
FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2002
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY



THE UNDER SECRETARY OF THE NAVY
WASHINGTON, D.C. 20350-1000

INFO MEMO

November 1, 2002

FOR: SECRETARY OF DEFENSE

FROM: Susan Morrissey Livingstone, Under Secretary of the Navy

Susan Livingstone

SUBJECT: Department of the Navy Fiscal Year 2002 Statement of Assurance

- The Department of the Navy (DON) has evaluated its system of internal accounting and administrative controls in effect during Fiscal Year (FY) 2002. Based on that review, and in accordance with the Federal Managers' Financial Integrity Act (FMFIA), the DON is providing a "qualified" statement. The DON believes it has the controls in place to provide reasonable assurance that it can execute its mission effectively and that its critical assets are protected. However, based on the material weaknesses identified in this report, and incomplete reporting by some DON elements, the DON is not able to give reasonable assurance that all of the specific objectives of FMFIA have been achieved. The DON has initiated corrective actions to resolve remaining FMFIA compliance issues and continues to aggressively implement the controls necessary to ensure reasonable assurance of FMFIA compliance in the future.

The DON Leadership, in response to concerns and issues, raised by the Naval Audit Service (NAVAUDSVC) in FY 2001, took direct action to enhance the DON Management Control Program. Targeted communications and specialized training were aggressively implemented throughout the DON. Both efforts emphasized the importance of the program, promoted role awareness and clarified responsibilities. Progress has been achieved, but deficiencies still exist. The NAVAUDSVC opinion for FY 2002 confirms both that the DON has undertaken initiatives to improve the program and that deficiencies continue to exist that will need to be addressed by senior leadership. DON leadership will continue to apply direct and persistent management attention to this program.

- The information that supports this qualified determination of reasonable assurance was derived from audits, inspections, investigations, and certification statements from Echelon I commands.
- A more complete evaluation of the Management Control Program and FY 2002 accomplishments are at TAB (A).
- A listing and summaries of uncorrected and corrected material weaknesses and additional accomplishments are at TAB (B). Prior period sources identifying weaknesses are provided in Appendix A.

Attachments:

As stated

Prepared by: Gilbert Gardner, Office of Financial Operations, 202-685-6727.

SUBJECT: FY 2002 Department of the Navy Annual Statement of Assurance on Management Controls; as required under the Federal Managers' Financial Integrity Act (FMFIA)

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MANAGEMENT CONTROL EVALUATION PROCESS

Leadership Responsiveness

In FY 2001, the Naval Audit Service (NAVAUDSVC) raised serious concerns with the Department of the Navy (DON) Management Control Program (MCP) in their audit report titled, Navy Implementation of the Federal Managers' Financial Integrity Act (N2002-0033), specifically identifying issues in the Fleet. The DON leadership, in response to these concerns and issues took direct action to mitigate and enhance the DON MCP. Targeted communications and specialized training were aggressively implemented throughout the DON. Both efforts emphasized the importance of the program, promoted role awareness and clarified responsibilities. Progress has been achieved, but significant deficiencies remain that will require the sustained personal attention of the senior leadership of the Department to correct. Detailed accomplishments and further actions are included in this Statement under "Accomplishments Specific to the DON Management Control Program."

Concept of Reasonable Assurance

The system of internal accounting and administrative control of the DON in effect during the FY ending September 30, 2002 was evaluated in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by Department of Defense (DoD) Directive 5010.38, "Management Control Program," dated August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996. The OMB guidelines were issued by the OMB Director, in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982" (FMFIA). Included is an evaluation of whether the system of internal accounting and administrative control of the DON is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal accounting and administrative control of the DON are to provide reasonable assurance that:

- obligations and costs are in compliance with applicable laws;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports and to maintain accountability over the assets.

The evaluation of management controls extends to every responsibility and activity undertaken by DON and is applicable to financial, administrative, and operational controls. Furthermore, the concept of

reasonable assurance recognizes that (1) the cost of management controls should not exceed the benefits expected to be derived and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding description. The evaluation was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative controls of the DON in effect during the fiscal year that ended September 30, 2002, taken as a whole, provides reasonable assurance that the mission of the organization can be accomplished effectively and that critical assets can be protected. However, there are concerns that based on the material weaknesses identified through this review and the fact that not all elements of the DON have fully compliant programs, not all objectives of the Federal Managers' Financial Integrity Act (FMFIA), have been achieved. Accordingly, based on that review, and in accordance with the FMFIA, the DON is providing the following "qualified" statement: *The DON believes it has the controls in place necessary to provide reasonable assurance that it can execute its mission effectively and that its critical assets are protected. However, based on the material weaknesses identified in this report, and incomplete reporting from some elements of the DON, all the objectives of the FMFIA have not been achieved.*

Determination of Reasonable Assurance Status

Management Control Program Structure. The organization and structure of the DON and the actions taken daily to maintain a modern, quality naval force are the major factors that led the Secretary of the Navy (SECNAV) to have reasonable assurance that the system of management controls is operating as intended, with the exception of the material weaknesses reported. The DON MCP is decentralized and encompasses shore commands and afloat forces. SECNAV, through the Under Secretary of the Navy (UNSECNAV) and the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C)), is responsible for overall administration of the MCP, which includes developing operational policies and procedures, coordinating reporting efforts, and performing oversight reviews. Primary responsibility for program execution and reporting is placed with the various Assistant Secretaries of the Navy, the Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC), Secretariat Staff Offices, and other Echelon 1 commands. Each of these fifteen components provides SECNAV with its own annual Management Control Certification Statement. These certification statements are used as the primary source documents for the Secretary's determination of whether reasonable assurance exists that the system of internal administrative controls is functioning within the DON.

The DON's MCP is based on the General Accounting Office's (GAO) five Standards for Internal Control: Control Environment, Risk Assessment, Control Activities, Communication and Information, and Monitoring.

- ◆ **Control Environment.** The DON has established its control environment to support its mission statement "to maintain, train, and equip combat-ready naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas." Integral to mission implementation and sustainability of the control environment are the published human capital policies, ethics, and operational procedures that are practiced and reinforced daily in training and in operations. The shore commands and afloat forces, working to achieve their respective missions in support of the overall DON mission, further reinforce each of these fundamental elements.
- ◆ **Risk Assessment.** The DON continues to place emphasis on risk assessments. To assist commands/activities, the DON focused a section of its MCP training course on tools and techniques for conducting risk assessments and developing strategies to mitigate risk.

To provide additional assessment techniques of all shore commands and afloat forces, the DON has developed a self-assessment survey tool, based on the principles and elements of an effective MCP, including the concepts of risk management as detailed in the GAO Internal Control Management and Evaluation Tool of August 2001. The objectives of the self-assessment are to promote risk awareness, recognition of risk and to assist commands at all levels of the DON in evaluating their MCPs.

- ◆ **Control Activities.** The DON has an extensive system of policies, procedures, and training activities that provide instructions for personnel, from the departmental level to the lowest operating activities. DON shore commands and afloat forces have a variety of controls in place that reflect and enforce these policies and procedures, to include security checklists, segregation of duties, shipboard inspections, and organizational reviews. These controls are highly specific and reflect management's focus on the duties and activities related to accomplishing organizational missions.
- ◆ **Communication and Information.** Information is continuously communicated up and down the DON chain of command. Communication on priorities and departmental direction flow down through the organization through a variety of formats; strategic plans; policies and procedures doctrines; human capital strategies; and DoD directives, instructions, and memorandums. The process and the structure for reporting and preparing the Management Control Statement of Assurance contributes greatly to the upward communication of issues and weaknesses within the organization as the responsible activities and commands forward their identified material weaknesses for review, comment, and aggregation. Targeted messages on MCP, Internal Controls, and Risk Management have been briefed at the American Society of Military Comptrollers conference and at the DON Comptroller roundtable meetings throughout the year. In addition, a DON-developed

quarterly newsletter, MCP Herald, is used to communicate current MCP information and enhance program awareness.

- ♦ **Monitoring.** Management controls are continuously monitored throughout the DON. Shore command and afloat force line managers perform various reviews, evaluations, and inspections to monitor and ensure the effectiveness of operational, financial, and administrative controls. Weaknesses judged to be “material” are reported to the Secretary through the chain of command. In addition, commands are staffed with an internal review-type office – Command Inspector General, Command Evaluation Office, Internal Review Office, etc. – that perform routine and follow-up evaluations on functions pertinent to command mission. For the DON as a whole, the NAVAUDSVC, by regulation, is to routinely assess the effectiveness of management controls in the course of performing its audits (except limited scope audits) and, where warranted, to explicitly address management control deficiencies by way of establishing managerial accountability. The Naval Inspector General (NAVINSGEN) and Naval Criminal Investigative Service (NCIS) also perform inspections and investigations of DON entities and review and report on issues related to management controls.

Management Control Reporting. As described above, at year-end, the Assistant Secretaries of the Navy, CNO, CMC, Secretariat Staff Offices, and other major commands provide Management Control Certification Statements to SECNAV regarding their assessment of the effectiveness of management controls within their organizations. These components base their certifications on evaluations they have conducted, as well as input provided by subordinate commands regarding management control accomplishments and deficiencies identified throughout the year. These accomplishments and deficiencies may have been identified through internal reviews or external audits, investigations, or inspections. Corrective actions and milestones for deficiencies identified are reported as well.

In addition, the AUDGEN, in collaboration with the OASN(FM&C)'s Office of Financial Operations (FMO), is responsible for reviewing audit reports and identifying any potential material weaknesses (significant at the departmental level) observed. Once identified, potential material weaknesses are reported to cognizant DON senior level functional managers for their review. Comments and suggestions concerning identified potential weaknesses are factored into the DON annual Management Control Statement of Assurance.

Reasonable Assurance of Management Controls. The SECNAV has determined there is reasonable assurance that the DON has the controls in place to execute its mission effectively and that its critical assets are protected, with the exception of the material weaknesses reported. This determination stems from the established DON control environment, its continued emphasis on risk assessment, its specific control activities, the continuous communication and flow of information, and the monitoring performed by both command management and the audit/investigative/inspection community. Recent military actions confirm the strength of the DON's management controls, as it effectively

executes its missions.

FY 2002 Statement. The DON is committed to full disclosure of material weaknesses and resolution of the issues discovered. Based on the certification statements provided by the DON Secretariat Staff Offices, Echelon 1 components, and the joint NAVAUDSVC/OASN(FM&C) evaluation process, five new weaknesses are being reported in FY 2002 (*“Government Purchase Card Program,” “Readiness Reporting,” “Security Clearance Backlog,” “Supply Operations,”* and *“Government Travel Charge Card”*). Two weaknesses identified during prior periods (*“DON Chief Financial Officers Act Financial Statements, Treasury Index 17”* and *“DON Revolving Funds Chief Financial Officers Financial Statement Accountability”*) have been combined together as one weakness (*“Accuracy of Financial Statements”*). Adjustments to milestones and target correction dates were made for the remaining nine uncorrected weaknesses (*“Hazardous Material Management,” “Instructor Requirements and Student Input Planning,” “Independent Logistics Assessment Process,” “Requirements Determination,” “Excess Material and Unrecorded Inventories,” “Information Assurance,” “Military Personnel Recruiting,” “General/Flag Officer Quarters (GFOQ),”* and *“Unmatched Disbursements”*). The Statement includes that, during FY 2002, the DON completed corrective actions on five material weaknesses identified during prior periods (*“Individual Ready Reserve (IRR) Member Screening,” “Computer-Based Training,” “Asset Visibility of In-Transit Inventory,” “Enlisted Administrative Separations,”* and *“Cash Management and Contract Payments at Selected Navy Activities in Europe”*). The status of planned corrective actions (*“Planned Milestones”*) on all existing material weaknesses is also reported in this Statement.

Accomplishments Specific to the DON Management Control Program

- ◆ The DON, through the OASN(FM&C), implemented a back-to-basics approach to improve its MCP. This approach focuses on: increasing awareness of the MCP through program communication; emphasis on management control training; sharing of best practices among commands, and automation of MCP tools and processes. The intent of this program is to assist the DON commands in enhancing their current MCPs, thereby strengthening their management controls. The following are DON accomplishments during FY 2002:
 - Issued a memo by the Under Secretary of the Navy, on April 25, 2002, to Major Claimants emphasizing the importance of, and support for, a robust MCP throughout the DON.
 - CNO directed that all Echelon 2 organizations within CNO provide Management Control Certification Statements to Echelon 1 organizations.

- Issued a memorandum from the OASN(FM&C) dated August 19, 2002, clarifying the current requirements of the SECNAV Instruction 5200.35D, Department of the Navy Management Control Program.
- Drafted a revision of SECNAV Instruction 5200.35D, Department of the Navy Management Control Program, to clarify the intent and requirements of the DON MCP and incorporate GAO's standard on business risk.
- Conducted ten MCP training sessions. A total of 218 DON personnel (predominantly MCP Coordinators) were trained through September 2002. In addition, the DON has developed an aggressive regional training scheduled for FY 2003. Training content focuses on MCP requirements, MCP roles and responsibilities, developing an MCP Plan, the material weakness reporting process and selected tools for use in implementing an effective MCP.
- Developed a web-based MCP Self-Assessment Survey Tool to provide DON commands and activities an objective "current state" measurement of their organization's MCP. Based on the GAO Internal Control Management and Evaluation Tool of August 2001, the DON tool will help managers evaluate if their internal controls are designed well, are functioning as designed, and will identify areas requiring further improvements.
- Developed a web-based data collection application to help automate the annual DON Management Control Statement of Assurance reporting process.
- The following are DON command/activity accomplishments during FY 2002:
 - NAVINSGEN is rewriting portions of the NAVINSGEN Staff Organization and Regulation Manual (SORM) to strengthen management control oversight and identify the specific oversight responsibilities of senior management officials and MCP Coordinator.
 - As the foundation for a new MCP, NCIS developed a new strategic plan that will better align resources with the emerging requirements of the DON and develop better metrics by which performance can be measured. The plan has just been published, completing Phase I of the project. In FY 2003, NCIS will develop individual performance plans for each component and set standardized metrics that can measure the performance of these components.
 - The Marine Corps provided on-site Management Control Training to 75 managers and Commanding General (CG) and CG staff at the Marine Corps Logistics Base, Albany, Georgia. Also, training was provided on internal MCP for staff in the Aviation Department and the Installations and Logistics Division.

- In order to continue moving forward with its MCP, the DON will focus on the following efforts in FY 2003:
 - Develop an MCP website to serve as a single integrated location for all MCP related information and efforts, such as:
 - MCP regulations and guidance
 - MCP evaluation tools
 - management control case studies
 - sharing of best practices within the DON
 - Continue to train DON MCP Coordinators at regional DON locations.
 - Develop a management control training course for DON managers.
 - Continue to work closely with DON commands to help strengthen their MCPs.
 - Hold a DON-sponsored MCP conference for MCP Coordinators.
 - Include management controls in the performance standards for commanding officers, executive officers, and MCP Coordinators, in order to promote accountability.
 - Issue the revised SECNAV Instruction 5200.35E, Department of the Navy Management Control Program.

- ◆ The terrorist attack of September 11, 2001 destroyed the Pentagon office space of the following offices within the office of the Assistant Secretary of the Navy (Financial Management and Comptroller):
 - Counsel (FMC)
 - Administrative/Fiscal Division (FMA)
 - Office of Budget (FMB, FMB-1, FMB-2, FMB-3, and FMB-4)

The mission of FMA is to provide effective and efficient customer service to the activities it services. FMA had the overwhelming task of rebuilding offices in temporary space located in Crystal City. During a difficult time, FMA ensured all offices had equipment, supplies and furniture needed to operate effectively. Offices were completely operational by mid-November 2001.

Additionally, FMA was tasked to work with the Pentagon Renovation team for the relocation of their offices back in the Pentagon. The move successfully took place May 5, 2002.

