
FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2003
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY



THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

INFO MEMO

OCT 16 2003

FOR: SECRETARY OF DEFENSE

FROM: Dionel M. Aviles, Assistant Secretary of the Navy (Financial Management & Comptroller)

A handwritten signature in black ink, appearing to read "D. Aviles", written over the printed name in the "FROM" line.

SUBJECT: Department of the Navy Fiscal Year 2003 Statement of Assurance

- The Department of the Navy (DON) has evaluated its system of internal administrative controls in effect during Fiscal Year (FY) 2003. 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 necessary to provide reasonable assurance that it can execute its mission effectively and that its critical assets are protected, with the exception of the material weaknesses reported.
- The DON leadership continued to apply direct and persistent management attention to accomplishing the requirements of the FMFIA. Efforts begun in FY 2001 and FY 2002 to improve the DON's management control program were continued in FY 2003. The DON continued to promote management controls through increased training and through better communication between the audit community and other DON managers. Automation and web-based technologies should help to move the Department forward in the future as we promote a robust and flexible Management Control Program.
- The information that supports this determination of reasonable assurance was derived from audits, inspections, investigations, and certification statements from Echelon 1 commands.
- A more complete evaluation of the Management Control Program and FY 2003 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: Lessie Turner, Office of Financial Operations, 202-685-6738

SUBJECT: FY 2003 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

Reporting Period for the DON

Beginning in Fiscal Year (FY) 2002, the Department of Defense consolidated the DoD Statement of Assurance, the annual Chief Financial Officer's Act Financial Statement and the Government Performance and Results Act (GPRA) reporting requirements into a single Performance and Accountability Report (PAR). For FY 2003, the DoD accelerated the reporting submission dates for the component sections of the PAR. Because of the accelerated date for the comprehensive reporting required under the PAR format, DoD components, including the Department of the Navy (DON), were required to submit the Statement of Assurance by October 1, 2003. In order to meet this accelerated due date and to provide a comprehensive assessment on the effectiveness of DON's management controls, the DON's FY 2003 Statement of Assurance discloses material weaknesses that have been identified during the 12-month period from July 1, 2002 through June 30, 2003. This established time frame allows the DON to obtain input from its components and to provide comprehensive plans and schedules to correct the identified weaknesses. Accordingly, the cover memorandum for the Secretary of Defense indicates that the period of evaluation of DON's FY 2003 management controls is the 12-month period ending June 30, 2003. Consequently, any uncompleted milestones that were scheduled for completion in September 2003 will be revisited and addressed in next year's report. For example, if the final verification milestone was targeted for completion in September 2003, the weakness will not be considered delayed and will be addressed in the FY 2004 DON Statement of Assurance.

Concept of Reasonable Assurance

The system of internal accounting and administrative control of the DON in effect during the 12-month period ending June 30, 2003 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 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 the 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 12-month period ending June 30, 2003, taken as a whole, provides reasonable assurance that the mission of the organization can be accomplished effectively and that critical assets can be protected. Accordingly, based on this review, and in accordance with the FMFIA, the DON is providing a “qualified” statement of assurance, citing material weaknesses in management controls that preclude an unqualified statement.

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 Management Control Program (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 the fifteen Echelon 1 commands provides the 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 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 Naval Audit Service (NAVAUDSVC), by regulation, routinely assesses the effectiveness of management controls in the course of performing its audits (except limited scope audits) and, where warranted, explicitly addresses management control deficiencies by way of establishing managerial accountability. The Naval Inspector General (NAVINGEN) 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 Echelon 1 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 Auditor General (AUDGEN) of the Navy, 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 and assessment. 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 2003 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 commands, and the joint NAVAUDSVC/OASN(FM&C) evaluation process, several weaknesses were identified in FY 2003, all of which fell under existing categories of weaknesses that were carried over from prior periods (Uncorrected Material Weaknesses Identified During Prior Periods). No new categories of weaknesses are being reported for FY 2003. However, new sources that were identified in FY 2003 have been added to existing weaknesses and the narratives and milestones have been updated accordingly. Two weaknesses (“*Supply Inventory Management*” and “*Excess Material and Unrecorded Inventories*”) have been combined together as one weakness (“*Supply Inventory Management*”) due to similarity of issues. Adjustments to milestones and/or target correction dates were made for the nine uncorrected weaknesses (“*Government Purchase Card Program*,” “*Readiness Reporting*,” “*Instructor Requirements and Student Input Planning*,” “*Requirements Determination*,” “*Supply Inventory Management*,” “*Information Assurance*,” “*Military Personnel Recruiting*,” “*Government Travel Charge Card*” and “*Accuracy of Financial Statements*”). The Statement includes that, during FY 2003, the DON completed corrective actions on five material weaknesses identified during prior periods (“*Hazardous Material Management*,” “*Security Clearance Backlog*,” “*Independent Logistics Assessment Process*,” “*Genera/Flag Officer Quarters (GFOQ)*” and “*Unmatched Disbursements*”). 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)/FMO, has just completed year two of its back-to-basics approach to improve its MCP. This approach focuses on: increasing awareness of the MCP through additional 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.

