers should also increase command emphasis on the IMCP.

The IMCP practitioners should not be neglected in this regard, either. It would be helpful if new ICAs could attend the Army Management Engineering College course on internal control. Space and funding should be made available for IG, IR, and AAA personnel as well. Alternatively, the AICO's IMCP videotape or the OMB internal control training module could be made widely available to installations and activities for their use in training commanders, ICAs, AUMs, IR auditors, and IGs. A training module distributed Army-wide would do wonders for IMCP consistency. While any incremental costs incurred on training are a strong negative factor, solid understanding of the program would become much more widespread. More importantly, the effort would help underwrite reasonable assurance and ensure Army-wide consistency in the program.

Another method of improving the support for reasonable assurance would be better coordination of the oversight function. As previously discussed, the Auditor General and AAA, TIG and the field IG network, and IRAC sections throughout the Army perform a full court press in reporting on the IMCP implementation status. Each of these agencies has a valid role in evaluating the IMCP, in accordance with their respective charters. There may be a better way to make their efforts more complementary, however, while leaving the basic charters unchanged.

DoD has identified the need for better early warning of the existence of MWs.⁶⁸ This function could be well performed by the IG network. The IG, through both the inspection and investigation functions, is ideally suited to the early identification of

potential or actual internal control weaknesses.

Among its other functions, IR performs functional reviews and management studies. This puts IR in the unique position of being able to solve internal control problems for the commander. Besides simply auditing functional areas, IR can reserve space on its annual schedule for IMCP troubleshooting. This would not only support the IMCP, but would upgrade IR's credibility as a management tool.

The last leg of the Army's oversight triad is AAA. AAA is a relatively unbiased organization operating more or less independently. This modus operandi makes AAA the best qualified, if not the only, Army agency to independently validate reported corrective actions on significant internal control weaknesses in selected areas. MWs, findings from GAO audits, and items from the AICO's Reminder Listings could all be included. Related to the audit followup function performed by AAA anyway, this would go far in enhancing accountability, consistency of effort, command emphasis, and credibility of assurance statements. It is this follow-up/feedback loop, examining reported corrective actions in functional areas, which has heretofore been largely absent, Army-wide. The change in AAA focus to checking on corrective actions would significantly reduce recurring deficiencies. AAA would also continue to audit Army accounting systems and annually report on the Army's IMCP status, to provide an overview from the audit standpoint.

The oversight agencies would thus continue to act in accordance with their charters, but the emphasis would change somewhat. The IG would become the early warning agent; IR would

focus on problem solving; and AAA would validate corrective actions. In this manner, their roles would become much more complementary. An additional way to link all these agencies together, but also tie in the AICO - ICA network, would be to periodically host a conference via some computer communications network such as COAHOST.⁶⁹ Key weaknesses or audit/IG findings could be discussed and disseminated instantaneously, eliminating the time lags now experienced in getting the information collated, reproduced, and shipped out to the field. The key players would be tasked to prepare agenda items in advance, to focus attention on only the most salient issues.

Another means of upgrading program oversight could be to track corrective actions via the AICO's Reminder Listings. This would keep the field and oversight agencies apprised of the status of efforts to solve internal control problems. As a synopsis of all known findings relating to the various Army subtasks, they could become the trigger mechanism for functional proponents to change their risk assessments, constitute Tiger Teams to solve significant emerging problems, or even direct Army-wide internal control reviews in selected subtasks. Automation of the checklists might be yet another way to speed and simplify dissemination of the information.⁷⁰ Thus, the Reminder Listings, like the other elements of the current IMCP, are a valuable tool which can greatly improve the program's execution with a little more emphasis and more widespread awareness.

Informed, aggressive execution is the key to improving the Army's implementation of the IMCP and FMFIA. There are, however,

some structural changes which could be of substantial benefit in improving execution. At the top, the AICD could be moved from DASA FDI directly under the Secretary or Undersecretary of the Army. Attenuating the link between the IMCP and the "beancounters" would cut down on the perception of the program as strictly an auditor or accountant program. Placing it at the highest level of DA would immediately bolster senior management support of the program, thereby also improving the control environment. The IMCP is now a peripheral concern of senior leadership. Moving the program agent as suggested, combined with the other execution initiatives previously discussed, would give it a much more central position.

At MACOMs, FOAs, and installation/activities, the ICAs should probably remain part of the resource management staff structure. This would minimize any organizational dislocation, preclude a massive training effort of practitioners beyond that already discussed above, and take advantage of the professional accountant's orientation toward internal control, audit, and stewardship, as many ICAs are professional accountants. Accounting and auditing will always play starring roles in the IMCP given the very nature of the program. Some leaders would, however, move their ICAs to a more central position given the similar move at the HQDA level. Either way would work.

As indicated earlier, the practitioners almost unanimously voiced their desire for simplification. With the specificity of the FMFIA and the twelve GAO standards, simplification will not be an easy task. There are some possibilities, however, which would improve IMCP implementation at the grassroots level.

First, all checklists yet to be published should be completed as soon as possible, but no later than the end of the current fiscal year. This will improve credibility of the IMCF and better support assurance statements this year. It will also simplify the tasks of the AUMs in their supervisory roles, thereby helping to achieve reasonable assurance.

Second, a review of all checklists should be made for completeness, redundancy, and appropriateness. That is, a scrub of every checklist should be performed to ensure that the appropriate internal control objectives, techniques, and test questions exist to ensure reasonable assurance. Redundant or non-essential items should be eliminated, and any missing items developed. Candidates for removal should include items that would be highlighted via other means, like customer complaints (example: cylindrical toilet paper holders). Once and for all, the result will be a set of checklists that should not significantly change unless the basic regulation changes. These checklists, when applied, will suffice to meet the full spirit and intent of the FMFIA.