- ◆ Throughout FY 2002, FMO implemented problem disbursement (PD) reduction programs to assist the Major Commands in achieving year-end goals. Primary emphasis was placed within the General Fund (GF) to eliminate all PDs dated prior to October 1, 2000, reduce the level of inflow, and enforce the Financial Management Regulation (FMR) guidance to obligate PDs greater than 120 days. For the Navy Working Capital Fund (NWCF), emphasis was placed in reviewing the methodology for identifying, calculating and reporting PDs. To accomplish these objectives, the following were implemented:

- In June 2001, PDs prior to October 1, 2000 were \$175 million absolute. The FMO-launched PD Clean-Up team achieved a reduction of 87% by August 2002 with a balance of \$23 million absolute.
- FMO launched PD Inflow Process Improvement teams in March 2002 and completed efforts to identify the root causes of PD inflow for contracts, Military Standard/Requisitioning and Issue Procedures (MILSTRIP), the top three categories of monthly inflow. These teams have reviewed business processes associated with these categories of inflow and have developed recommendations for process improvements to reduce PD inflow. Applicable process improvement will be implemented during FY 2003.
- A joint FMO- Defense Finance and Accounting Service (DFAS) Cleveland Process Improvement Team was established in March 2002 and completed efforts to document the NWCF PD process, to obtain usable detailed data for analyses, to identify inflow issues and to develop recommendations for improvements. Applicable process improvements will be implemented in FY 2003.
- ◆ The Data Collection Instrument (DCI) continues to provide a more streamlined and less manually intensive process for collecting and consolidating all non-financial feeder system data from the DON's major commands. This was evidenced in its performance to collect data to support the semi-annual and quarterly reporting requirements for FY 2002 and 2003 respectively. The web-based platform can quickly adapt to accommodate new or modified reporting requirements. For example, a Military Equipment form was created for use in FY 2002, and form instructions are easily modified with each issuance of Federal Accounting Standards Advisory Board (FASAB) or DoD guidance. United States Standard General Ledger (USSGL) references were incorporated into the data input forms, and an extract at the USSGL level was created to further integrate the flow of data between the DON and DFAS. DCI functionality has been expanded to include consolidation of narrative data to draft footnotes. In addition, a number of DCI-generated reports are now available to assist in review and analysis of data.
- ◆ During FY 2002, the DON continued efforts to explore Enterprise Resource Planning (ERP) and refine Departmental business processes. ERP is a business management system that integrates the business processes that optimize functions across the enterprise (e.g., supply chain, finance, procurement, manufacturing/maintenance, human resources) and enable elimination of numerous legacy systems and the streamlining of business processes. All essential data and information is entered into the system one time and remains accessible to everyone involved in the business process on a real time basis--providing consistent, complete, relevant, timely and reliable information for decision making.

The DON has four initiatives underway that are broken into several phases, each beginning with a pilot phase. The pilot phase is a test of the commercial off-the-shelf (COTS) system to determine if

it can operate in the Navy environment for the functions being piloted. Two of the four pilots were operational in FY 2002. Their focus is on Warfare Center Management and Ship Maintenance. Preparations to “Go-Live” with the other two pilots during the first quarter of FY 2003 were made during FY 2002. These pilots focus on Program Management and Aviation Supply Chain Maintenance/Management.

The Warfare Center Management (CABRILLO) and Ship Maintenance (NEMAIS) pilots successfully implemented a full set of integrated business processes by 1) re-engineering processes applying best business practices, 2) using COTS software with no modifications, and 3) establishing common processes with end-to-end process integration and connectivity. Operation of these ERPs has improved visibility of our business situation by having a single point of data entry and integration, and providing timely and accurate business information. We have experienced a reduction of ownership and operations costs as a result of fewer business systems, interfaces, and manual processes, and the use of automated workflow to improve the speed of processing business. Finally, implementation of ERP is enabling Chief Financial Officer (CFO) Act compliancy by 1) meeting applicable federal financial management regulations, accounting standards, and requirements, 2) implementing the USSGL, and 3) having 100% drill down capability to original transaction event, and 4) utilizing Joint Financial Management Improvement Program (JFMIP) certified software.

A significant amount of testing is conducted both internally (by the implementing activity) and externally (by OASN(FM&C) and DFAS) prior to and after the system “Goes Live.” Each of the initiatives will be evaluated by DON and the Office of the Under Secretary of the Defense (Comptroller) (OUSD(C)) leaderships as it completes its pilot phase, and the decision to move forward will be made. The DON is working closely with the OUSD(C) Financial Management Modernization Program (FMMP) team to ensure that the configuration of the four pilots is compatible with the architecture being developed for the Department of Defense.

- ◆ In response to concerns expressed by the GAO, the FMO provided clarifying guidance on the Purchase Card invoice reconciliation, review, and certification process. This new certification guidance was reinforced during the financial management training provided to a number of command purchase card representatives. Along with the training provided, FMO coordinated efforts with the DON Electronic Business Operations Office (eBUSOPSOFF) to significantly reduce DON delinquencies greater than 60 days past due to come into compliance with the DoD Purchase Card Program Management Office metric. The significant reduction in delinquencies has also contributed to increased rebates. To improve financial processing, FMO collaborated with the DON eBUSOPSOFF to implement a new architecture for the purchase card on-line web-based card management system. This system redesign reduced the number of invoices per billing official, summarized like lines of accounting, and reduced the number of standard document numbers generated.

Accomplishments During FY 2002 Stemming from Management Control Program Activities

- ◆ NAVINSGEN opened 56 procurement fraud hotline cases and closed 110 cases.
- ◆ NAVINSGEN opened 768 Navy Hotline cases and closed 741 cases.
- ◆ NAVINSGEN opened 35 Senior Official cases and closed 29 cases. Of the cases closed, 5 were substantiated.
- ◆ The Marine Corps Inspector General's Office conducted an additional 83 Inspections and Readiness Reviews, 196 investigation/assistance cases, and 149 hotline complaints/ allegations.
- ◆ The Marine Corps discovery process for FY 2002 included reviewing the results of 12,295 Internal Control Evaluations performed throughout the Marine Corps. Management used the results of 9,264 Internal Control Reviews (ICRs) and 3,031 Alternate Internal Control Reviews (AICRs) to evaluate internal controls within the Marine Corps.
- ◆ The Nonappropriated Fund Audit Service conducted 27 audits of Marine Corps non-appropriated fund activities that included review of internal controls of these activities.
- ◆ The Field Supply and Maintenance Analysis Offices Teams performed and issued 115 studies, which included reviews of the procedures, and controls over supply-related operations Marine Corps-wide.
- ◆ The Marine Corps Administrative Analysis Teams performed and issued 114 inspection reports and 107 Mobile Training Visits reports, which included reviews of the procedures and controls over Military Pay and Allowances. Each Base, Station, Depot, Operating Force Command, and Headquarters Staff agency summarized the results of internal control evaluations and provided a total of 40 individual activity compliance statements to the Headquarters.

Significant Issues

Several issues emerged during FY 2002 audits and reviews that, while notable, are not deemed department-wide "material weaknesses," and are not reported as such. The issues are nonetheless significant, and are briefly discussed here:

- ◆ Afloat Navy Disbursing Officers are not in full compliance with the DoD FMR procedures for addressing and reporting Deposits in Transit (DIT) and Check Issue Discrepancies. The Fleet, in conjunction with Defense Finance and Accounting Service - Cleveland (DFAS-CL), is taking aggressive action on these issues. Beginning in January 2001, DFAS CL significantly increased training on DIT/Check Reconciliation. Additionally, Disbursing Fleet Examination Group (FEG),

Type Commander (TYCOM), Afloat Training Group and the Disbursing Clerk (DK) “C” schools have been emphasizing the importance of these areas to Disbursing Officers and DKs through on-site visits, management audit and information dissemination. TYCOMs and the FEG are also using a new DIT web site on visits to ships as an information tool and to monitor performance at the TYCOM level. Additionally, the TYCOMs periodically send messages to the ships and publish newsletter articles emphasizing the issue. Significant progress continues and in fact, DIT and check issue discrepancies are declining. Correcting differences in financial account ledger data is an ongoing and integral part of the account reconciliation process. (*DFAS-ARL, CNO annual reporting of material weaknesses, FY 2002.*)

- ◆ In the summer of 2000, the CNO’s transition team identified the Fleet Modernization Program (FMP) as an area needing improvement. As a result, in September 2000, the Chief of Naval Operations Executive Board was tasked to review the FMP and provide alternatives to improve the FMP process. The Navy’s FMP was established to provide a structure to identify, approve, design, plan, program, budget, and accomplish improvements that increase the capability or reliability of a ship to perform its assigned missions. In FY 2001 and FY 2002, the NAVAUDSVC audited two aspects of the FMP: the FMP alteration prioritization process and modernization of ships scheduled for decommissioning. They analyzed the various processes used by Air, Submarine, and Surface Forces, U.S. Atlantic and Pacific Fleets during the Fiscal Years 2002 through 2007 planning, programming, budgeting, and prioritizing processes. The review revealed various methods for prioritizing Fleet modernization requirements. It also identified strengths and opportunities for improvement for each process. In coordination with the CNO (N43), a framework for an FMP alteration prioritization process applicable to each community was developed, which enhances the goals and objectives of the FMP Concept of Operations. The CNO has already begun taking actions to resolve issues that have been identified for improvement. (*NAVAUDSVC Report No. N2002-0022, "Department of the Navy's Fleet Modernization Program," January 8, 2002, For Official Use Only*).
- ◆ Some of the afloat personal computers leased by the Commander in Chief, U.S. Pacific Fleet (CINCPACFLT) are currently reported as missing, lost, or unaccounted for. In an interim response to the NAVAUDSVC audit report, CINCPACFLT stated, “We understand the significance of the findings of this audit and are committed to full and complete corrective actions and resolution of the root causes.” CINCPACFLT’s final response provided specific corrective actions and their recommendation for releasability of the audit report under the Freedom of Information Act (FOIA). Several corrective actions have already been completed by CINCPACFLT. (*NAVAUDSVC Report No. N2003-0022, "Control and Accountability Over Leased Personal Computers Within the U.S. Pacific Fleet," October 3, 2002, For Official Use Only*). In general, the DON is concerned with accountability for items that could be easily pilfered and are addressing these concerns.

Items to be Revisited in FY 2003. The DON noted eight (8) management control issues in FY 2002 that, while significant and otherwise merit being included in this Statement, do not yet meet the criteria established by OMB and DoD for being reported as a “material weakness” (i.e., an acknowledged problem, agreed upon corrective measures, a formally adopted timetable for accomplishing the corrections, and a mechanism to verify that the problem has indeed been corrected). Related audit reports were published between May 17, 2002 and August 8, 2002 and the recommended corrective measures or established alternatives have not been finalized. As of September 30, 2002, the last report, related to controls and accountability over personal computers, was not published in final form. However, this issue has been discussed as a Significant Issue in this Statement. Actions on these audits will be monitored during FY 2003 and will be reconsidered for inclusion in the DON’s FY 2003 Management Control Statement of Assurance. The reports are:

- NAVAUDSVC Report N2002-0049, "Contractor Logistics Support at the Naval Sea Systems Command," May 17, 2002.
- NAVAUDSVC Report N2002-0055, "Insufficient Appropriated Fund Support of Morale, Welfare, and Recreation Increases Cost to Individual Marines," June 14, 2002.
- NAVAUDSVC Report N2002-0058, "Opportunities to Improve the Marine Corps Total Force System," June 25, 2002.
- NAVAUDSVC Report N2002-0067, "Management of the Navy's Sustainment, Restoration, and Modernization Program," August 6, 2002.
- NAVAUDSVC Report N2002-0068, "Naval Facilities Engineering Command's Process to Identify and Recover Contractor Debts," August 8, 2002.
- NAVAUDSVC Report N2002-0069, "Contractor Logistics Support at the Space and Naval Warfare Systems Command," August 8, 2002.
- Draft NAVAUDSVC Report 2002-0119, “Control and Accountability Over Personal Computers,” August 22, 2002.

DoD-wide Systemic Weaknesses

Office of the Under Secretary of Defense (Comptroller) has identified eight (8) DOD-wide systemic management control material weaknesses. Many of the material weaknesses included in the DON’s FY 2002 Management Control Statement of Assurance are directly related to these DOD-wide systemic weaknesses. A listing of these DOD-wide systemic weaknesses and related DON material weaknesses follows:

DOD-wide Systemic Management Control Material Weakness	Page
<ul style="list-style-type: none"> • Financial Management Systems and Processes <li style="padding-left: 20px;">Accuracy of Financial Statements 	B-2-43

Cash Management and Contract Payments at Selected Navy Activities in Europe	B-3-10
Unmatched Disbursements	B-2-47
• Environmental Liability	
Accuracy of Financial Statements	B-2-43
• Munitions and Explosives	
There are no DON FMFIA Reportable Material Weaknesses in this category.	
• Contracting for Services	
There are no DON FMFIA Reportable Material Weaknesses in this category.	
• Government Card Program Management	
Government Purchase Card Program	B-2-1
Government Travel Charge Card	B-2-14
• Information Assurance	
Information Assurance	B-2-33
• Personnel Security Investigations Program	
Security Clearance Backlog	B-2-8
• Management of Real Property (Facilities)	
There are no DON FMFIA Reportable Material Weaknesses in this category.	

Point of Contact

- The DON point of contact for the MCP and issues dealing with material weaknesses reported in the DON's FY 2002 Management Control Statement of Assurance is Ms. Lessie Turner, FMO. Ms. Turner can be reached at (202) 685-6738, DSN 325-6738, or by facsimile at (202) 685-6700, or by email at turner.lessie@fmo.navy.mil.

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING THE PERIOD
FY 2002

<u>Title</u>	<u>Targeted Correction Date</u>	<u>Page #</u>
<i>Procurement</i>		
Government Purchase Card Program	FY 2003	B-2-1
<i>Force Readiness</i>		
Readiness Reporting	FY 2003	B-2-4
Security Clearance Backlog	FY 2003	B-2-8
<i>Supply Operations</i>		
Supply Inventory Management	TBD	B-2-11
<i>Comptroller and/or Resource Management</i>		
Government Travel Charge Card	FY 2004	B-2-14

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIODS

<u>Title</u>	<u>Year</u> <u>First</u> <u>Reported</u>	<u>Correction FY Date</u>		<u>Page #</u>
		<u>Per Last</u> <u>Annual</u> <u>Statement</u>	<u>Per This</u> <u>Annual</u> <u>Statement</u>	
<i>Major Systems Acquisition</i>				
Hazardous Material Management	FY 2000	FY 2003	FY 2003	B-2-18
<i>Force Readiness</i>				
Instructor Requirements and Student Input Planning	FY 1999	FY 2005	FY 2005	B-2-21
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Independent Logistics Assessment (ILA) Process	FY 2000	FY 2002	FY 2003	B-2-24
Requirements Determination	FY 1993	FY 2004	FY 2004	B-2-27
Excess Material and Unrecorded Inventories	FY 1998	FY 2002	FY 2004	B-2-30
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UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIODS

<u>Title</u>	Year First <u>Reported</u>	<u>Correction FY Date</u>		<u>Page #</u>
		<u>Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	
Unmatched Disbursements	FY 1997	FY 2003	FY 2003	B-2-47

CORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING ALL PERIODS

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
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Individual Ready Reserve (IRR) Member Screening	FY 2001	B-3-1
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<i>Property Management</i>		
Asset Visibility of In-Transit Inventory	FY 1999	B-3-5
<i>Personnel and/or Organization Management</i>		
Enlisted Administrative Separations	FY 2000	B-3-8
<i>Comptroller and/or Resource Management</i>		
Cash Management and Contract Payments at Selected Navy Activities in Europe	FY 1996	B-3-10

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2002

Title and Description of Material Weakness: Government Purchase Card Program. The government purchase card has been and continues to be of high interest in Congress and the Department of Defense (DoD) as it relates to the adequacy of internal control and oversight of the program. Numerous FY 2001 and FY 2002 audits addressed the adequacy of internal control and oversight issues over the authorization, purchase, and payment of purchase card transactions.