During FY 2003, the DON has seen a change in attitude among many DON commands and an improved working relationships with the NAVAUDSVC and the CNO. The following are accomplishments for FY 2003:

- Conducted 25 MCP training sessions. A total of 428 DON personnel (predominately MCP Coordinators) were trained through August 2003. In addition, the DON has developed another regional training schedule for FY 2004.
- Developed training materials for a management control training course for DON managers. This training course was tested at two DON commands and is being disseminated to all DON MCP Coordinators for their use. Training content focuses on

definitions, purpose of a MCP, DON MCP requirements, roles, responsibilities, preventive steps to take, and tips on what to do when abuse happens.

- Met with DON commands to provide one-on-one training on program requirements and tools available to assist in strengthening their MCPs.
- Expanded the use of the web-based Statement of Assurance (SOA) Tool to include all Echelon 1 or headquarter commands and Echelon 2 or one level below headquarter commands. This Tool gives commands the ability to add weaknesses, whether material or not, throughout the year and provides historical SOA data from previous fiscal years.
- Developed a database to capture information on DON MCP coordinators and their alternates. This database was developed to promote accountability for the DON MCP and assist the FMO in communicating with the department's MCP Coordinators.
- Developed a MCP website. This website serves as a one-stop resource to meet MCP needs and to assist DON commands with their MCPs. The website includes MCP statutory and regulatory guidance, tools to enhance your organization's program, MCP training information, the DON SOA, and the latest MCP news.
- The following are DON command/activity MCP accomplishments during FY 2003:
 - As part of the implementation of the de-centralized version of Standard Labor Data Collection And Distribution Application (SLDCADA), the DON civilian time and attendance system, Office of the Assistant for Administration/United States Navy (AA/USN) provided extensive user training to serviced activity timekeepers and administrative staffs. This training included information on time and attendance policies and procedures. Additionally, help-desk support is provided through Secretariat Headquarters Human Resources Office (SHHRO) customer service representatives. SHHRO staff, along with NCIS, is named as representatives to the Change Control Board, which studies and recommends updates/changes to the SLDCADA system.
 - In early December 2002, the Inspector General conducted a re-inspection of the Asset Management System (AMS) program to include AMS policies and procedures. All discrepancies identified during the reported alternative management control review have been corrected. The AMS program is meeting requirements by the Commander, Naval Security Group, to report and track claimancy-wide equipment. The established guidelines for AMS inventory parameters ensure 100% accountability and a database accuracy of 90% of selected records. All equipment items were sighted and the appropriate barcodes were collected for database validation. The accountability was 100%, with an accuracy of 92.8%. The AMS coordinator has established an excellent procedure, since the last inspection, with built-in steps to account for the vast equipment entering and exiting the command. The command has incorporated initiatives to involve all command personnel in the AMS inventory

- procedure training into the command indoctrination class for all newly assigned personnel and the addition of the AMS support checks during the command's monthly zone inspections.
- The Naval Personnel Development Command (NPDC), working in conjunction with the Naval Education Training Center (NETC), contributed to CNO's Task Force Excel initiative by assisting in the organizational realignments and establishing operational relationships between 14 Learning Centers and three Training Support Centers. Simultaneously, NPDC further defined processes while constructing a blended learning environment and reusable educational products.
 - The OASN(FM&C) developed a new DON-wide budget execution course. The Fund Usage Document course can be accessed from the Internet or via CD-ROM, and the training it provides in the appropriation, allocation and execution of resources should reduce the number of Anti-deficiency Act violations.
 - The Office of the Judge Advocate General (OJAG) provided detailed MCP training for Assistant Judge Advocates and Division Directors prior to collecting this year's vulnerability assessments (VAs) and Directors' statements of assurance. This year's VAs demonstrated an increased awareness and understanding by the Division Directors of their role in ensuring that MCP was instituted within their respective divisions.
- During fiscal year 2003, the Department of the Navy took significant actions to reduce delinquencies and strengthen the travel card program. One result was the Department's 60+ day delinquency dollars declined by 36% from October 2002 to August 2003. Other actions taken include the following:
 - Identification of potential travel card misuse. Agency Program Coordinators (APCs) are required to review a series of online reports provided by the card contractor to identify suspect transactions. The APCs then determine if cardholders were on official travel when the charges occurred and question the cardholder and the cardholder's supervisor on the appropriateness.
 - Account monitoring. The DON has comprehensively reviewed unused accounts identified by the card contractor to ensure those left open are necessary. Between September 2002 and June 2003, 158,000 accounts were cancelled.
 - Increased use of split disbursement. The DON's travelers have always been highly encouraged to use the split disbursement option when submitting their travel claims. Consequently, the number of split disbursement transactions processed in June 2003 show a 27% increase from the month of October 2002. With the recent policy change making split disbursement mandatory for DON military personnel, this figure will continue to increase.