Third, every finalized checklist should be made a part of the applicable AR upon the publication of the next iteration of the AR. Obviously, conflicts between ARs and checklists would be eliminated by this step. It will also avoid the waste involved in publishing two sets of guidance pertinent to the various subtasks, as well as the problems associated with the current lack of an index system for the DA Circulars containing checklists. A related step should be the addition of the AICO in the staffing of all regulations with internal control checklists.

The next measure is suggested as a means of improving AUM and line manager application of the IMCP to their everyday management efforts. These managers now mostly disdain the current checklists, because most of the checklists are far too detailed and contain a significant amount of boilerplate, as described earlier. Some test questions "cover the bases" but do not address only the key internal controls. "No" answers to many questions would not necessarily show key internal control weaknesses. Yet these checklists suffice to satisfy the FMFIA requirements.

A way to eliminate this discrepancy is to design a one-page document, the maximum length equalling the front and back of a single page, as a separate checklist. This abbreviated checklist would not have the boilerplate of the complete checklist, but would contain only the barest essentials, the very essence of the applicable regulation. Such abbreviation would especially enhance wartime utilization of the checklists. The AUMs and line managers don't need detailed control objectives and techniques, because these managers are at the ground level applying the regulation daily. What they need is a set of test questions getting at the very heart of the regulatory requirements.

These "indicator" questions would address only the highest risk, highest payoff areas, those conducive to fraud, waste, or abuse, and those for which external performance data are available. If not answerable with a positive ("yes") response, the indicator question would by definition reveal a significant internal control weakness. The "no" answer would then trigger completion of the entire detailed checklist, or at least that portion of it

containing the event cycle with the "no" answer. To give time for accurate completion of the checklists, plus time to correct deficiencies before annual assurance statement preparation, all checklists should be completed in the first half of the year.

In addition, all "no" answers not resolved by the end of the year would automatically require reporting up the chain as "significant" (as opposed to "material") internal control weaknesses. A full description of the "no" answers, including the test method and statistics leading to the "no" responses, would accompany the annual assurance statement, or possibly even take the place of the feeder assurance statement. This would eliminate the requirement for commanders and managers to decide whether a weakness was material. It would also immeasurably aid HQDA in determining exactly how bad, and how widespread, the deficient condition was.

The determination of materiality would (and should) be left up to the Secretary of the Army, based on AICO and functional proponent recommendations and taking into account the status of the particular subtask Army-wide. A complete, over-arching picture of material weaknesses can form only at the HQDA level. The corrective effort could then become focused strictly on the key issues and highest risks. Subordinate commanders and managers would presumably continue to work to correct their significant weaknesses, but put forth a special effort on those which ended up as Army MWs. This program simplification thus helps bridge the gap between daily application of the GAO standards at the lowest managerial levels and achievement of reasonable assurance at the HQDA level.

CONCLUSION

The changes described in Section V above are summarized in Appendix A, and the corresponding regulatory changes are shown in Appendix B. These alterations are primarily aimed at improving execution, and can mostly be accomplished with little incremental cost. Some structural modifications are also called for. Naturally the regulatory changes and training will entail some costs, but the overall benefits in significantly upgrading the IMCP should far outweigh the costs. It is an important program which not only ensures compliance with Public Law, but also enhances the internal Army environment relative to stewardship, accountability, and the like. As such, it is likely to be around for a long while, particularly considering Congressional perceptions of the program as a valuable oversight and early warning tool.

Given the intensifying Congressional interest in internal control, the time is right to make any necessary changes. The Army leads the other services; retaining this lead by creating a model program could result in its adoption by DoD as the standard. Shrinking defense budgets dictate the elimination of unnecessary or duplicative functions and mandate the consistent application of the twelve GAO standards. The availability of fewer resources also requires a concentration of effort on the critically high risk areas, including those "too tough to solve" problems. In fact, there may be no better time to identify and solve such problems, using the new and improved Army internal management control program.

APPENDIX A
SUMMARY OF IMCP CHANGES

Definite

Execution

- Increase command emphasis
- Improve accountability
- Apply management techniques (MBO, MBE)
- Focus on relatively high risk areas
- Upgrade training
- Better coordinate oversight
- Publicize changes, as well as IMCP in general

Structure

- Scrub, then publish, detailed checklists with ARs
- Devise abbreviated checklists
- Employ significant weakness concept
- Revise AR 11-2 (Appendix B)

Possible

- Apply TQM
- Move AICO under Secretary/Undersecretary of the Army
- Automate, and track corrective actions on, Reminder Listings
- Periodically hold teleconference of oversight agencies and AICO - ICA network
- Develop "top ten" or similar list to better focus effort
- Mandate IMCP training for ICAs and key IG/IR personnel
- Replace subordinate annual assurance statements with reports of significant internal control weaknesses

APPENDIX B
RECOMMENDED REGULATORY CHANGES

Definite

Define "significant internal control weakness"

Require all significant internal control weaknesses to be reported annually

Define role of Internal Review in program

Define role of public affairs offices at all levels in identifying internal control weaknesses

Require AICO to chop on all ARs containing internal control checklists/aspects, as well as all risk assessments

Develop job standard for "all other" commanders/managers

Add requirement of AR 36-2 regarding performance rating or OER comment on failure to properly correct audit findings

Include language on parent-tenant relationships vis-a-vis IMCP, plus need for support agreement between tenant and installation

Require annual review of all high risk areas

Possible

Add language on standards of conduct (management and employee responsibilities for internal control, relative to public trust/stewardship)

Change, or require comments on, performance rating and OER/NCOER regarding internal control responsibilities

Add language regarding use of IMCP results as performance measure

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