The audits addressed: (1) the control environment and management of the program; (2) whether internal control activities operated effectively and whether reasonable assurance could be provided that the card was used appropriately; and (3) the existence of potential fraudulent, improper and abusive or questionable transactions. The audits performed at several individual activities and commands looked at the Navy's internal control policies, procedures and key activities, and the number of accounts by program managers and command managers. It was revealed that some commands were not adequately monitoring government purchase cardholder obligations or enforcing their accountability.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: N/A – new report

Current Target Date: FY 2003

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: The Government Purchase Card Program will be effective when adequate controls are established and observed by the Navy.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. N2002-0023, "Management of the Purchase Card Program at Public Works Center, San Diego, CA," January 08, 2002

- NAVAUDSVC Report No. N2002-0032, "Management of Purchase Cards at Naval Support Activity Washington," February 25, 2002
- NAVAUDSVC Report No. N2002-0051, "Naval Sea Systems Command Commercial Purchase Card Program," May 29, 2002
- NAVAUDSVC Report No. N2002-0070, "Naval Facilities Engineering Command Commercial Purchase Card Program," August 14, 2002
- GAO Report No. GAO-02-32, "Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse," November 30, 2001
- Submissions for FY 2002 Statement of Assurance from the Office of the Assistant Secretary of the Navy (Research, Development and Acquisition), Chief of Naval Operations, Commandant of the Marine Corps, Auditor General of the Navy, and Naval Inspector General

Progress to Date:

The DON has taken the following steps to correct its Purchase Card Program weakness:

- Navy leadership directed commands to review all aspects of their purchase card programs, including certification of training completion and validation of compliance with all internal controls.
- Developed an End-To-End Concept of Operations – documented a detailed process flow by specific functional area to identify areas for improvement.
- Improved Training – New training materials, including new desk guide and Computer-Based Training were developed and made available.
- Established Agency Program Coordinator Qualifications – Since DoD mandated that no Agency Program Coordinator shall have more than 300 card accounts under their purview, the Navy is 99% compliant.
- Strengthened Existing Regulations – Revised program policy instruction to include recommendations from the General Accounting Office (GAO) and the Naval Audit Service. Revised the Naval Supply Instruction 4200.94 (reissued as the DON e-Business Operations Office Instruction).
- Expanded Surveillance/Data Mining – The e-Business Operations Office implemented a data-mining tool and process in June 2002 based on the methodology used by the GAO to detect questionable transactions.
- Established more stringent controls for the oversight and management of the program from major command level to the local activity cardholder. We have set the span of control to be no more than seven cardholders per one approving official and credit limits were reduced.

- Immediate implementation of reporting and control monitoring has reduced the delinquency rate. This was accomplished by monthly spot checks for command accounts, tasking commands to report monthly the status of delinquent cardholders, tasking investigations of questionable charges, and deactivation of travel cards excepting during temporary assigned duty (TAD).

Major Milestones in Corrective Action:

Planned Milestones (FY 2003):

Date:	Milestone:
3/03	Establish Agency Program Coordinator qualifications at 100% compliance.
3/03	Provide desk guides via CD-ROM to the Agency Program Coordinator, Approving Officials and Cardholders via DON Program Office describing their responsibilities and procedures.
3/03	Continue to develop guidelines for Commanders to follow when determining disciplinary actions (currently draft proposal).
3/03	Establish a revised training program (to include computer-based training and video tele-training).
3/03	Offer role-based training for Agency Program Coordinators, Approving Officials and Cardholders via established video tele-training from the Naval Supply School in Athens, GA.
9/03	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization: OPNAV N4

Point of Contact: Capt. John Johnson, CNO, (202) 685-6511, johnson.john2@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2002

Title and Description of Material Weakness: Readiness Reporting. There is inaccurate and inconsistent readiness reporting in several areas such as personnel, training, supplies, equipment, and installations. The noted conditions could adversely affect decisions made especially during wartime missions.

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: N/A – new report

Current Target Date: FY 2003

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: Improvement of controls over these processes would increase the reliability and usefulness of SORTS data used in the decision-making process.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. N2002-0008, "Navy F/A-18 Readiness Reporting," November 15, 2001
- NAVAUDSVC Report No. N2002-0020, "Institutional Training Readiness Reporting" December 21, 2001
- NAVAUDSVC Report No. N2002-0030, "Installation Readiness Reporting," February 20, 2002
- NAVAUDSVC Report No. N2002-0031, "Assault Craft Unit Operations Readiness," November 15, 2001 (For Official Use Only)

- NAVAUDSVC Report No. N2002-0047, "Department of the Navy Status of Resources and Training System," May 8, 2002 (For Official Use Only)
- NAVAUDSVC Report No. N2002-0050, "Marine Corps AV-8B Harrier Readiness Reporting," May 22, 2002
- NAVAUDSVC Report No. N2002-0054, "Marine Corps Equipment Deployment Planning," June 12, 2002
- NAVAUDSVC Report No. N2002-0056, "Marine Corps AH-1W Cobra & UH-1N Huey Reporting," June 19, 2002
- NAVAUDSVC Report No. N2002-0073, "Marine Corps Ground Forces Training," August 26, 2002

Progress to Date:

The DON has taken the following steps to correct its Readiness Reporting weakness:

- Chief of Naval Education and Training (CNET) included a factor when preparing the fiscal year (FY) 2000 Institutional Training Readiness Report (ITRR) for evaluating success in providing the Navy with required occupational specialties prior to assignment of C-ratings and provide narrative comments to support such results.
- Commandant of the Marine Corps (CMC) maintained historical data files to support the calculation of Training Workload readiness ratings included in annual Institutional Training Readiness Reports provided to Congress.
- CMC provided training necessary to ensure that personnel responsible for updating By-Name Assignment data are thoroughly trained with particular emphasis on how to input student deletions and reassignments.
- CMC discontinued use of estimates to compile student enrollment/graduation data to support Training Workload readiness calculations and instead use only actual enrollees/graduates as required to be provided by Marine Corps training institutions.

Major Milestones in Corrective Action:

Planned Milestones (FY 2003):

Date:	Milestone:
3/03	Commander in Chief, U.S. Atlantic Fleet; and Commander in Chief, U.S. Pacific Fleet will revise training and readiness reporting procedures to ensure current training metrics are fully and consistently applied in the assessment of training results,

accurately reported in the automated flight records, and properly reflected in the ratings reported in SORTS.

- 3/03 Commander in Chief, U.S. Atlantic Fleet; and Commander in Chief, U.S. Pacific Fleet will identify training reporting risks and establish controls, including regular independent reviews of training data input into the Navy aviation type commands' automated aviation training record system (SHARP) software and SORTS, which ensure data accuracy and compliance with established measurement and reporting requirements.
- 3/03 Commander in Chief, U.S. Atlantic Fleet; and Commander in Chief, U.S. Pacific Fleet will establish internal control procedures that ensure that squadrons are aware of, and effectively implement, Navy SORTS guidance for determining equipment readiness ratings.
- 3/03 Commander in Chief, U.S. Atlantic Fleet; and Commander in Chief, U.S. Pacific Fleet will revise training and readiness reporting procedures to ensure current training metrics are fully and consistently applied in the assessment of training results, accurately reported in the automated flight records, and properly reflected in the ratings reported in SORTS.
- 3/03 Commander in Chief, U.S. Atlantic Fleet; and Commander in Chief, U.S. Pacific Fleet will identify training reporting risks and establish controls, including regular independent reviews of training data input into the Navy aviation type commands' automated aviation training record system (SHARP) software and SORTS, which ensure data accuracy and compliance with established measurement and reporting requirements.
- 3/03 Commander in Chief, U.S. Atlantic Fleet; and Commander in Chief, U.S. Pacific Fleet will establish internal control procedures that ensure that squadrons are aware of, and effectively implement, Navy SORTS guidance for determining equipment readiness ratings.
- 9/03 CNO and CMC will develop baselines for all essential elements of installation readiness.
- 9/03 CNO and CMC will develop an installation readiness assessment system that considers all infrastructure elements necessary to support and sustain forces in the conduct of their wartime missions.

9/03

Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date:

Milestone:

None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Joseph Condry, CMC, (703) 614-4500, condryrj@hqmc.usmc.mil
Capt. John Johnson, CNO, (202) 685-6511, johnson.john2@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2002

Title and Description of Material Weakness: Security Clearance Backlog (Failure to Eliminate Security Clearance Adjudication Backlog by the End of Fiscal Year (FY) 2002). Although down from a high of 107,000 cases, the backlog of adjudication cases at the Department of the Navy Central Adjudication Facility (DON CAF) remains at more than 60,000. Lack of timely clearance decisions adversely impact retention, assignment, hiring and training for both military and civilian personnel. The backlog prevents the Navy from meeting the Office of the Secretary of Defense (OSD) mandate to complete clearance decisions within thirty days. A wide range of workload, resource and process related issues are negatively impacting the performance of the DON CAF, not all of which are under the control of its headquarters, the Naval Criminal Investigative Service (NCIS).

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: N/A – new

Current Target Date: FY 2003

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: All corrective actions are certified by the responsible command upon completion and reviewed through on-site verification and quality assurance review. Interim Status Reports to the Naval Inspector General (NAVINSGEN) regarding progress on recommended action and the NAVINSGEN one-year follow up inspection are scheduled for February 2003.

Results Indicators: The elimination of the clearance backlog will ensure a return to steady-state process and allow the DON CAF to reach average throughput of thirty (30) days or less.

Source(s) Identifying Weakness:

- NCIS internal management review in July 2000 reported that the Most Efficient Organization Study completed in 1999 had cut the DON CAF to a staffing level that would prevent accomplishment of its mission in accordance with established OSD performance standards
- The December 2001 NCIS Command Self-Assessment, prepared for the NAVINSGEN, reported the current backlog and the inability of the DON CAF to meet current OSD directed standards
- The NAVINSGEN, Command Inspection of the NCIS, dated April 18, 2002, Recommendations 055 through 059-02

Progress to Date:

The DON has taken the following steps to correct its Security Clearance Backlog weakness:

- Increased funding to support hiring and training additional civilian personnel security specialists.
- Established funding for a two-phased contract effort for services from administration and security specialist support.
- Made provision for additional space, information technology (IT) equipment and associated support services to accommodate on-site contractors and new civilian employees.
- Awarded Phase I of the contract (\$4.3 million) on September 6, 2002.
- Brought twenty-two contractors on board as of September 23, 2002.
- Hired twelve new civilians between April 2002 and September 2002.
- Is currently processing thirty-five civilian employee applicants.

Major Milestones in Corrective Action:

Planned Milestones (FY 2003):

Date:	Milestone:
3/03	Award Phase II Contract (\$8.4 million).
9/03	Eliminate clearance backlog by end of FY 2003.
9/03	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date: Milestone:

None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Ms. Cathy Gaines, NCIS, (202) 433-9010

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2002

Title and Description of Material Weakness: Supply Inventory Management. Navy and Marine Corps elements were not effectively reporting and tracking repair parts and were not removing the nonconforming items from inventory. Databases were inaccurate and oversight and communication between entities was lacking.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: TBD

Targeted Correction Date in Last Year's Report: N/A – new report

Current Target Date: N/A

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: TBD

Source(s) Identifying Weakness:

- DoDIG Report No. D-2002-080, "Quality Deficiency Reporting Procedures for Naval Repair Parts," April, 5, 2002

Progress to Date:

The DON has taken the following step to correct its Supply Inventory Management weakness:

- Educating item managers on available means to screen and remove defective material from Navy wholesale and retail stock. Information was first posted to the NAVICP electronic Bulletin Board during the week of August 19, 2002.

Major Milestones in Corrective Action:

Planned Milestones (FY 2003):

Date:	Milestone:
TBD	Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN(RD&A)) direct the Naval Inventory Control Point, Philadelphia, Pennsylvania, to be the centralized activity for management control and oversight functions for the Naval Air Systems Command's quality deficiency reporting program.
TBD	Naval Air Systems Command complete a one-time review to determine whether nonconforming items are still stocked in inventory.
TBD	Commander, Naval Inventory Control Point Mechanicsburg, Pennsylvania, develop and implement a comprehensive followup system to track quantities of nonconforming items.
TBD	Commander, Naval Inventory Control Point Mechanicsburg, Pennsylvania, implement notification procedures and provide appropriate disposition instructions to DoD customers based on procurement quantities of the items.
TBD	Commanding General, Marine Corps Logistics Base develop and implement a comprehensive trend analysis system to identify trends of potentially nonconforming items and establish procedures to screen these items.
TBD	Commanding General, Marine Corps Logistics Base notify the Defense Contract Management Agency of potential contractor-related deficiencies.
TBD	Commanding General, Marine Corps Logistics Base establish procedures to screen nonconforming items, based on information obtained from trend analyses, while contractor warranties for the items are still valid.
TBD	Develop and implement comprehensive quality assurance procedures for all Marine Corps weapon systems.
TBD	Provide the Defense Supply Centers with screening alerts contained in its Defective Material Summary Reports.
TBD	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date: Milestone:

None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Pete Biesada, ASN(RD&A), (703) 693-8824, biesada.pete@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2002

Title and Description of Material Weakness: Government Travel Charge Card. Internal controls over the Department of Defense(DoD) individually billed travel charge card program has been the source of Congressional, General Accounting Office (GAO), and media interest. GAO released their testimony about the Army's travel card program on July 17, 2002. Independently, the Department of the Navy (DON) has focused on reducing delinquencies and misuse within its program. While the government is not responsible for payment of an individual's travel charge card debt, the DON has an obligation to ensure that the use of the travel card is restricted to official travel. Since the beginning of FY 2002, Navy travel card delinquencies have dropped 38 percent and Marine Corps delinquencies have fallen by 37 percent.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: FY 2004

Targeted Correction Date in Last Year's Report: N/A – new report

Current Target Date: FY 2004

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: N/A

Results Indicators: Monthly delinquency reports from travel charge card contractor, DoD and external reviews will ensure effectiveness of the travel charge card program.

Source(s) Identifying Weakness:

- GAO and the Naval Audit Service are currently reviewing the DON travel card program.

- Submissions for FY 2002 Statement of Assurance from the Office of the Assistant Secretary of the Navy (Research, Development and Acquisition), Chief of Naval Operations, Commandant of the Marine Corps, Auditor General of the Navy, and Naval Inspector General

Progress to Date:

Delinquencies continue to be the main issue for the individually billed account card program, not only within the DON, but also for the DoD as well. During fiscal year (FY) 2002, the DON took significant corrective actions to reduce delinquencies and strengthen the travel card program.

- In April 2002, the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller (OASN(FM&C))) challenged all DON commands to adhere to a delinquency metric of no more than 4.0 percent of the total dollars outstanding being more than 60 days past the billing date.
- OASN(FM&C) indicated that DON commands exceeding this metric were required to implement additional remedial actions to include deactivating all travel card accounts until 10 days prior to travel, conducting spot checks for inappropriate activity of at least 25% of the command's active accounts, and increasing spot checks to 50% of active accounts if a pattern of misuse is discovered.
- As part of this effort, senior leadership of the commands failing to meet the 4.0% delinquency metric are required to brief the OASN(FM&C) on what actions they are taking to reduce delinquencies to meet the goal.
- Also in April 2002, the OASN(FM&C) sent letters to every Navy and Marine Corps cardholder who was 60 or more days delinquent, urged them to take action to resolve their outstanding balances, and reminded them of the consequences of continued delinquency.
- The OASN(FM&C) announced policy changes governing the use of the travel card. The changes will assist all major commands in better managing their travel card programs. New policies include (1) advising cardholders not to use the travel card for expenses incurred during permanent change of station moves, (2) using the purchase card instead of the travel card for training expenses and conference fees, especially when such fees must be paid in advance, and (3) including the Agency Program Coordinator as part of the check-in and checkout process for members and civilian employees and to deactivate all travel cards of departing personnel.
- After concerns were raised with the Merchant Category Codes (MCCs) through ongoing GAO reviews of the DON travel card program, the OASN(FM&C) requested the DoD Travel Card Program Manager obtain information from the card contractor as to how transactions are being processed on travel cards with merchants that have been blocked for use within the DoD travel card program. Also requested were a review of MCCs that appear to be improperly classified and an implementation of a plan to eliminate improper classifications of MCCs in the future.
- During a recent congressional hearing on the Government Travel Charge Card Program, the GAO described situations where military members visited establishments and surrendered their military identification card and government travel card to obtain credit or services. The OASN(FM&C) notified the Chief of Naval Operations and the Commandant of the Marine

Corps of the potential of identity theft and recommended all members be notified of the dangers of surrendering their military identification card for inappropriate or unauthorized purposes.