- The OASN(FM&C) requested the NAVAUDSVC to 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. The audit commenced December 2002 and the DON will distribute appropriate guidance to all major commands upon completion of the audit estimated for October 2003.
- The Department funded its eBusiness Operations Office to provide a dedicated staff to improve management of the travel card program.
- Bureau of Naval Personnel (BUPERS) was one of six commands in the Navy and Marine Corps as having "demonstrated the most significant reductions in delinquencies." BUPERS' delinquency rate was reduced from 23.15% in January 2002 to 3.56% in May 2003. Management control actions contributing to the nearly 90% change in the delinquency rate is attributed to establishment of 12 divisional APCs, verification of signed Statement of Understanding from each cardholder, and command-wide training.
- New instruction was issued by Commander, Naval Security Group Command which required deactivation of cards for infrequent travelers. Implementation and more frequent mandated checks/reporting lowered the overall delinquency rate from 25% to 3.7%, below the Navy's target of 4%.
- A realignment of the Government Travel Charge Program ensured that activities in the CNO claimancy were held accountable at the highest level. This effort required coordination between the commands, Bank of America, and Field Support Activity. During the time period from September 2002 and July 2003, the dollar amount of delinquencies dropped 33% (from \$107,412 to \$35,914). The delinquency rate dropped for 4.07% in July 2002 to 1.53% in June 2003, well below the OASN(FM&C) goal of less than 4%.
- The AA/USN reduced the number of open travel card accounts by 18% (648 total accounts closed).
- Government Travel Card accounts for all Chief of Information (CHINFO) personnel, including all travel card holders at CHINFO field activities were comprehensively reviewed each month, including all travel card transactions and payments. All payment problems (payments due for 30 days or more) were resolved satisfactorily, and no problems reached a point where leadership intervention was required.
- NAVINSGEN restricts the issuance of the Government Travel Card to frequent travelers (travel three to four times a year). The NAVINSGEN APC conducts a monthly, 100% review of the cardholders' usage. The review examines how cards were used to determine any misuse and ensures that no accounts are delinquent. The NAVINSGEN APC reports the monthly results to the AA/USN Claimancy APC. Also when the review results require, the cardholder, their supervisor, and the chain of command are notified.

- The DON also made notable accomplishments with the Government Purchase Card Program:
 - Purchase of mid-year audits of government purchase card activity indicated compliance with Federal Acquisition Regulations and DON e-Business requirements. CHINFO personnel conducted 100% transaction audits of all government purchase card transactions for each of their two field activities with purchase authority, a complete management review of all headquarters purchase card activity, and a DON desk audit of transactions for the period of 1 April 2002 through 31 March 2003. No evidence of misuse or abuse of the card was found during their internal reviews, and the DON desk audit resulted in zero discrepancies found.
 - NAVINSGEN conducted two internal semiannual reviews of purchase transactions, ranging from 1 April 2002 to 31 March 2003. The reviews revealed that all of the purchases were authorized and that the documentation was present. The annual review of the NAVINSGEN procurement authority execution was conducted by the Fleet and Industrial Supply Center (FISC-Norfolk) on 21 July 2003. The report from the review rated the overall NAVINSGEN process as acceptable and requested that the NAVINSGEN instructions be revised to reflect the current Navy policy and procedures.
 - As a result of an internal review, NCIS took specific actions to bring the NCIS government purchase card activity in compliance with applicable directives. Actions include: reducing the span of control of the Approving Officials; reducing the number of card holders within the organization; lowering authorized spending thresholds thereby reducing fraudulent loss exposure; and initiating a rigorous inspection of cardholder's monthly reconciliation packages.
 - CNO developed and deployed role-based training, along with role-based "how to" desk guides (Standard Operating Procedures), targeted to all program participants. Mandatory initial training is required prior to program enrollment and mandatory refresher training is required every two years. In addition to reducing the number of purchase card accounts from 27,700 to 21,000, the average monthly cardholder credit limits were reduced by 73% and Prompt Payment Act interest was reduced by \$150,000.
 - Accomplishments for Security Clearance Backlog, Navy Management Control Program and Unmatched Disbursements are included in Tab B-4 of the DON Statement of Assurance.

Accomplishments During FY 2003 Stemming from Management Control Program Activities

- ◆ NAVINSGEN opened 25 procurement fraud hotline cases and closed 80 cases.
- ◆ NAVINSGEN opened 689 Navy Hotline cases and closed 700 cases.

- ◆ NAVINSGEN opened 44 Senior Official cases and closed 43 cases. Of the cases closed, 10 were substantiated.
- ◆ The Marine Corps Inspector General's Office conducted an additional 173 investigation/assistance cases and 134 hotline complaints/allegations.
- ◆ The Marine Corps discovery process for FY 2003 included reviewing the results of 7,380 Internal Control Evaluations performed throughout the Marine Corps. Management used the results of 4,553 Internal Control Reviews (ICRs) and 2,827 Alternate Internal Control Reviews (AICRs) to evaluate internal controls within the Marine Corps.
- ◆ The Nonappropriated Fund Audit Service conducted 33 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 52 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 97 inspection reports and 92 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 43 individual activity compliance statements to the Headquarters.
- ◆ The NAVAUDSVC received a total of 14 hotline actions, all of which have been resolved. Two hotline actions were referred by the Naval Inspector General; the remaining actions were internally conducted inquiries/investigations.

Significant Issues

Several issues emerged during FY 2003 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:

- ◆ Several commercial activity issues have been identified, specifically related to Post Award Reviews, position coding and Contractor Logistics Support.
 - When services are performed in-house as a result of a cost comparison, a formal review and inspection of the Most Efficient Organization (MEO) should be conducted. The NAVAUDSVC found that less than half the Activity commanders were performing their reviews as required by Office of Chief of Naval Operations Instruction (OPNAVINST) 4860.7C. When activities and Claimants do not conduct reviews and report effectively, the Navy may not be implementing the best infrastructure for achieving savings, steamlining operations, and improving efficiencies at its bases and shore facilities.

- The Navy's major claimants improperly coded manpower code L positions in the FY 2001 Inherently Governmental (IG) and Commercial Activity (CA) inventory. Three primary factors contributed to errors in manpower coding: (1) lack of review in the IG/CA compilation process, (2) lack of training which led to different coding interpretations, and (3) delegation of manpower coding responsibility below the authorized level. As a result, this could adversely affect strategic sourcing decisions. In addition, improper manpower coding did not capture positions potentially available for outsourcing or elimination that could lead to possible savings.

- The Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN(RD&A)) provided less-than adequate Contractor Logistics Support (CLS) oversight to the systems commands. CLS is an acquisition reform initiative, advocated by DoD policy. The purpose of CLS is to reduce cost and improve system availability. Program managers were encouraged to maximize the use of CLS; however, the Office of ASN(RD&A) did not provide systems commands implementing guidance or instruction. In turn, program managers were not always certain if they were employing the most effective source of product support, including CLS. In addition, program managers could not consistently demonstrate that utilizing CLS was resulting in reduced cost and improved system availability. Positive efforts are being made. The systems commands have agreed to or were directed to prepare implementation plans to execute the CLS initiative. In addition, ASN(RD&A) recently issued guidance on effective use of Performance Based Logistics that addressed using CLS. (*NAVAUDSVC Report No. N2002-0049, "Contractor Logistics Support at the Naval Sea Systems Command," May 17, 2002; NAVAUDSVC Report No. N2002-0069, "Contractor Logistics Support at the Space and Naval Warfare Systems Command," August 8, 2002; NAVAUDSVC Report No. N2003-0024, "Contractor Logistics Support at the Naval Air Systems Command," January 29, 2003; NAVAUDSVC Report No. N2003-0035, "Post Award Reviews for Navy Commercial Activity Studies Under OMB Circular A-76," March 14, 2003; NAVAUDSVC Report No. N2003-0037, "Navy Inherently Governmental and Commercial Activities Inventory: Department of the Navy Management Decision Manpower Code L Positions," March 25, 2003; NAVAUDSVC, NAVAUDSVC Report No. N2003-0050, "Contractor Logistics Support Oversight," May 15, 2003*)