- The OASN(FM&C) requested and received authority to expand the definition of an infrequent traveler within the DON to one who travels four or less times per year. Current DoD regulations exempt an infrequent traveler, defined as one who travels two or less times per year, from mandatory use of the travel card. This change will give Commanding Officers and supervisors more discretion in determining which of their subordinates should have a travel card. This change is only authorized within selected commands.
- The recent DoD Charge Card Task Force recommended an evaluation be conducted at selected locations to determine if process improvements would speed reimbursements to DoD travelers. This is an important issue that may be having an impact on delinquency in the government travel charge card program.
- The OASN(FM&C) requested the Naval Audit Service review the DON's end-to-end travel process to determine if the desired program performance is being achieved and make recommendations to improve accountability and efficiency. In addition, as recommended by the task force, cards that are not used by DON cardholders during a 12-month period are being cancelled.

Major Milestones in Corrective Action:

Planned Milestones (FY 2003):

Date:	Milestone:
3/03	Semi-annual reviews will be conducted for card usage, with accounts being closed when they have not been used in the previous 12 months.
9/03	Each month, commands not meeting the DON delinquency metric will report on their corrective actions.
9/03	Quarterly, the OASN(FM&C) will meet with major commands not meeting the metric.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
9/04	Each month, commands not meeting the DON delinquency metric will report on their corrective actions.
9/04	Quarterly, the OASN(FM&C) will meet with major commands not meeting the metric.

9/04

Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. David McDermott, ASN(FM&C), (202) 685-6719,
mcdermott.david@fmo.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2000

Title and Description of Material Weakness: Hazardous Material Management. A total life cycle cost estimate to establish total ownership cost objectives and threshold to include environmental costs, as it relates to hazardous material management of Nimitz-Class carriers, was not developed. Without a total life-cycle cost estimate, the Aircraft Carrier Program Office cannot accurately baseline the Nimitz-Class program costs to establish a total ownership cost objective and threshold as part of the Navy's long-term cost reduction initiative. The Program Office also had not developed a programmatic environmental, safety, and health evaluation that included a strategy for meeting environmental, safety, and health requirements; environmental responsibilities; and identified a methodology to track progress throughout the acquisition life-cycle of the Nimitz-Class Program. Without the evaluation, the Program Office cannot ensure that it is aware of the impact of environmental, safety, and health issues on mission and cost and may also be foregoing opportunities to further reduce environmental life-cycle costs over the life span of the Nimitz-Class Program.

Functional Category: Major Systems Acquisition

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: FY 2003

Current Target Date: FY 2003

Reason For Change in Date(s): Program Office efforts were integrated into a Command Research & Development initiative to develop a Navy Environmental Management System (NEMS) for all ships. The NEMS effort ceased in FY 2001. New funding sources are being sought to complete for Nimitz-Class carriers. The Program Office is working with SEA 05L, the corporate manager of all environment matters, to resolve and support the programming of this effort.

The initial environmental management plan (EMP), developed in conjunction with Naval Sea Systems Command (NAVSEA) 05M and Naval Surface Warfare Center, Carderock Division (NSWCCD), has been delivered to the Program Office (PEO Carriers, PMS 312). The Program Office is now in the process of validating the plan and ensuring that all stakeholder, including CNAL, CNAP, CNAF, PMS 378, Puget Sound Naval Shipyard, Norfolk Naval Shipyard,

SUPSHIP Newport News, and Naval Reactors (SEA 08) are in concurrence with the plan and all of its requirements.

The current timeline to complete the socialization and concurrence of the EMP will result in delivery of the final version to NAVSEA 00N on 15 November 2002.

Component/Appropriation/Account Number: Various, i.e., SCN (1611)
Budget information could not be determined.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: The Program Office will be able to accurately report the liability for demilitarization, disposal, and environmental cleanup costs in the Navy's financial statements when DoD guidance for reporting those costs becomes available.

Source(s) Identifying Weakness:

- DoDIG Report No. D-2000-022, "Hazardous Material Management for the Nimitz-Class Nuclear Aircraft Carrier Program.," October 27, 1999

Progress to Date:

- See above "Reason for Change in Date"

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
3/03	Prepare a Nimitz-Class Nuclear Aircraft Carrier Program environmental management plan that addresses the strategy for meeting environmental safety, and health requirements; identifies demilitarization and disposal requirements; establishes program environmental responsibilities; and identifies a methodology to track progress for the remainder of the program's life cycle to include ship alterations and overhauls.
9/03	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Pete Biesada, ASN(RD&A), (703) 693-8824, biesada.pete@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1999

Title and Description of Material Weakness: Instructor Requirements and Student Input Planning (Office of the Secretary of Defense (OSD) case #99-007). Department of the Navy (DON) training activities did not consistently support courses with valid, documented fleet or type command requirements. This resulted in inefficient use of training resources adversely impacting unit readiness by unnecessarily taking personnel away from their assigned duties. DON did not have an adequate basis for projected training loads to meet mission requirements causing inefficient use of training resources and lost operational work-years. There was an absence of a defined process and a lack of accountability to develop and revise student input plans. Also, the lack of an audit trail for student input plans resulted in unreliable forecasting of funding requirements. The number of DON instructor billets authorized exceeded requirements and was based on outdated information, contrary to DON policy.

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2005

Targeted Correction Date in Last Year's Report: FY 2005

Current Target Date: FY 2005 (Marine Corps)

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: Various, i.e., MPMC (171105), OMMC (171106), MPN (171453), OMN (171804)

The cost of implementing the following Marine Corps milestones is incorporated in the overhead expenses of the program and is considered a sunk cost.

Validation Process: All corrective milestones action(s) are certified by the responsible command upon completion and reviewed through on-site verifications, subsequent audits, inspections, quality assurance reviews, and/or management control evaluations.

Results Indicators: The Marine Corps will authorize the number of instructor billets needed to meet its educational requirements.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. 020-99, "Reliability of Information Used for Student Input Planning for Initial and Advanced Skills Training," January 8, 1999
- NAVAUDSVC Report No. 033-99, "Requirements and Student Input Planning for 'F' School Courses," April 16, 1999
- NAVAUDSVC Report No. 052-99, "Marine Corps Instructor Requirements," September 3, 1999

Progress to Date:

The DON has taken the following steps to correct its Instructor Requirements and Student Input Planning weakness:

- Designated an accountable official to validate and approve changes to training requirements and student input plans.
- Developed, documented, and implemented standard procedures for determining (a) formal training requirements and (b) student input plans.
- Verification: A Bureau of Naval Personnel Inspector General on-site review was accomplished to validate the implementation of the corrective actions for the above milestones on (1) designating an accountable official and (2) implementing standard procedures for training requirements.
- The Marine Corps Automated Instructional Management System (MCAIMS) used in resubmitting programs of instruction (POI) for existing courses has automated the POIs.

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
9/04	Using the Training Development System (TDS) methodology, the Marine Corps will modernize the nature of Marine Corps training by developing more effective and efficient delivery techniques using technology, traditional instruction, and practical application.

9/05

Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Joseph Condry, CMC, (703) 614-4500, condryrj@hqmc.usmc.mil
Capt. John Johnson, CNO, (202) 685-6511, johnson.john2@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2000

Title and Description of Material Weakness: Independent Logistics Assessment (ILA) Process. The Navy did not effectively implement the ILA process. Specifically, Program Executive Offices (PEOs) and Systems Commands (SYSCOMs) did not perform a significant number of ILAs, and did not always disclose results or the basis of logistics certifications to Milestone Decision Authorities. Ambiguous language and vague references in the policy documents did not support effective implementation and implied that performing ILAs was optional. This adversely impacted the Assistant Secretary of the Navy's (Research, Development and Acquisition) (ASN(RD&A)) strategic goals of improving business processes and improving warfighter satisfaction.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: FY 2001

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2003

Reason For Change in Date(s): Due to the reduction in logistics personnel and the subsequent changes in ILA methods, the establishment of Integrated Process Team (IPT) was critical. The IPT is a collaborative process between the Naval acquisition and logistics communities, including the Chief of Naval Operations (CNO), Secretariat, Program Executive Offices, and Systems Commands; and the new process will serve acquisition decision authorities, Program Managers, and their advisors with competent, independent evaluations of logistics.

The required changes to acquisition policy have been addressed in the draft Secretary of the Navy Instruction (SECNAVINST) 5000.2c; specifically, in section 7.3.1(5), which has been routed for signature. However, Department of Defense (DoD) is in the process of canceling the 5000.1, 5000.2 and 5000.2R. Their plan is for the 5000.1 and 5000.2 to be reissued 120 days after cancellation with significantly less detail. The 5000.2R or a version of the regulation will become a guidebook. Since the SECNAV 5000.2C actually augments all three of these instruction/regulations in Department of the Navy (DON), its approval is contingent upon the reissuance of the DoD instructions.

Component/Appropriation/Account Number: Various

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: Overall, the number of ILA's performed would be accurate, and the results or the basis of the logistics certification would be disclosed to the appropriate parties for making informed decisions.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. N2000-0027, "Independent Logistics Assessment Process," June 27, 2000

Progress to Date:

- See above "Reason for Change in Date"

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
9/03	Revise Navy acquisition policy to clearly state: (a) whether or not performing independent assessments of logistics is a requirement, and is the basis for logistics certification; (b) the desired outcome of the ILA process; and (c) whether or not use of a CNO-validated assessment process (ILA implementation procedures) is required.
9/03	Revise ILA policy to: (a) clearly articulate the ASN (RD&A)-desired outcome of the ILA process; (b) clarify that the full scope of individual PEO or SYSCOM implementation procedures should include overall management of ILAs and all associated responsibilities; (c) clearly define submission of PEO and SYSCOM individual ILA implementation procedures to the Deputy Chief of Naval Operations (DCNO) (N432) for validation; and (d) provide guidelines for PEO or SYSCOM development and implementation of a more timely and effective supportability review and decision opportunity prior to initial operational capability (IOC).
9/03	Revise SECNAVINST 4105.1, which addresses ILAs in detail, to provide additional guidance to SYSCOMS, PEOs and Program Managers.
9/03	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date: Milestone:

None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Pete Biesada, ASN(RD&A), (703) 693-8824, biesada.pete@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

Title and Description of Material Weakness: Requirements Determination (Office of the Secretary of Defense (OSD) case #93-061). The Department of the Navy (DON) has identified deficiencies in the area of requirements determination for equipment, supplies, materials, training, and systems acquisition. In many instances the requirements are overstated, understated, not realistic, inadequately supported or invalid, resulting in unnecessary purchases and hindering fleet readiness due to a lack of material to meet requirements. In numerous cases, requirements at individual DON activities were reviewed, found overstated, and corrected.

[The following is a prior year DON weakness that has been consolidated with OSD #93-061 under the systemic area: "Requirements Determination." Actions based on it are completed.]

OSD CASE #91-024: Requirements Determination for Aircraft Acquisitions. Inadequate controls prevented the DON from using the best available data and techniques to develop accurate acquisition estimates. Consequently, procurement and flight hour requirements were overstated for several aircraft, including advance capability and training aircraft.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995 (CNO), FY 2001 (Marine Corps)

Targeted Correction Date in Last Year's Report: FY 2004 (CNO), FY 2002 (Marine Corps)

Current Target Date: FY 2004 (CNO), FY 2003 (Marine Corps)

Reason For Change in Date(s): Marine Corps Order 3900.15A is in for CMC signature and should be signed and published by December 31, 2002.

Component/Appropriation/Account Number: NWCF (17X4930), OPN (171810), OMN (171804), APN (171506), SCN (171611), MCN (171205), PMC (171109)

The cost of implementing the following Marine Corps milestones is incorporated in the overhead expenses of the program and is considered a sunk cost.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: Better control of the requirements process will result in cancellation of excess requirements and may achieve a potential cost avoidance of \$2.3 billion. In addition, the Marine Corps will publish an Expeditionary Force Development (EFD) Order and could potentially have funds put to better use.

Source(s) Identifying Weakness [for OSD Case #93-061 and #91-024]:

There were no new sources identified during FY 2002. See Appendix A for sources identified in prior years.

Progress to Date:

The DON has taken the following steps to correct its Requirements Determination weakness:

- Establish a plan to ensure that a coordinated effort exists within the Marine Corps to guard against excess field inventory and to facilitate replacement of obsolete equipment [for OSD Case #93-061].
- Developed procedures and processes for DON program managers to notify the Inventory Control Points (ICPs) of all items affected by weapon system modification and to provide current and accurate information for the ICPs to use in forecasting changes in requirements for those items. (CNO)

Major Milestones:

Planned Milestones (FY 2003) [for OSD Case #93-061]:

Date:	Milestone:
3/03	Revise Marine Corps Order (MCO) 3900.4D to require maintaining requirements documents for use as source documents for all programs. The Marine Corps is in the process of developing the Combat Development Tracking System database to store and catalog requirement documents for all programs.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
9/03	Validation of implementation of the corrective milestones will be accomplished by Marine Corps through an on-site verification.
9/03	System Design Change Requirements. Enhancements are currently planned to expand NAVICP's capability to process DCNs through the Interactive Computer-Aided Provisioning System (ICAPS) (MIL-PRF-49506, MIL-STD 1388 and 1552 formats) and incorporate Interchangeability and Substitutability relationships (I&S) functionality.

NAVSEA 04, the Navy owner of ICAPS is estimating cost and schedule. Completion dates and milestones are expected by September 2002. Based on current information, NAVSUP is estimating completion of this milestone by September 2003.

9/04 Verification: All corrective actions will be certified by the responsible component(s) through command inspections, audits, and quality assurance reviews.

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Joseph Condry, CMC, (703) 614-4500, condryrj@hqmc.usmc.mil
Capt. John Johnson, CNO, (202) 685-6511, johnson.john2@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1998

Title and Description of Material Weakness: Excess Material and Unrecorded Inventories (Office of the Secretary of Defense (OSD) case #93-062). Department of Navy (DON) activities did not exercise necessary oversight to ensure the implementation and monitoring of subordinate commands' controls over Government furnished material held at contractor sites, including interim supply support contractors, resulting in the DON maintaining excess material, incurring unnecessary storage costs and not fully realizing cash value from disposal of excess material.

DON activities did not screen Navy Working Capital Fund (NWCF) material on receipt or purge uneconomical-to-retain and unserviceable stock excesses. Many DON activities carried excess NWCF inventory and had unrecorded NWCF inventory. Inventories of materials were not recorded on official inventory records, and more shop store material was issued than needed.

Some activities were ordering unneeded materials and were not returning unused material to the supply system; still others were ordering standard stock materials from an alternate source without canceling prior orders.

OSD CASE #90-020: Material at Commercial Repair Facilities. The scope of this material weakness was expanded during fiscal year (FY) 1991. Identified deficiencies included excess on-hand material at Commercial Repair Facilities that could have been used by other services/activities.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1998 (FY 1990 for #90-020)

Original Targeted Correction Date: FY 2001 (FY 1992 for #90-020)

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2004

Reason For Change in Date(s): The Naval Air Systems Command (NAVAIR) is actively partnering with the Naval Supply Systems Command (NAVSUP) to make all NAVAIR Sponsor Owned Material (SOM) visible to NAVSUP and Department of Defense (DoD). During January of 2001, AIR-3.0, chartered the NAVAIR Total Asset Visibility (TAV) Working Group. The Working Group was tasked with drafting NAVAIR policy on SOM and TAV. This group consists of personnel from NAVAIR Headquarters, Naval Air Warfare Centers, Aircraft and Weapons Division, and NAVSUP. The draft instruction, which will require all

NAVAIR SOM to be managed and visible through a common inventory management system, is in the review cycle. The Identification of SOM is an ongoing project and NAVAIR anticipates completion by FY 2004.