- ◆ The Deputy ASN(RD&A) for Management and Budget (formerly Planning, Programming, and Resources) requested the NAVAUDSVC to perform an audit on Earned Value Management (EVM) because there were concerns about program managers implementing/using EVM to manage their programs. An EVM System is the integrated management system that uses earned value to measure the contractor's work progress. It was found that Program Management Offices for the H-1 and MH-60 Programs, two very visible Department of the Navy Major Defense Acquisition Programs (Acquisition Category I), had not effectively implemented EVM, DoD's key tool for contractor oversight and for managing program cost, schedule, and performance. Several risks were identified the implementation and use of the EVM, which impacted the H-1 Upgrades Program. The conditions occurred because the H-1 Program Management Office and the contractor placed only limited

emphasis on EVM implementation and the Defense Contract Management Agency at the contractor's plant did not effectively coordinate and implement a surveillance program. Additionally, the MH-60 Program Management Office did not conduct an Integrated Baseline Review as soon as practical or within 180 days after a modification was awarded. ASN (RD&A) concurred with all the recommendations and DON acquisition managers have taken significant actions to address the contractor's EVMS problems that were identified. *(NAVAUDSVC Report No. N2003-0045, "Earned Value Management at Program Executive Office for Anti-Submarine Warfare, Assault and Special Mission Programs," May 2, 2003)*

- ◆ Antiquated information systems that do not support automation, communications, information dissemination and trend analysis were reported by NCIS. During a NCIS Modernization, this could have a negative impact on mission performance and the ability of NCIS to measure performance and assign resources where most critically needed. Several corrective actions were taken to deal with this issue. NCIS developed a Business Modernization Plan that includes eleven portfolios designed to mitigate risk through improved core capabilities. A Chief Information Officer billet was created and filled in July 2002. Additionally, \$3 million was redirected in FY 2003 budget to NCIS' secret computer system improvements. Other completed actions include validation of the NCIS Modernization Plan and creating an Equipment Configuration Board (ECB) to review new technology and ensure compatibility with existing systems. In the next fiscal years, NCIS will incorporate and implement its reporting system into NCIS Information Technology Systems. This should improve worldwide network connectivity; availability of mobile communications for NCIS Special Agent deployments worldwide and transition from paper to electronic data collection and transmission. More importantly, it will allow efficient collection and analysis of data related to assessable units" (performance measurements), thereby enabling NCIS to assign resources more effectively. In addition, to deal with a lack of a formal process within the DON for aligning requirements for NCIS support with resources, NCIS concurred with NAVINSGEN's recommendations to create an Executive Steering Committee comprised of the Under Secretary, General Counsel, VCNO and ACMC who would continually assess and prioritize requirements over the full spectrum of the NCIS mission and ensure adequate resources were linked to these requirements. *(NCIS Self Assessment, January 2002; Navy Inspector General, Command Inspection of the Naval Criminal Investigative Service, dated April 18, 2002, Recommendation 037-02; A Business Case to Modernize the Naval Criminal Investigative Service, FY02-FY08, dated 15 Apr 2002; Zero-Based Review (ZBR) 8/02-12/02; Navy Inspector General, Command Inspection of the Naval Criminal Investigative Service, dated April 18, 2002, Recommendation 060-02)*
- ◆ Last year, 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. In general, the DON is concerned with accountability for items that could be easily pilfered and are continuing to address these concerns. All affected COMPACFLT commands completed inventories, and confirmed the personal computer data. COMPACFLTNOTE 5239 was written to provide a mandatory and standardized process control methodology, including tools and policy, to maintain accountability and control of personal computers. COMPACFLT developed a web-enabled Regional Inventory Tracking Application (RITA) to facilitate the inventory and for management oversight use. A second report was released in August 2003 that discussed Information Technology equipment leases and purchasing software, and conducting lease-versus-purchase analyses. Most of the recommendations in this report have been completed and appropriate action was taken. (*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; NAVAUDSVC Report No. N2003-0076, "Contract Lease Agreements for Fleet Information Technology Equipment," August 18, 2003*)

Items to be Revisited in FY 2004. The DON noted three (3) management control issues in FY 2003 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). The recommended corrective measures or established alternatives for these issues may not yet be finalized or significant developments may have been made, which will be monitored again for improvements next year. Related audit reports were published between March 25, 2003 and June 25, 2003. Actions on these identified audits will be monitored during FY 2004 and will be reconsidered for inclusion in the DON's FY 2004 Management Control Statement of Assurance. The reports are:

- NAVAUDSVC Report N2003-0036, "Use of Marine Corps Military Personnel to Perform Non-Military Essential Duties, March 25, 2003.
- NAVAUDSVC Report No. N2003-0054, "Management of Hazardous Material at Selected Department of the Navy Shore Installations and Activities," June 18, 2003.
- NAVAUDSVC Report N2003-0055, "Department of the Navy Antiterrorism Risk Assessment Management Approach for Naval District Washington," June 25, 2003.

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 2003 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 <ul style="list-style-type: none"> Accuracy of Financial Statements B-2-28 Unmatched Disbursements B-3-10 	
<ul style="list-style-type: none"> • Information Assurance <ul style="list-style-type: none"> Information Assurance B-2-18 	
<ul style="list-style-type: none"> • Environmental Liability <ul style="list-style-type: none"> Accuracy of Financial Statements B-2-28 	
<ul style="list-style-type: none"> • Management of Munitions and Explosives <ul style="list-style-type: none"> There are no DON FMFIA Reportable Material Weaknesses in this category. 	
<ul style="list-style-type: none"> • Personnel Security Investigations Program <ul style="list-style-type: none"> Security Clearance Backlog B-3-3 	
<ul style="list-style-type: none"> • Real Property Infrastructure <ul style="list-style-type: none"> There are no DON FMFIA Reportable Material Weaknesses in this category. 	
<ul style="list-style-type: none"> • Contracting for Services <ul style="list-style-type: none"> There are no DON FMFIA Reportable Material Weaknesses in this category. 	
<ul style="list-style-type: none"> • Government Card Program Management <ul style="list-style-type: none"> Government Purchase Card Program B-2-1 Government Travel Charge Card B-2-25 	

Point of Contact

- The DON point of contact for the MCP and issues dealing with material weaknesses reported in the DON's FY 2003 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 2003

All material weaknesses that were identified during the period FY 2003 fell under Uncorrected Material Weaknesses Identified During Prior Periods. No new categories of weaknesses are being reported for FY 2003. However, new sources that were identified in FY 2003 have been added to existing weaknesses and the narratives and milestones have been updated accordingly.

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIODS

<u>Title</u>	<u>Year</u> <u>First</u> <u>Reported</u>	<u>Correction Quarter (Qtr)</u> <u>& Fiscal Year (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>Procurement</i>				
Government Purchase Card Program	FY 2002	4 th Qtr, FY 2003	4 th Qtr, FY 2004	B-2-1
<i>Force Readiness</i>				
Readiness Reporting	FY 2002	4 th Qtr, FY 2003	3 rd Qtr, FY 2004	B-2-4
Instructor Requirements and Student Input Planning	FY 1999	4 th Qtr, FY 2005	4 th Qtr, FY 2006	B-2-8
<i>Supply Operations</i>				
Requirements Determination	FY 1993	4 th Qtr, FY 2004	4 th Qtr, FY 2004	B-2-11
Supply Inventory Management	FY 1998	2 nd Qtr, FY 2005	2 nd Qtr, FY 2005	B-2-14
<i>Information Technology</i>				
Information Assurance	FY 2001	4 th Qtr, FY 2004	4 th Qtr, FY 2004	B-2-18
<i>Personnel and/or Organization Management</i>				
Military Personnel Recruiting	FY 2001	4 th Qtr, FY 2003	4 th Qtr, FY 2004	B-2-22
<i>Comptroller and/or Resource Management</i>				
Government Travel Charge Card	FY 2002	4 th Qtr, FY 2004	4 th Qtr, FY 2004	B-2-25

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIODS

<u>Title</u>	<u>Year</u> <u>First</u> <u>Reported</u>	<u>Correction Quarter (Qtr)</u> <u>& Fiscal Year (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>	
Accuracy of Financial Statements	FY 1993/ FY 1997	TBD	4 th Qtr, FY 2007	B-2-28

CORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING ALL PERIODS

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
<i>Major Systems Acquisition</i>		
Hazardous Material Management	FY 2000	B-3-1
<i>Force Readiness</i>		
Security Clearance Backlog	FY 2002	B-3-3
<i>Supply Operations</i>		
Independent Logistics Assessment (ILA) Process	FY 2000	B-3-5
<i>Comptroller and/or Resource Management</i>		
General/Flag Officer Quarters (GFOQ)	FY 2001	B-3-7
Unmatched Disbursements	FY 1997	B-3-10

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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: Procurement

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: 4th Quarter (Qtr), FY 2003

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2003

Current Target Date: 4th Qtr, FY 2004

Reason for Change in Date(s): New requirements per Naval Audit Service Audit report.