Component/Appropriation/Account Number: NWCF (17X4930), APN (171506), OMN (171804)

The NAVAIR TAV Program is not a definitive budget line item, but is resourced from various, chargeable sources. No funds are being applied to correct this deficiency pertaining to OSD Case #93-062.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: Unreported non- NWCF “sponsor” standard stock material, excess non- NWCF aeronautical change kits inventory, and excess NWCF inventory will be identified and used to satisfy other buy or repair requirements, to satisfy Defense Logistics Agency (DLA) supply system buy, repair or demand requirements, to reduce inventory carrying costs, and to prevent unnecessary procurements. By returning excess material to the supply system, funds will be put to better use.

Results indicators are being developed and will be used to determine benefits derived from the corrective action. Specific results indicators include:

Material Reutilization

- Return on Investment (ROI)= $\frac{\text{Material Reutilization}}{\text{Program Cost}}$

FY 2001 ROI = \$1:\$6.4

- Number and Dollar Value of Fleet Issues: Approx. \$70M/FY02 issued to date
- Number and Dollar Value of High Priority Issues: Approx. \$59M issued to date

Source(s) Identifying Weakness [for OSD Case #93-062]:

There were no new sources identified during FY 2002. See Appendix A for sources identified in prior years.

Source(s) Identifying Weakness [for OSD Case #93-020]:

There were no new sources identified during FY 2002. See Appendix A for sources identified in prior years.

Progress to Date:

The DON has taken the following steps to correct its Excess Material and Unrecorded Inventories weakness:

- Revised Naval Aviation Supply Office Instruction 4440.88 that implements the Inventory Accuracy Officer Program to conform with Naval Supply Systems Command (NAVSUP) Instruction 4440.177 and specifically include direction to: 1) provide the Inventory Accuracy Officer with the authority to extend across directorate lines and encompass all aspects of the organization whose work affects the accuracy of inventory records and 2) require the weapons managers and contracting officers to notify the Inventory Accuracy Department of situations that will prevent the normal updating of the inventory records. [for OSD CASE #93-062]
- OSD Case #90-020 is complete.

Major Milestones:

Planned Milestones (FY 2003) [for OSD Case #93-062]:

Date:	Milestone:
3/03	Issue SOM Policy Instruction
3/03	Develop stocking objective for SOM

Planned Milestones (Beyond FY 2003) [for OSD Case #93-062]:

Date:	Milestone:
3/04	Complete inventory of NAVAIR SOM
3/04	Ongoing NAVAIR/NAVSUP partnership with SOM visibility via RRAM Inventory Management System
3/04	Complete identification of SOM
3/04	Verification: All corrective actions will be certified by the responsible component(s) through command inspections and quality assurance reviews and audits

Status of Participating Functional Office/Organization: N/A

Point of Contact: Capt. John Johnson, CNO, (202) 685-6511, johnson.john2@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2001

Title and Description of Material Weakness: Information Assurance. The Department of the Navy Chief Information Officer (DON CIO) is responsible for Information Assurance (IA) within the Department. DON CIO has focused its efforts on IA policy, strategy, and tools. The new IA policy will require all members of the Department to undergo annual user training, with a concentration on Internet security risks and practices. The Department will continue to test the effectiveness of its IA policies and guidance through regular audits incorporating Government Information Security Reform Act (GISRA) requirements, vulnerability assessments, online surveys, and red teaming. The IA policy, Secretary of the Navy Instruction (SECNAVINST) 5239.3B, is ready for final submission for signature. In addition, DON CIO is in the final stage of approving a GISRA Action Plan, which will include specific metrics for measuring status and progress in appropriate IA categories.

There are approximately 1,000 mission critical and mission essential information technology (IT) systems in the DON IT Registry. A sampling of these systems taken for the Department of Defense (DOD) FY 2001 GISRA Report indicated that 44 percent of these systems had been certified and accredited or were operating under a current interim authority to operate (IATO) in accordance with DoD Instruction 5200.40, "DoD Information Technology Security Certification and Accreditation Process" (DITSCAP). The FY 2002 GISRA sample of systems reported in the FY 2001 Report indicated that 62% were either fully certified and accredited or are operating under a current IATO.

The Year 2000 (Y2K) renovation of mission-critical and mission essential systems was for the most part accomplished by long-term contractors of the various DON organizations. However, at that time the DON did not specifically assess the risk associated with contractor support during those renovations. In addition, even though the Y2K renovated systems were subjected to an independent validation and verification (IV&V) process to check for Y2K remediation, not all of these systems have been reaccredited after renovation in accordance with DITSCAP. Since that time, over 83 percent of the systems have been accredited or terminated.

A Naval Audit Service review of the DON FY 2001 GISRA Report indicated inaccuracies in statistics reported to the Office of the Secretary of Defense (OSD).

Functional Category: Information Technology

Pace of Corrective Action

Year Identified: FY 2001

Original Targeted Correction Date: FY 2004

Targeted Correction Date in Last Year's Report: FY 2004

Current Target Date: FY 2004

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: (\$000s)

Title	Appropriation(s)	FY 2002	FY 2003	FY 2004	Total
See below	See below	\$208,224	\$142,280	\$176,380	\$724,827

The figures shown are taken from the FY02 President's Budget for Information Assurance. They do not provide for central funding of certifying systems. They include all appropriations.

Validation Process: All corrective actions are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control reviews. The vast majority of systems and applications under consideration are the responsibility of the developing systems command.

Results Indicators:

- DON GISRA Action Plan implemented, including following GISRA requirements:
 - Services update DON IT Registry quarterly.
 - DON CIO establish IA Training requirement and Services implement.
 - DON CIO coordinate with Naval Audit Service for annual assessments of information security programs, and with the Navy and Marine Corps for risk assessments, tests, and evaluations.
 - Services carry out processes for detection, notification, and remedial action for significant deficiencies and security incidents.
 - Services develop plans for independent testing of intrusion detection systems.
- DON CIO, Navy, and Marine Corps review quarterly the DON IT Registry for system accreditation status.

Source(s) Identifying Weakness:

- DODIG Report No. D-2001-016, "Security Controls Over Contractor Support For Year 2000 Renovation," December 12, 2000
- DODIG Report D-2001-182, "Information Assurance Challenges – A Summary of Results Reported April 1, 2000, through August 22, 2001," September 19, 2001
- DODIG Report No. D-2001-184, "FY 2001 DOD Information Security Status for Government Information Security Reform," September 19, 2001
- DODIG Report No. 1999-069, "Summary of Audit Results--DoD Information Assurance Challenges," January 22, 1999

- GAO Final Report, GAO/AIMD-99-107, “DoD Information Security: Serious Weaknesses Continue to Place Defense Operations at Risk”
- Naval Audit Service Draft Audit Report “Department of the Navy’s Implementation of Government Information Security Reform Act for FY 2001”

Progress to Date:

The DON has taken the following steps to correct its Information Assurance weakness:

- DON CIO updated SECNAVINST 5239.3, “Information Assurance Policy,” and distributed for review and chop.
- DON CIO submitted FY 2001 GISRA Report to Office of the Secretary of Defense Command, Control, Communication, and Intelligence (OSD(C3I)).
- DON CIO and Services put IA into practice in the Navy/Marine Corps Intranet (NMCI). NMCI positively contributes to enhanced IA throughout the DON in several ways. NMCI incorporates a boundary layer approach, limiting access points to external networks. This enterprise-wide uniformity is facilitating the use of common security tools such as firewalls, providing enhanced network monitoring/intrusion detection. Finally, NMCI is providing DON access to the DoD public key infrastructure (PKI) via the new smart card-based Common Access Card (CAC).
- DON CIO submitted FY 2002 GISRA Report to OSD(C3I).
- DON CIO, Army, and Air Force recommended to OSD(C3I) that the FY 2002 GISRA Report input for system certification and accreditation be taken from the IT Registry rather than from a specialized data collection matrix, in order to avoid errors in completing the data due to misunderstanding the matrix. OSD accepted and implemented the recommendation.
- DON CIO and Services conducted an assessment of the quality and accuracy of the FY 2002 GISRA Report input.

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
	None

Planned Milestones (Beyond 2003):

Date:	Milestone:
Continuing	Services accredit or reaccredit DON mission critical and mission essential systems and applications in accordance with approved certification and accreditation requirements.
3/03	DON CIO incorporate comments and recommendations into SECNAVINST 5239.3B and issue revised instruction.
3/03	DON CIO issue GISRA Action Plan, in coordination with Navy and Marine Corps, and institute program to implement the plan.
9/03	Services complete issuance of Common Access Cards (CAC) with PKI certificates to all DON personnel.
9/03	DON CIO and Services require implementation of PKI to digitally sign e-mail and provide access to secure web sites.
9/03	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Status of Participating Functional Office/Organization:

Chief of Naval Operations (N6)	Assured
Commandant of the Marine Corps (C4)	Assured

Point of Contact: Mr. Carl Day, DON CIO, 703-602-6921

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2001

Title and Description of Material Weakness: Military Personnel Recruiting. The Department of the Navy (DON) must properly and efficiently manage its active and reserve recruiting functions to maintain a ready force. The DON established an accession plan that allowed for recruitment of reserve personnel up to 125 percent of funded reserve billet requirements; this could potentially result in recruitment of reserve personnel in ratings where they are not required. The Navy's fiscal year (FY) 2001 active recruiting plan limited summer recruit training to fewer individuals than could actually be accommodated by the Recruit Training Command facilities; this forces the Navy to attempt to obtain and train a larger portion of its annual active recruit requirement during the non-summer months. For the period June 2000 through February 2001, in which over 40,000 new active recruits were processed, an average documentation error rate of nearly 23% was noted for recruiting process-related contract errors and other administrative action errors; this resulted in an inefficient active recruiting process, including incomplete physical examinations, missing waivers, and incorrect job classifications.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: FY 2003

Current Target Date: FY 2003

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: All corrective action(s) are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control reviews.

Results Indicators: Navy will more likely be able to achieve its fiscal year enlisted recruiting goals, thereby satisfying its mandate of recruiting and training the number of sailors needed to sustain the force and maintain readiness. The error rates detected at Personnel Support Detachment (PSD), Recruit Training Center (RTC), will decline to within a ten percent range.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. N2001-0003, “Naval Reserve Recruiting Functions,” October 30, 2000
- NAVAUDSVC Report No. N2001-0007, “Increasing Navy’s Likelihood of Achieving Fiscal Year 2001 Recruiting Goals,” December 18, 2000
- Bureau of Naval Personnel (BUPERS) Inspection of the Navy Recruiting Command

Progress to Date:

The DON has taken the following steps to correct its Military Personnel Recruiting weakness:

- Provided Commander, Naval Reserve Force (CNRF) a documented list, by rate, of reserve billet reservation not attainable.
- Reduced overall FY 2001 active recruiting goals to achieve desired end strength, while balancing fleet readiness requirements with RTC capacity constraints and the availability of recruits to ship to RTC.
- Periodically reviewed training capacity at the RTC to ensure active recruiting objectives will not be negatively affected by a lack of summer capacity.
- Ensured a monthly Quality Assurance Feedback Report is provided by PSD RTC to Navy Recruiting Command (Code 011), Military Entrance Processing Command (MEPCOM), and Chief of Naval Operations (CNO) (N132E). (Status: PSD RTC provides monthly reclassification and error reports to CNO (N13) and CNRC who liaison with MEPS/MEPCOM. Action is considered complete.)
- Ensured Recruiting Districts are provided quality assurance feedback reports for supervisor on-the-job training of recruiters, classifiers, and processing personnel; and that Navy Recruiting Orientation Unit is provided the feedback for schoolhouse training to recruiters, classifiers, and recruiter management. (Status: CNRC (N7), through Navy Orientation Recruiting Unit (NORU) school-house training and field training, is reinforcing the actions required to improve quality assurance. Monthly Contract Error Reports are currently being analyzed for trends and distributed to CNRC Headquarters and field commands for use in training. Action is considered complete.)

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
9/03	Establish a working group (or use the current Selection and Classification Working Group) that includes representatives from Navy Recruiting Command (Codes 001 and 30), MEPCOM, PSD RTC, and other pertinent offices to codify active recruiting process procedures and authority of involved offices so recruiter and classifier errors in applications/contracts can be corrected or waived in a timely and effective manner.
9/03	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Capt. John Johnson, CNO, (202) 685-6511, johnson.john2@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2001

Title of New Weakness and Description of Weakness: General/Flag Officer Quarters (GFOQ). The Navy did not fully implement its management controls over recording of GFOQ operations and maintenance costs. Housing personnel improperly charged operations and maintenance costs and supporting documentation was not available to justify costs recorded. As a result, the Navy's accounting for GFOQ costs was unreliable and reports to the Congress and the Office of the Secretary of Defense (OSD) were inaccurate.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2002

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2003

Reason for Change in Date(s): Delay in functional assessment of Family Housing management to propose alternative methods of managing Family Housing, Navy (FH,N) funds and issuance of Family Housing Funding Management Review Group report on Family Housing budget policy, preparation, and execution and management issues.

Component/Appropriation/Account Number: No additional costs have been budgeted to implement the cost tracking system to correct this weakness.

Validation Process: All corrective action(s) are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control reviews.

Results Indicator: The installation of an improved GFOQ annual cost tracking system to identify by Budget Project specific costs for the annual operations and maintenance for individual flag homes. A detailed format has been developed and has been presented to members of the Flag Quarters Installation/Major Claimant working group for review and comment. The initial submission of this cost report format were expected in January 2002 covering the FY 2002 first quarter costs for the Navy's flag homes.

Source(s) Identifying Weakness:

- DoDIG Report No. D-2001-027, "Navy Management Controls over General and Flag Officer Quarters Costs," December 26, 2000.
- DoDIG Report No. D-2000-071, "Maintenance and Repair of DoD General and Flag Officer Quarters," January 27, 2000.

Progress to Date:

The DON has taken the following steps to correct its GFOQ weakness:

- Chartered the Family Housing Funding Management Review Group review Family Housing budget policy, preparation, and execution, as well as, key stages in the project approval process, to determine if Family Housing management issues including violations of the Antideficiency Act (ADA) were caused by systemic problems or because internal controls were not followed.
- Initiated actions to investigate potential statutory, regulatory or administrative violations for selected GFOQs.
- Performed a comprehensive review of operations and maintenance costs for all GFOQs for FY 2000 and for selected GFOQs for FYs 1998 and 1999, to ensure that costs were incurred as authorized, classified correctly, completely captured, recorded accurately, and sufficiently documented.
- Ensured that GFOQ costs have been corrected for FYs 1998 and 1999, and congressional reporting of GFOQ costs are updated to reflect accounting error corrections.
- Required periodic evaluations of the effectiveness of GFOQ housing management controls to ensure compliance with applicable laws and regulations.
- Required all Navy housing offices to submit detailed GFOQ cost reports on a quarterly bases. Review costs for accuracy and compliance with budget limitations.
- Initiated a complete review of all grounds maintenance costs to ensure that costs are charged to the GFOQ occupant unless a waiver has been granted and comply with current Navy guidance on grounds maintenance.
- Completed Chief of Naval Operations (CNO) (N-46) comprehensive review of all Flag and General Officer quarters (F&GOQs) grounds maintenance waiver requests.
- Naval Facilities Engineering Command issued guidance to all Navy housing offices providing revised detailed GFOQ cost report formats for the quarterly execution reports. Will allow more detailed review of costs for accuracy and compliance with budget limitations.

- Issued Family Housing Funding Management Review Group report on Family Housing budget policy, preparation, and execution and management issues.