Component/Appropriation/Account Number: Remedial actions are taken within existing planned operational budget requirement. Funding to training CDs and Video Tele-training were also taken from existing operational funds. No additional FY 2002 or FY 2003 funding was required to accomplish the actions nor are there any additional funding requirements anticipated outside operational budget requirements for future fiscal years.

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:

The following sources were identified in FY 2003. See Appendix A for sources identified in prior years.

- General Accounting Office (GAO), GAO Report No. GAO-02-1041, "Purchase Cards: Navy is Vulnerable to Fraud and Abuse but is Taking Action to Resolve Control Weaknesses, September 27, 2002.
- Office of Inspector General (OIG), DoD Report No. D-2003-109, "Summary Report on the Joint Review of Selected DoD Purchase Card Transactions," June 27, 2003.

Progress to Date:

The Department of the Navy (DON) has taken the following steps to correct its Purchase Card Program weakness:

- Established Agency Program Coordinator qualifications at 100% compliance.
- Provided desk guides via CD-ROM to the Agency Program Coordinator, Approving Officials and Cardholders via DON Program Office describing their responsibilities and procedures.
- Continued to develop guidelines for Commanders to follow when determining disciplinary actions (currently draft proposal).
- Established a revised training program (to include computer-based training and video tele-training).
- Offered role-based training for Agency Program Coordinators, Approving Officials and Cardholders via established video tele-training from the Naval Supply School in Athens, Georgia.

Major Milestones in Corrective Action:

Planned Milestones (FY 2004):

Date:	Milestone:
9/04	Data mining capability (Phase II).
9/04	Develop methods to verify rebate accuracy.
9/04	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2004):

Date: Milestone:

None

Status of Participating Functional Office/Organization: OPNAV N4

Point of Contact: CDR Anne-Marie Hartlaub, Chief of Naval Operations (CNO), anne-marie.hartlaub@navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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: 4th Quarter (Qtr), FY 2003

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2003

Current Target Date: 3rd Qtr, FY 2004

Reason for Change in Date(s): The Office of the Secretary of Defense (OSD) commissioned a study to review significant infrastructure that supports readiness. Upon completion of the OSD review and publication of implementing directions, the Marine Corps will establish a method/system for providing input in Department of Defense Readiness Reporting System (DRRS) in compliance with the Department of Defense (DoD) Directive 7730.65. Estimated completion date is December 31, 2003.

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 Status of Resources and Training System (SORTS) data used in the decision-making process.

Source(s) Identifying Weakness:

The following sources were identified in FY 2003. See Appendix A for sources identified in prior years.

- Naval Audit Service (NAVAUDSVC), NAVAUDSVC Report No. N2002-0080, "Navy Submarine Readiness Reporting," September 27, 2002.

- NAVAUDSVC, NAVAUDSVC Report No. N2003-0001, "Navy P-3 Aircraft Readiness Reporting," October 1, 2002.
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0012, "Verification of the Reliability and Validity of the Department of the Navy's Total Force Manpower Management System (TFMMS) Data," November 8, 2002.
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0022, "Mine Countermeasures Squadrons Readiness Reporting," December 19, 2002.
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0025, "Navy Cruiser Unit Readiness Reporting," February 13, 2003.
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0026, "Verification of the Reliability and Validity of the Department of the Navy's Readiness Information System (RIS) Data," February 6, 2003.
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0039, "Navy F/A-18 Combat Aviation Training," March 31, 2003.

Progress to Date:

The Department of the Navy (DON) has taken the following steps to correct its Readiness Reporting weakness:

- Commander in Chief, United States (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.
- 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.
- 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.
- 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.

- The Marine Corps maintained historical data files to support the calculation of training workload readiness rating included in annual Institutional Training Readiness Reports to Congress.
- The Marine Corps provided training necessary to ensure that personnel responsible for updating By-Name Assignment data thoroughly trained with particular emphasis on how to input student deletions and reassignments.
- The Marine Corps 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 the Marine Corps training institution.