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
3/03	Complete a functional assessment of Family Housing management to propose alternative methods of managing FH,N funds. The scope of work for the functional assessment includes all personnel involved in the Family Housing program including positions located within the Naval Facilities Engineering Command, Major Claimants, Regions and the Engineering Field Divisions
3/03	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization:

Chief of Naval Operations (Logistics) (N-46) (I)	Assured
Commander, Naval Facilities Engineering Command	
Director of Housing (I)	Assured
Office of Budget (I)	Assured

Points of Contact:

Mr. Steve Keating, ASN(I&E), 703-588-6609, keating.steve@hq.navy.mil
 Ms. Suzanne Gonzales, CNO, 703-601-1632
 CAPT Thomas Liedke, Commander, Naval Facilities Engineering Command, 202-685-9333
 Mr. Lynn Jewett, ASN(FM&C) FMB-53, 703-693-6588

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993/1997

Title and Description of Material Weakness: Accuracy of Financial Statements (Department of the Navy (DON) General Fund (GF) and Navy Working Capital Fund (NWCF) Financial Statements). For the DON GF, the lack of an integrated transaction-driven general ledger accounting system has contributed to this material weakness. Balances could not always be reconciled to detailed accounting records due to poor general ledger controls and lack of sufficient audit trails. For the NWCF, numerous weaknesses relate to recording of selected assets and liabilities, verifying the existence of and continued need for assets, reconciling records, and timely disposing of excess assets, including writing the related write off. In summary the management control weakness consists of inconsistent, financial management practices, implementation of guidance and accounting standards, data calls, deployment of accounting systems, intragovernmental eliminations, and selected account balances that inhibits the presentation of the DON GF and NWCF financial statements.

The DON financial management community fully compliments and supports the Department of Defense Financial Management Enterprise Architecture (FMEA) and the Financial Management Modernization Program undertaken by the Under Secretary of Defense (Comptroller) (USD(C)). A goal of this effort is to provide managers useful, accurate, consistent, and timely financial information to enhance decision making throughout all phases of the business lifecycle. As the FMEA is defined, additional milestones will be added to this material weakness.

Functional Category: Comptroller and Resource Management

Pace of Corrective Action:

Year Identified: FY 1993/97

Original Targeted Correction Date: FY 1998

Targeted Correction Date in Last Year's Report: TBD

Current Target Date: TBD

Reason For Change in Date(s): Consolidated the DON GF and NWCF material weaknesses to align with the DoD FMEA and associated initiatives.

Component/Appropriation/Account Number: Treasury Index 17 and NWCF (97X4930)

Budgeted resource requirements are dependent upon the outcome of the FMEA and will be identified at a later date.

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through on-site verification, subsequent audits, inspections, quality assurance reviews, and management reviews.

Results Indicators: Successful achievement of the corrective actions for this material weakness will be demonstrated through an unqualified audit opinion on the financial statements.

Source(s) Identifying Weakness:

New sources identified in FY 2002 were:

- NAVAUDSVC Report No. N2002-0028, "Fiscal Years 2001 and 2000 Department of the Navy General Fund Financial Statements", February 13, 2002
- NAVAUDSVC Report No. N2002-0029, "Fiscal Years 2001 and 2000 Department of the Navy Working Capital Fund Financial Statements", February 13, 2002
- NAVAUDSVC Report No. N2002-0035, "Fiscal Year 2000 National Defense Property, Plant, and Equipment Deferred Maintenance," March 13, 2002
- NAVAUDSVC Report No. N2002-0036, "Marine Corps Implementation of the Defense Property Accountability System," March 13, 2002
- DoDIG Report No. D-2002-045, "Abnormal Balances for the Navy Working Capital Fund", January 30, 2002

See Appendix A for sources identified in prior years.

Progress to Date:

The DON has taken the following steps to correct its Accuracy of Financial Statements weakness:

- Developed guidance that will define the procedures and set a timeline for commands to follow to close the financial books for activities that have been previously operationally closed.
- Identified all remaining financial record balances and the actions needed to close these balances. Concurrent with our resolution of the existing closure issues, plan to develop a comprehensive set of procedures and timelines to follow to close the financial records for activities identified for future base closures.
- Directed DON accountable activities to review, in conjunction with their property accounting activity, their property accounting records for General Property, Plant, and Equipment (PP&E), Net classes 3 and 4 property and adjust records as needed. (Implementation Strategy: PP&E Existence and Completeness, USD(C) will issue a Statement of Work (SOW) dealing with personal property.) SOW implemented. DON activities are reconciling

personal property records as they implement Defense Property Accounting System (DPAS). Fielding of DPAS should be completed by FY 2003.

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
9/03	Work with the DoD Financial Management Modernization Program to assist in the development of the DoD Financial Management Enterprise Architecture.
9/03	Develop and issue guidance and procedures for reporting estimates for Non-Defense Environmental Restoration Liabilities.
9/03	Develop guidance with OSD for recording Internal Use Software by clearly defining the criteria and requirements to ensure the accuracy and completeness of financial reporting (Federal Accounting Standards Advisory Board (FASAB) Reporting Requirement). Once developed and approved distribute guidance to the DON Management Commands.
9/03	Continue participation in the OUSD(C) Accounts Receivable working group to identify and recommend changes in practices and procedures for Accounts Receivable.
9/03	Working with OUSD(C) and Acquisition and Technology (AT&L) staff, complete the pilot for the Destroyer class of ship acquisition program for inclusion on the DON financial statement as part of implementing the new accounting and reporting standard for military equipment.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
9/04	Once the DoD FMEA is completed, working with OUSD(C), begin to implement appropriate segments or align current system initiatives with the FMEA in the DON.
9/04	Work with OUSD(C) and (AT&L) on the business rules for implementing the accounting and reporting of military equipment. This milestone includes completing a pilot, reviewing proposed policies and procedures, and involving the appropriate major command acquisition and comptroller groups when necessary to determine the value of the current active inventory of military equipment.

- 9/04 Complete implementation of financial systems at NWCF activities.
- 9/04 Continue participating in the OUSD(C) and Office of Management and Budget working group to establish new business practices to account for and reconcile data for intergovernmental eliminations for the financial statements.
- 9/05 For Inventory and Related Property to include Operating Materials and Supplies (OM&S), work with the OUSD(C) staff and working group to develop and implement guidance for converting to moving average cost for valuing Inventory and OM&S.
- TBD Verification: Plans for the progress on most corrective actions will be addressed in status reports on open audit recommendations. Corrective actions are also reviewed through follow-up audits, inspections, completion of DoD Implementation Strategies, and quality assurance reviews.

Status of Participating Functional Office/Organization:

Deputy Under Secretary of the Navy (I)	Assured
Assistant Secretary of the Navy, (Research, Development and Acquisition) (I)	Assured
Assistant Secretary of the Navy, (Installation and Environment) (I)	Assured
Chief of Naval Operations (Various Major Commands) (I)	Assured
Under Secretary of Defense (Acquisition & Technology) (X)	Assured
Defense Finance Accounting Service (X)	Assured

Point of Contact: Mr. Gilbert Gardner, ASN (FM&C), (202) 685-6727,
gardner.gilbert@fmo.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1997

Title and Description of Material Weakness: Unmatched Disbursements (OSD #93-022). The Department of the Navy's (DON) accounting systems contain disbursements that cannot be matched to a recorded obligation (UMDs) and Negative Unliquidated Obligations (NULOs) where the disbursement exceeds the recorded obligation. UMDs and NULOs are classified as problem disbursements (PDs).

Some causes of PDs include:

- Data input errors
- Document preparation errors and erroneous contract writing procedures
- Failure to post obligations in a timely manner
- Lack of standardized accounting data among services during cross disbursement processing

PDs result in:

- Serious implication on financial controls and status of DON accounts
- Lack of adequate controls to ensure accurate, reliable fund balances
- Noncompliance with the Antideficiency Act
- Inaccurate and untimely financial reports

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 2003

Targeted Correction Date in Last Year's Report: FY 2003

Current Target Date: FY 2003

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: Various, i.e., OMN (171804), OPN (171810), RDTEN (171319), OMNR (171806), WPN (171507), SCN (171611), APN (171506), FMS (17X8242), O&M, Defense (0100), Procurement, Defense (0300), NG&RE, Defense (0350), RDT&E, Defense (0400), ER, Defense (0810), Missile Procurement, Air Force (57X3020), RDT&E, Air Force (57X3600), Navy Working Capital Fund (4930)

(\$000)

<u>Title</u>	<u>Appn(s)</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>Cost-To-Complete</u>	<u>Total</u>
Problem Disbursements	1804	\$5,000.0	\$4,000.0	\$3,000.0	\$3,000.0	\$2,000.0	\$17,000.0

Validation Process: The project manager will review monthly reports of corrective actions and provide periodic status reports to the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) for the Secretary of the Navy. The ASN (FM&C) will meet periodically with the Comptrollers of the Major Commands and Defense Finance and Accounting Service (DFAS) to review project progress.

Results Indicators: Progress reports to the Principal Deputy ASN(FM&C) will reflect a greatly diminished number of problem disbursements, both in quantity and dollar amount. In addition, ASN(FM&C) has implemented a revised problem disbursement goal setting process in which Major Commands set their own goals within established parameters. The Office of Financial Operations (FMO) requested the Major Commands to develop three-year reduction goals (for both net and absolute balances), beginning with the October 2000 balance and achieving their overall reduction targets by March 31, 2003. The following table depicts the annual problem disbursement reduction goals:

Annual DON Problem Disbursement Reduction Goals (in millions):

\$Millions	Oct-00	FY 2001	FY 2002	FY 2003*
Net	\$1,711	\$808	\$401	\$408
Absolute	\$2,048	\$1,009	\$548	\$496

*FY 2003 PD Reduction Goals may be revised based on FY 2002 year-end actual PD balances.

As of September 2002, the net balance for PDs was \$467 million, and the absolute balance was \$612 million; these balances represent, respectively, a 43 percent and 40 percent reduction from September 2001 balances.

Source(s) Identifying Weakness:

No new sources identified in FY 2002. The following source was identified in FY 2001:

- NAVAUDSVC Report No. N2001-0033, "Fiscal Year 2000 Department of the Navy General Fund Financial Statements: Navy Problem Disbursement Resolution Process," June 28, 2001

See Appendix A for sources identified in prior years.

Progress to Date:

The DON has taken the following steps to correct its Unmatched Disbursements weakness:

- Developed yearly reduction goals for Major Commands.

- Developed yearly reduction goals through FY 2003 for Major Commands.

Major Milestones:

Planned Milestones (FY 2003):

Date:	Milestone:
9/03	Verification: The amount of problem disbursements is at an acceptable level over a specified time period.

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization:

DFAS (X)	Assured
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Point of Contact: Ms. Vicki Beck, FMO, (202) 685-6721, beck.vicki@fmo.navy.mil

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 2001

Title and Description of Material Weakness: Individual Ready Reserve (IRR) member screening. IRR members were not adequately screened to ensure accuracy of critical personnel data and to ensure members' availability for mobilization. Established screening procedures were not always followed because of lack of funding and resources. Of the 94,731 members assigned to the IRR at the end of Fiscal Year (FY) 2000, information was not obtained for 48,361 or 51 percent. Without adequate screening procedures, there were no assurances those IRR members could be located or that they were actually available as a mobilization asset.

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2002

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2002

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: Adequate screening procedures will be in place to assure IRR members can be located and they are available as a mobilization asset.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. N2001-0030, "Management of the Navy's Individual Ready Reserve Program," June 7, 2001

Major Milestones in Corrective Action:

Completed Milestones in FY 2002: (C=Completed)

Date:	Milestone:
C	Maintain records by name of IRR members who do not respond to annual screening questionnaires and perform effective follow-up procedures for these individuals.
C	Modify screening questionnaires to include adverse consequences IRR members may face if they do not respond to annual screenings mailed to them.
C	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (FY 2003):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Point of Contact: Capt. John Johnson, CNO, (202) 685-6511,
johnson.john2@hq.navy.mil

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1997

Title and Description of Material Weakness: Computer-Based Training (CBT) (Office of the Secretary of Defense (OSD) case #97-007). The Department of the Navy's (DON) front-end analysis, configuration management, and funding justification controls are weak, increasing the probability that the benefits of CBT will not be achieved. About one-third of the activities reviewed did not implement CBT to take advantage of new technology, to keep pace with modern training techniques, and to enhance existing training methods. Expected monetary benefits may not be achieved. The process used to determine whether CBT is the correct method of training and is kept current needs strengthening. Governing regulations contribute to activities failing to perform front-end analysis and configuration management planning, CBT and visual information regulations overlap, instructions provide no distinction in requirements for CBT development efforts differing in complexity, cost, or distribution, and regulations do not provide for CBT development efforts that encompass multiple media.

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2002

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: OMN (171804)

No funds associated to complete milestones.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.

Results Indicators: Training time will be reduced by effective use of CBT. As a result, training costs also will be reduced.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. 034-97, "Implementation of Computer-Based Training in the Navy," April 29, 1997

Major Milestones in Corrective Action:

Completed Milestones in FY 2002: (C=Completed)

Date:	Milestone:
C	Establish a method to identify, document, track and reprogram projected benefits.
C	Establish thresholds for documentation requirements for CBT development.
C	Publish CBT development regulatory requirements.
C	Clarify governing policy for development of courseware using advanced training technology.
C	Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify to ensure appropriate use of CBT.

Planned Milestones (FY 2003):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Point of Contact: Capt. John Johnson, CNO, (202) 685-6511,
johnson.john2@hq.navy.mil

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1999

Title and Description of Material Weakness: Asset Visibility of In-Transit Inventory (Office of the Secretary of Defense (OSD) case #99-009). Department of the Navy (DON) activities did not effectively control in-transit inventory, resulting in enormous amounts of inventory at risk of undetected theft or misplacement. DON activities involved in issuing and receiving inventory items did not consistently follow control procedures to ensure that in-transit items were accounted for. Ineffective accounting systems were used to monitor receipts of items redistributed between storage activities, shipped to and from repair facilities, and shipped from end users. DON activities did not always adequately investigate unreported receipts of items redistributed between storage activities, shipped to and from repair facilities, and shipped from end users. DON activities did not monitor receipts of items purchased from commercial sources.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2001

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2002

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: 97X4930.NCIA

(\$000)

<u>Title</u>	<u>Appn(s)</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>Cost-To-Complete</u>	<u>Total</u>
NWCF 97X4930.NC1A							

Note: No formal budget estimates have been developed for FY 2003 or FY 2004 at this time. System development is largely completed and future years funding will be targeted to system maintenance and enhancement.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review. Plans for, and progress on, corrective action(s) will be reported via feeder reports for the Annual Federal Managers' Financial Integrity Act (FMFIA) Statement of Assurance.

Results Indicators: Better controls of in-transit inventory accounting processes will improve asset visibility and build accountability into the process, thereby reducing in-transit losses, improving repair cycle time, and reducing procurement offsets.

Source(s) Identifying Weakness:

- GAO/NSIAD Report No. 99-61, OSD Case No. 1746 “Defense Inventory: Navy’s Procedures for Controlling In-Transit Items Are Not Being Followed,” March 31, 1999

Progress to Date:

- Stock-in-Transit (SIT) re-engineering software (UICP PM76 and Supply Discrepancy Reporting (SDR)) developed to address the original material weakness was implemented May 2001. Release 2 software (SDR sub-routines) was implemented June 2002. The new software is automatically resolving in-transit records, increasing visibility of in-transit stock, reducing overall losses and helping NAVICP and field activities identify systemic problems that cause loss of asset visibility. With these new programs in place the focus of SIT reengineering is on improving SIT business processes.
- NAVICP is: (1) Putting greater emphasis on analysis of problem SIT causes; (2) Looking at activities and the physical distribution process so that they can correct identified deficiencies; and (3) expanding Commercial Asset Visibility (CAV) daily reporting of issues and receipts of stock material by commercial repair and Performance Based Logistics (PBL) contractors. These initiatives will ensure quicker resolution of SIT problems at the source. Since the initial implementation of SIT re-engineering software in May 2001, SIT losses have decreased 50 percent.

Major Milestones in Corrective Action:

Completed Milestones in FY 2002: (C=Completed)

Date:	Milestone:
C	Modify DON’s integrated accounting and logistics systems so that they routinely update both financial and inventory records when in-transit inventory items are received.
C	Establish routine reconciliation procedures for the supply and financial records to ensure oversight and control over in-transit inventory items.

- C Establish performance measures, milestones, and timetables to help monitor the progress being made to reduce the vulnerability of in-transit inventory to undetected loss or replacement.
- C Transition Automated Report of Discrepancy (AUTOROD) functionality into the Supply Discrepancy Reporting System.
- C Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (FY 2003):

Date:	Milestone:
	None

Planned Milestones (Beyond FY2003):

Date:	Milestone:
	None

Point of Contact: Capt. John Johnson, CNO, (202) 685-6511,
johnson.john2@hq.navy.mil

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 2000

Title and Description of Material Weakness: Enlisted Administrative Separations. The Navy's process for administratively separating enlisted personnel takes longer than necessary and is costly. Separations are delayed due to an unclear physical examination policy and inefficient administrative practices. The Navy has not established a program to monitor enlisted administrative separations, and Bureau of Naval Personnel (BUPERS) is not maintaining complete separations records. Failure to separate members having no future useful service as quickly as possible is counter to Department of Defense and Navy separation policies pertaining to efficient use of limited defense resources, and is counter to promoting readiness—possibly contributing to the Navy's at-sea gapped billet problem.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: FY 2002

Targeted Correction Date in Last Year's Report: FY 2002

Current Target Date: FY 2002

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: MPN (1453)

No funds associated to complete milestones. Corrective actions in verification status.

Validation Process: Corrective action(s) certified by the BUPERS Inspector General's office upon completion and reviewed through an on-site verification review.

Results Indicators: Members having no future useful service are separated as quickly and efficiently as possible.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. N2000-0026, "Timely Administrative Separations of Enlisted Personnel Would Significantly Reduce Costs," June 7, 2000

Major Milestones in Corrective Action:

Completed Milestones in FY 2002: (C=Completed)

Date:	Milestone:
C	After taking actions to make the separation process more efficient, reemphasize to all activities the need to meet the Navy's goals for processing administrative separations.
C	Establish a monitoring program for enlisted administrative separations.
C	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (FY 2003):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Point of Contact: Capt. John Johnson, CNO, (202) 685-6511,
johnson.john2@hq.navy.mil

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1996

Title and Description of Material Weakness: Cash Management and Contract Payments at Selected Navy Activities in Europe (OSD #96-020). The contract payment function at selected Department of the Navy (DON) activities in Europe had neither a coherent business process, nor adequate internal controls to protect DON resources. Also, disbursing officers were cashing checks for credit union branches to provide cash for credit union cash operations, without proper statutory authority. Some of the issues with cash related to specific laws in foreign countries that prohibit U.S. military banking facilities (MBF).

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 1997

Targeted Correction Date in Last Year's Report: FY 2003

Current Target Date: FY 2002

Reason for Change in Date(s): All milestones related to cash management and contract payment weaknesses at selected Navy activities in Europe have been completed. The milestone to establish and support MBF operations at Navy facilities as they become available was not one of the original audit recommendations and is no longer applicable. It was added as an additional milestone by FMO since the DoD was proceeding to establish MBFs on DON installations in Italy at the time.

Component/Appropriation/Account Number: N/A.

Validation Process: All corrective action(s) are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control reviews.

Results Indicators: Coherent business processes and adequate management controls over the contract payment function and cash management, once established, will protect DON resources. Short-term and long-term corrective actions will ensure that credit unions at selected DON activities will adequately provide the needed cash services.

Source(s) Identifying Weakness: There were no new sources identified during FY 2002. See Appendix A for sources identified in prior years.

Major Milestones in Corrective Action:

Completed Milestones in FY 2002: (C=Completed)

Date:	Milestone:
C	Verification: Management reviews verify the effectiveness of all corrective actions.

Planned Milestones (FY 2003):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2003):

Date:	Milestone:
	None

Point of Contact: Mr. Dean Hunstad, FMO, (202) 685-6736,
hunstad.dean@fmo.navy.mil

MANAGEMENT CONTROL PROGRAM AND RELATED ACCOMPLISHMENTS

Most significant management control program and related accomplishments achieved during fiscal year (FY) 2002 are highlighted in this section. These improvements relate directly to the protection of government property, efficiency of agency operations, conservation of resources, improvements in responsiveness to external customer needs, or enforcement of laws and regulations.

Navy Management Control Program

Description of the Issue

- Over the years, the Department of the Navy (DON) Management Control Program (MCP) had not evolved to reflect the changing environment and the improved technologies and business practices. The DON determined that the MCP was not fully satisfying the needs of management and required an immediate overhaul.
- In fiscal year (FY) 2001, the Naval Audit Service raised serious concerns with the DON MCP, specifically identifying issues in the Fleet. The DON Leadership, in response to these concerns and issues took direct action to mitigate and enhance the DON MCP. The DON believes that progress has been achieved, but recognizes the nature and depth of the deficiencies and will continue to apply serious and persistent management attention to this program.
- The DON, through the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C)), implemented a back-to-basics approach to improve its MCP. This approach focuses on: increasing awareness of the MCP through program communication; emphasis on management control training; sharing of best practices among commands, and automation of MCP tools and processes. The intent of this program is to assist the DON Commands in enhancing their current MCPs, thereby strengthening their management controls.

Accomplishments

Issued a memo by the Under Secretary of the Navy, on April 25, 2002, to Major Claimants emphasizing the importance of, and support for, a robust MCP throughout the DON.
The Chief of Naval Operations (CNO) directed that all Echelon 2 organizations within CNO provide Management Control Certification Statements to Echelon 1 organizations.
Issued a memorandum from the OASN(FM&C) dated August 19, 2002, clarifying the current requirements of the Secretary of the Navy (SECNAV) Instruction 5200.35D, Department of the Navy Management Control Program.
Drafted a revision of SECNAV Instruction 5200.35D, Department of the Navy Management Control Program, to clarify the intent and requirements of the DON MCP and incorporate

General Accounting Office's (GAO) standard on business risk.
Conducted ten MCP training sessions. A total of 218 DON personnel (predominantly MCP Coordinators) were trained through September 2002. In addition, the DON has developed an aggressive regional training scheduled for FY 2003. Training content focuses on MCP requirements, MCP roles and responsibilities, developing an MCP Plan, the material weakness reporting process and selected tools for use in implementing an effective MCP.
Developed a web-based MCP Self-Assessment Survey Tool to provide DON commands and activities an objective "current state" measurement of their organization's MCP. Based on the GAO Internal Control Management and Evaluation Tool of August 2001, the DON tool will help managers evaluate if their internal controls are designed well, are functioning as designed, and will identify areas requiring further improvements.
Developed a web-based data collection application to help automate the annual DON Management Control Statement of Assurance reporting process.

Unmatched Disbursements

Description of the Issue

- The Department of the Navy's (DON) accounting systems contain disbursements that cannot be matched to a recorded obligation (UMDs) and Negative Unliquidated Obligations (NULO) where the disbursement exceeds the recorded obligation. UMDs and NULO are classified as problem disbursements (PDs).
- Throughout fiscal year (FY) 2002, the Office of Financial Operations (FMO) implemented problem disbursement (PD) reduction programs to assist the Major Commands in achieving year-end goals. Primary emphasis was placed within the General Fund to eliminate all PDs dated prior to October 1, 2000, reduce the level of inflow, and enforce the Financial Management Regulation guidance to obligate PDs greater than 120 days. For the Navy Working Capital Fund (NWCF), emphasis was placed in reviewing the methodology for identifying, calculating and reporting PDs.

Accomplishments

In June 2001, PDs prior to October 1, 2000 were \$175 million absolute. The FMO-launched PD Clean-Up team achieved a reduction of 87% by August 2002 with a balance of \$23 million absolute.
FMO launched PD Inflow Process Improvement teams in March 2002 and completed efforts to identify the root causes of PD inflow for contracts, Military Standard/Requisitioning and Issue Procedures (MILSTRIP), the top three categories of monthly inflow. These teams have reviewed business processes associated with these categories of inflow and have developed

recommendations for process improvements to reduce PD inflow. Applicable process improvement will be implemented during FY 2003.

A joint FMO-Defense Finance and Accounting Service (DFAS) Cleveland Process Improvement Team was established in March 2002 and completed efforts to document the NWCF PD process, to obtain usable detailed data for analyses, to identify inflow issues and to develop recommendations for improvements. Applicable process improvements will be implemented in FY 2003.

Accuracy of Financial Statements

Description of the Issue

- There were inconsistent financial management practices, implementation of guidance and accounting standards, data calls, deployment of accounting systems, intra-governmental eliminations, and selected account balances that inhibits the presentation of the Department of the Navy (DON) General Fund and Navy Working Capital Fund financial statements.
- The DON financial management community fully compliments and supports the Department of Defense Financial Management Enterprise Architecture (FMEA) and the Financial Management Modernization Program undertaken by the Under Secretary of Defense (Comptroller). A goal of this effort is to provide managers useful, accurate, consistent, and timely financial information to enhance decision-making throughout all phases of the business lifecycle.

Accomplishments

Developed guidance that will define the procedures and set a timeline for commands to follow to close the financial books for activities that have been previously operationally closed.

Identified all remaining financial record balances and the actions needed to close these balances. Concurrent with our resolution of the existing closure issues, plan to develop a comprehensive set of procedures and timelines to follow to close the financial records for activities identified for future base closures.

Directed DON accountable activities to review, in conjunction with their property accounting activity, their property accounting records for General Property, Plant and Equipment (PP&E), Net classes 3 and 4 property and adjust records as needed.

DON activities are reconciling personal property records as they implement Defense Property Accounting System (DPAS).

Data Collection Instrument

Description of the Issue

- Over 60 percent of the data for the Department of the Navy's (DON) General Fund Financial Statement is obtained from a data call process. The data call process began as a paper intensive effort with little or no controls over the data and lacked instructions and definition of the reporting requirements. Therefore, DON leadership made the decision that the most efficient means to providing the data from the DON non-financial feeder systems for financial statement reporting was to collect the data through the web-based environment.
- The Data Collection Instrument (DCI) continues to provide a more streamlined and less manually intensive process for collecting and consolidating all non-financial feeder system data from the DON's major commands. This was evidenced in its performance to collect data to support the semi-annual and quarterly reporting requirements for fiscal years (FY) 2002 and 2003 respectively.

Accomplishments

The web-based platform can quickly adapt to accommodate new or modified reporting requirements.
United States Standard General Ledger (USSGL) references were incorporated into the data input forms, and an extract at the USSGL level was created to further integrate the flow of data between the DON and Defense Finance and Accounting Service.
DCI functionality has been expanded to include consolidation of narrative data to draft footnotes.
A number of DCI-generated reports are now available to assist in review and analysis of data.

Enterprise Resource Planning

Description of the Issue

- During fiscal year (FY) 2002, the Department of the Navy continued efforts to explore Enterprise Resource Planning (ERP) and refine Departmental business processes. ERP is a business management system that integrates the business processes that optimize functions across the enterprise (e.g., supply chain, finance, procurement, manufacturing/maintenance, human resources) and enable elimination of numerous legacy systems and the streamlining of business processes. All essential data and information is entered into the system one time and remains accessible to everyone involved in the business process on a real time basis--providing consistent, complete, relevant, timely and reliable information for decision making.
- Implementation of ERP is enabling Chief Financial Officer Act compliancy by 1) meeting applicable federal financial management regulations, accounting standards, and

requirements, 2) implementing the United States Standard General Ledger, and 3) having 100% drill down capability to original transaction event, and 4) utilizing Joint Financial Management Improvement Program certified software.

- The DON has four initiatives underway that are broken into several phases, each beginning with a pilot phase. The pilot phase is a test of the commercial off-the-shelf (COTS) system to determine if it can operate in the Navy environment for the functions being piloted. Two of the four pilots were operational in FY 2002. Preparations to “Go-Live” with the other two pilots during the first quarter of FY 2003 were made during FY 2002. These pilots focus on Program Management and Aviation Supply Chain Maintenance/Management.

Accomplishments

<p>The Warfare Center Management (CABRILLO) and Ship Maintenance (NEMAIS) pilots successfully implemented a full set of integrated business processes by 1) re-engineering processes applying best business practices, 2) using COTS software with no modifications, and 3) establishing common processes with end-to-end process integration and connectivity.</p>
<p>Operation of these ERPs has improved visibility of our business situation by having a single point of data entry and integration, and providing timely and accurate business information.</p>
<p>DON has experienced a reduction of ownership and operations costs as a result of fewer business systems, interfaces, and manual processes, and the use of automated workflow to improve the speed of processing business.</p>
<p>A significant amount of testing is conducted both internally (by the implementing activity) and externally (by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) and Defense Finance and Accounting Service prior to and after the system “Goes Live.” Each of the initiatives will be evaluated by DON and the Office of the Under Secretary of the Defense (Comptroller) (OUSD(C)) leaderships as it completes its pilot phase, and the decision to move forward will be made.</p>
<p>The DON is working closely with the OUSD(C) Financial Management Modernization Program (FMMP) team to ensure that the configuration of the four pilots is compatible with the architecture being developed for the Department of Defense.</p>

Purchase Card Program

Description of the Issue

- The General Accounting Office expressed concern about the monthly invoice reconciliation, review, and certification process for the Purchase Card Program.
- The Office of Financial Operations (FMO) reviewed and revised the existing guidance concerning these procedures. FMO then worked with various Department of the Navy

(DON) activities to disseminate this new guidance and improve processes to reduce the effects of these concerns.

Accomplishments

FMO provided clarifying guidance on the Purchase Card invoice reconciliation, review, and certification process.
This new certification guidance was reinforced during the financial management training provided to a number of command purchase card representatives.
Along with the training provided, FMO coordinated efforts with the DON Electronic Business Operations Office (eBUSOPSOFF) to significantly reduce DON delinquencies greater than 60 days past due to come into compliance with the Department of Defense Purchase Card Program Management Office metric.
The significant reduction in delinquencies has also contributed to increased rebates.
To improve financial processing, FMO collaborated with the DON eBUSOPSOFF to implement a new architecture for the purchase card on-line web-based card management system.
This system redesign reduced the number of invoices per billing official, summarized like lines of accounting, and reduced the number of standard document numbers generated.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

Requirements Determination (B-2-26)

- DoDIG Report No. 93-049, "Navy Requirements for Currently Procured Wholesale Inventories of Repairable Items," February 1, 1993
- NAVAUDSVC Report No. 021-N-93, "Selected Funded Planned Program Requirements at the Navy Aviation Supply Office," February 4, 1993
- GAO/NSIAD Report No. 93-131, "Navy Supply Improved Backorder Management Will Reduce Material Costs," March 19, 1993
- NAVAUDSVC Report No. 030-N-93, "Material/Equipment Requirements for Decommissioned Ships," April 9, 1993
- NAVAUDSVC Report No. 035-S-93, "Management of Secure Terminal Unit III (STU III) Telephones," May 1, 1993
- NAVAUDSVC Report No. 037-S-93, "Submarine Advanced Equipment Repair Program Requirements," May 19, 1993
- DoDIG Report No. 93-102, "Acquisition of the Unmanned Aerial Vehicles," May 27, 1993
- NAVAUDSVC Report No. 036-C-93, "Attack Submarine Capable Floating Drydock Requirements," June 18, 1993
- NAVAUDSVC Report No. 043-C-93, "AH-1 Helicopter Requirements," June 18, 1993
- GAO/NSIAD Report No. 93-151, "Better Controls Needed Over Planned Program Requirements," July 1, 1993
- NAVAUDSVC Report No. 003-S-93, "Training Aircraft Requirements," October 15, 1993
- NAVAUDSVC Report No. 025-N-94, "Portable High Pressure Calibrator Requirements for Trident Submarines," January 26, 1994
- NAVAUDSVC Report No. 038-C-94, "Acquisition of AN/ARC-182 and AN/ARC-210 Radios," March 20, 1994

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- NAVAUDSVC Report No. 060-C-94, “Acquisition and Modification of C-130 Hercules Aircraft,” July 18, 1994
- DoDIG Report No. 95-006, “The Navy's Process for Determining Quantitative Requirements for Anti-Armor Munitions,” October 11, 1994
- NAVAUDSVC Report No. 001-C-94, “Floating Crane Requirements,” October 12, 1994
- DoDIG Report No. 95-057, “Spare and Repair Parts Affected By Design and Engineering Changes,” December 16, 1994
- NAVAUDSVC Report No. 018-95, “Budgeting for AN/ARC-210 Radio and Global Positioning System Programs,” January 18, 1995
- NAVAUDSVC Report No. 037-95, “Budget Estimates for Consolidated Automated Support Systems and Test Program Sets,” April 14, 1995
- NAVAUDSVC Report No. 049-95, “T-45 Training System Program,” June 22, 1995
- NAVAUDSVC Report No. 069-95, “Modifications for the H-46 Helicopter,” September 21, 1995
- NAVAUDSVC Report No. 002-97, “C-2A(R) Aircraft Program,” October 4, 1996
- NAVAUDSVC Report No. 066-99, “Marine Corps Management of Night Vision Programs,” September 24, 1999

Source(s) Identifying Weakness [for OSD Case #91-024]:

- GAO/NSIAD Report No. 91-46, “T-45 Training System: Navy Should Reduce Risks Before Procuring More Aircraft,” December 14, 1990
- NAVAUDSVC Report No. 013-S-91, “Requirements for T-44A Training Aircraft,” January 18, 1991
- NAVAUDSVC Report No. 038-S-91, “T-45A Aircraft Acquisition,” April 29, 1991
- NAVAUDSVC Report No. 010-C-91, “EA-6B Aircraft Requirements,” November 13, 1991

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

Excess Material and Unrecorded Inventories (B-2-29)

- GAO/NSIAD Report No. 92-216, “Navy Supply, Excess Inventory Held at the Naval Aviation Depots,” July 1992
- NAVAUDSVC Report No. 023-S-93, “Sponsor Material Held by Selected Naval Ordnance Activities,” March 8, 1993
- NAVAUDSVC Report No. 026-N-93, “Causes and Reutilization of Excess Material from Ship Availabilities at Naval Shipyards,” March 26, 1993
- NAVAUDSVC Report No. 044-W-93, “Management of Aeronautical Change Kits,” June 6, 1993
- GAO/NSIAD Report No. 94-181, “Navy Supply: Improved Material Management Can Reduce Shipyard Costs,” July 27, 1994
- GAO/AIMD Report No. 96-94, “Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings,” August 16, 1996
- COMNAVSEASYS COM FY 1996 Management Review
- NAVAUDSVC Report No. 016-97, “Inventory Management of Coordinated Shorebased Allowance List Material,” January 31, 1997
- GAO/NSIAD Report No. 97-71, “Defense Logistics: Much of the Inventory Exceeds Current Needs,” February 28, 1997
- NAVAUDSVC Report No. 027-97, “Management, Control, and Accounting Procedures for Sponsor Material at Naval Sea Systems Command Warfare Centers,” April 11, 1997
- DoDIG Report No. 97-183, “Uncatalogued Material at Research, Development, Test and Evaluation Installations,” June 30, 1997
- NAVAUDSVC Report No. 037-98, “Management of Sponsor Material at Naval Air Systems Command Warfare Centers,” June 2, 1998

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- NAVAUDSVC Report No. 050-98, “Interim Supply Support Program,” September 25, 1998
- NAVAUDSVC Report No. 014-99, “Management of Government Furnished Aviation Material,” December 10, 1998
- NAVAUDSVC Report No. 022-99, “Material Returns Program for Ships Parts,” January 15, 1999
- NAVAUDSVC Report No. 059-99, “AEGIS Common Equipment (ACE) Program,” September 7, 1999
- NAVAUDSVC Report No. 001-2000, “Management of Advanced Equipment Repair Program and Trident Planned Equipment Replacement Program,” October 12, 1999
- NAVAUDSVC Report No. N2000-0007, “Recording Onhand Quantities of Aviation Depot Level Repairable Inventories at Commercial Contractor Repair Facilities,” October 29, 1999

Source(s) Identifying Weakness [for OSD Case #93-020]:

- NAVAUDSVC Report No. 027-N-90, “Management of Commercial Repair of Non-Aviation Material,” January 30, 1990
- NAVAUDSVC Report No. 037-N-91, “Non-Aviation Repairable Assets at Navy Aviation Depots and other Department of Defense Repair Facilities,” April 29, 1991

Accuracy of Financial Statements (B-2-42)

Department of the Navy (DON) Chief Financial Officers (CFO) Act Financial Statements, Treasury Index 17

Sources identified in FY 2001 were:

- DoDIG Report No. D-2001-026, “Accuracy of the Government-Owned Contractor-Occupied Real Property in Military Departments’ Real Property Databases,” December 22, 2000
- NAVAUDSVC Report No. N2001-0011, “Department of the Navy Principal Statements for Fiscal Year 2000: Environmental Liabilities,” February 6, 2001

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- NAVAUDSVC Report No. N2001-0012, “Fiscal Year 2000 Department of the Navy General Fund Principal Statements,” February 7, 2001
- NAVAUDSVC Report No. N2001-0016, “Department of the Navy Principal Statements for FY 2000: Inventory and Related Property, Net,” February 27, 2001
- DoDIG Report No. D-2001-071, “Navy Financial Reporting of the Government-Owned Materials Held by Commercial Shipyard Contractors,” March 2, 2001
- NAVAUDSVC Report No. N2001-0029, “Department of the Navy Principal Statements for Fiscal Year 2000: Feeder Systems and Interfaces,” June 1, 2001
- DoDIG Report No. D-2001-172, “Data Supporting the Environmental Liability Reported on the FY 2000 Financial Statements,” August 10, 2001
- NAVAUDSVC Report No. N2001-0013, “Fiscal Year 2000 Department of the Navy Working Capital Fund Principal Statements,” February 7, 2001
- NAVAUDSVC Report No. N2001-0015, “Department of the Navy Working Capital Fund Accounts Receivable, Federal and Non-Federal for Fiscal Year 1999,” February 26, 2001
- DoDIG Report No. D-2001-139, “Compiling and Reporting FY 2000 Navy Working Capital Fund Intragovernmental Transactions,” June 18, 2001
- DoDIG Report No. D-2001-160, “Accounting for Economy Act Orders by the Working Capital Fund Organizations,” July 18, 2001
- GAO/AIMD Report No. 96-7, “CFO Act Financial Audits: Increased Attention Must Be Given to Preparing Navy's Financial Reports,” March 22, 1996
- GAO/AIMD Report No. 96-65, “CFO Act Financial Audits: Navy Plant Property Accounting and Reporting Is Unreliable,” July 8, 1996
- NAVAUDSVC Report No. 022-97, “DON FY 1996 Annual Financial Report: Report on Auditor's Opinion,” March 1, 1997
- NAVAUDSVC Report No. 029-97, “DON FY 1996 Annual Financial Report: Report on Internal Controls and Compliance with Laws and Regulations,” April 15, 1997

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- NAVAUDSVC Report No. 045-97, “DON FY 1996 Annual Financial Report: Accounts Receivable, Net,” May 12, 1997
- NAVAUDSVC Report No. 048-97, “DON FY 1996 Annual Financial Report: Ammunition and Ashore Inventory,” May 22, 1997
- NAVAUDSVC Report No. 051-97, “DON FY 1996 Annual Financial Report: Property, Plant, and Equipment, Net,” May 22, 1997
- DoDIG Report No. 97-202, “Financial Reporting of Government Property in the Custody of Contractors,” August 4, 1997
- NAVAUDSVC Report No. 046-97, “DON FY 1996 Annual Financial Report: Government Property Held by Contractors,” August 14, 1997
- NAVAUDSVC Report No. 049-97, “DON FY 1996 Annual Financial Report: Advances and Prepayments, Non-Federal,” September 19, 1997
- NAVAUDSVC Report No. 006-98, “DON FY 1996 Annual Financial Report: Accounts Payable and Accrued Payroll and Benefits,” November 14, 1997
- DoDIG Report No. 98-073, “Defense Finance and Accounting Service Work on the Navy General Fund 1996 Financial Statements,” February 12, 1998
- NAVAUDSVC Report No. 025-98, “DON Principal Statements for Fiscal years 1997 and 1996: Auditor’s Opinion,” February 27, 1998
- NAVAUDSVC Report No. 031-98, “DON Principal Statements for Fiscal Years 1997 and 1996: Reports on Internal Controls and Compliance with Laws and Regulations,” March 31, 1998
- DoDIG Report No. 98-104, “DoDIG Oversight of the Naval Audit Service Audit of the Navy General Fund Financial Statements for FY’s 1997 and 1996,” April 7, 1998
- USD(C) memorandum dated April 14, 1998 and July 8, 1998, Biennial Financial Management Improvement Program and Concept of Operations and DON’s submission
- USD(C) memorandum dated June 16, 1998, Implementation Strategies for Audited

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

Financial Statements and subsequent memo same subject

- NAVAUDSVC Report No. 040-98, “DON Principal Statements for Fiscal years 1997 and 1996: Plant Property,” July 23, 1998
- NAVAUDSVC Report No. 024-99, “Department of the Navy Principal Statements for Fiscal Year 1998: Report on Auditor’s Opinion,” February 10, 1999
- NAVAUDSVC Report No. 028-99, “Reports on Internal Controls and Compliance with Laws and Regulations,” February 22, 1999
- USD(C) memorandum dated March 22, 1999, Implementation Strategy for Operating Materials and Supplies
- NAVAUDSVC Report No. 046-99, “National Defense Property, Plant, and Equipment Deferred Maintenance,” July 15, 1999
- NAVAUDSVC Report No. 049-99, “Inventory and Related Property, Net,” July 27, 1999
- NAVAUDSVC Report No. 050-99, “Real Property Deferred Maintenance,” July 30, 1999
- USD(C) memorandum dated August 6, 1999, Amended DoD Implementation Strategy for Auditable Financial Statements
- NAVAUDSVC Report No. 053-99, “Classes 3 and 4 Plant Property,” August 18, 1999
- NAVAUDSVC Report No. 058-99, “Classes 1 and 2 Plant Property,” August 25, 1999
- USD(C) memorandum dated October 5, 1999, DoD Implementation Strategy for Auditable Financial Statements
- USD(C) memorandum dated November 19, 1999, DoD Implementation Strategy for Auditable Financial Statements
- NAVAUDSVC Report No. N2000-0018, “Department of the Navy Principal Statements for Fiscal Year 1999,” February 10, 2000

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- DoDIG Report No. D-2000-091, “Internal Controls and Compliance with Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 1999,” February 25, 2000

Department of the Navy Revolving Fund Chief Financial Officers (CFO) Financial Statements Accountability

- NAVAUDSVC Report No. 074-S-92, “Marine Corps Industrial Fund Financial Statements (FY 1991),” June 30, 1992
- NAVAUDSVC Report No. 075-S-92, “Financial Audit of the FY 1991 Navy Industrial Fund(17X4912) Property, Plant, and Equipment Account,” June 30, 1992
- NAVAUDSVC Report No. 076-N-92, “Financial Audit of the Department of the Navy Stock Fund-FY 1991,” June 30, 1992
- NAVAUDSVC Report No. 053-H-93, “FY 1992 Consolidating Financial Statements of the Department of the Navy DBOF,” June 30, 1993
- NAVAUDSVC Report No. 053-H-94, “FY 1993 Consolidating Financial Statements of the Department of the Navy DBOF,” June 29, 1994
- NAVAUDSVC Report No. 044-95, “FY 1994 Consolidating Financial Statements of the Department of the Navy DBOF,” May 30, 1995
- NAVAUDSVC Report No. 035-96, “FY 1995 Consolidating Financial Statements of the Department of the Navy DBOF,” May 31, 1996
- NAVAUDSVC Report No. 040-97, “FY 1996 Consolidating Financial Statements of the Department of the Navy DBOF,” June 16, 1997
- DoDIG Report No. 97-178, “Internal Controls and Compliance With Laws and Regulations for the DBOF Consolidated Financial Statements for FY 1996,” June 26, 1997
- NAVAUDSVC Report No. 024-98, “FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund,” February 27, 1998

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- NAVAUDSVC Report No. 049-98, “FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund: Reportable Conditions,” September 28, 1998
- GAO/AIMD Report No. 98-56, “CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies,” March 16, 1998
- DoDIG Report No. 98-106, “Inspector General, DoD Oversight of the NAVAUDSVC Audit of the NWCF Financial Statements for FYs 1997 and 1996,” April 7, 1998
- DoDIG Report No. 99-005, “Compilation of the NWCF FY 1997 Financial Statements at the Defense Finance and Accounting Service Cleveland Center,” October 5, 1998
- NAVAUDSVC Report No. 027-99, “FY 1998 Consolidated Financial Statements of the Department of the Navy Working Capital Fund,” February 22, 1999
- NAVAUDSVC Report No. 048-99, “FY 1998 Department of the Navy Principal Statements and Working Capital Fund Consolidated Financial Statements Eliminating Entries,” July 22, 1999
- NAVAUDSVC Report No. N2000-0019, “Fiscal Year 1999 Consolidated Financial Statements of the Department of the Navy Working Capital Fund,” February 14, 2000
- DoDIG Report No. D-2000-091, “Internal Controls and Compliance with Laws and Regulations for DoD Agency-Wide Financial Statements for FY 1999,” February 25, 2000
- DoDIG Report No. D-2000-140, “Compilation of the FY 1999 Department of the Navy Working Capital Fund Financial Statements,” June 7, 2000

Unmatched Disbursements (B-2-46)

- GAO/AFMD Report No. 93-21, “Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements,” June 1993
- DoDIG Report No. 96-145, “Obligation Management of Navy Appropriations,” June 6, 1996

*Sources were not previously identified in Tabs B-2 and B-3.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- NAVAUDSVC Report No. 021-97, “Navy Fleet and Field Level Unmatched Disbursements,” March 7, 1997
- GAO/AIMD Report No. 98-040, “Financial Management: Seven DoD Initiatives That Impact the Contract Payment Process,” July 30, 1998

Cash Management and Contract Payments at Selected Navy Activities in Europe (B-3-10)

- NAVAUDSVC Report No. 064-95, “Navy-Processed Vendor Payments at Commander, U.S. Naval Activities, United Kingdom,” September 14, 1995
- NAVAUDSVC Report No. 010-96, “Navy-Processed Vendor Payments at Personnel Support Detachment, Rota, Spain” November 13, 1995
- NAVAUDSVC Report No. 011-96, “Navy-Processed Vendor Payments at Personnel Support Detachment, Naples, Italy,” November 27, 1995
- NAVAUDSVC Report No. 012-96, “Navy-Processed Vendor Payments at Personnel Support Detachment, Edzell, Scotland,” November 27, 1995
- NAVAUDSVC Report No. 013-96, “Navy-Processed Vendor Payments at Personnel Support Detachment, London, England,” November 29, 1995
- NAVAUDSVC Report No. 014-96, “Navy-Processed Vendor Payments at Personnel Support Detachment, La Maddalena, Italy,” November 29, 1995
- NAVAUDSVC Report No. 015-96, “Navy-Processed Vendor Payments at Personnel Support Detachment, Souda Bay, Greece,” November 29, 1995
- NAVAUDSVC Report No. 016-96, “Navy-Processed Vendor Payments at Personnel Support Detachment, Sigonella, Italy,” November 29, 1995
- NAVAUDSVC Report No. 023-96, “Navy-Processed Vendor Payments in Europe,” December 11, 1995

*Sources were not previously identified in Tabs B-2 and B-3.