Major Milestones in Corrective Action:

Planned Milestones (FY 2004):

Date:	Milestone:
9/03	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.
9/03	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) 1/04 (CMC)	Chief of Naval Operations (CNO) and Commandant of the Marine Corp (CMC) will develop baselines for all essential elements of installation readiness.
9/03 (CNO) 1/04 (CMC)	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 (CNO) 6/04 (CMC)	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2004):

Date: Milestone:

None

Status of Participating Functional Office/Organization: N/A

Point of Contact: CDR Anne-Marie Hartlaub, CNO, anne-marie.hartlaub@navy.mil
Mr. Joseph Condry, Marine Corps (CMC), (703) 614-4500,
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UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (FY) 1999

Title and Description of Material Weakness: Instructor Requirements and Student Input Planning. 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: 4th Quarter (Qtr), FY 2005

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2005

Current Target Date: 4th Qtr, FY 2006

Reason For Change in Date(s): Due to staffing constraints, the Marine Corps has adopted a strategy of employing information technology to increase management efficiency within the training establishment. The development of a resource optimization model depends upon prerequisite development of curriculum development and curriculum management modules that are planned during FY 2004.

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 could potentially have more instructors than needed.

Source(s) Identifying Weakness:

- Naval Audit Service (Naval Audit Service), NAVAUDSVC Report No. 020-99, "Reliability of Information Used for Student Input Planning for Initial and Advanced Skills Training," January 8, 1999.
- NAVAUDSVC, NAVAUDSVC Report No. 033-99, "Requirements and Student Input Planning for 'F' School Courses," April 16, 1999.
- NAVAUDSVC, 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:

- The Marine Corps Automated Instructional Management System (MCAIMS) used in resubmitting programs of instruction (POI) for existing courses has automated the POIs.
- Computation of instructor requirements for Marine Corps courses is accomplished automatically, using the Interservice Training Review Organization's "Lock-Step" formula, as part of POI development using MCAIMS.
- The Marine Corps has completed initial development of multiple, basic modules for a training enterprise system that establishes the data and application framework for identifying and scheduling resources needed for courses. The Marine Corps has prioritized and partially-funded plan for developing additional modules over the next few years that will include the ability to analyze and optimize instructor staffing.

Major Milestones:

Planned Milestones (FY 2004):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2004):

Date:	Milestone:
7/06	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.

9/06

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, Marine Corps (CMC), (703) 614-4500,
condryj@hqmc.usmc.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (FY) 1993

Title and Description of Material Weakness: Requirements Determination. 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.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995 (Chief of Naval Operations (CNO)); 4th Qtr, FY 2001 (Marine Corps)

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2004 (CNO); 4th Qtr, FY 2003 (Marine Corps)

Current Target Date: 4th Qtr, FY 2004 (CNO) (CMC completed 4th Qtr, FY 2003)

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

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 publish Expeditionary Force Development (EFD) Order could potentially have funds put to better use.

Source(s) Identifying Weakness:

There were no new sources identified during FY 2003. 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:

- Reexamination of the identified Marine Corps programs determined that alternate forms of requirements determination adequately documented the programs.
- Marine Corps Order (MCO) 3900.4D was cancelled and revisions were included in MCO 3900.15A, "The Expeditionary Force Development System."
- Validation of the implementation of the Marine Corps corrective milestones has been accomplished by an on-site verification.
- 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 2004):

Date:	Milestone:
9/03	Achieve Interactive Computer-Aided Provisioning System (ICAPS) functionality. Enhancements are currently planned to expand NAVICP's capability to process Design Change Notices (DCNs) through the 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. The sufficiency and availability of funding for system design changes continue to be problematic and a concern. Pending resolution of funding constraints, the estimated completion date of September 2003 could slip further. NAVSEA and NAVSUP are exploring options to incorporate ICAPS functionality within Navy's Enterprise Resource Planning (ERP) efforts.
9/04	Completion of NAVSUP ERP.
9/04	Verification: All corrective actions will be certified by the responsible component(s) through command inspections, audits, and quality assurance reviews.

Planned Milestones (Beyond FY 2004):

Date: Milestone:

None

Status of Participating Functional Office/Organization: N/A

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UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (FY) 1998

Title and Description of Material Weakness: Supply Inventory Management. Department of Navy (DON) activities need to improve oversight of inventories.

- 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.
- The DON's service-wide strategic plan does not specifically address means to mitigate critical spare parts shortages.
- Depots maintained materiel that exceeded requirements due to a lack of management oversight. Excess and inaccurate inventories will result in materiel that loses visibility to item managers and may become lost, obsolete, or stolen. In addition, proper management decisions over the use of materiel may have been hampered.
- Personnel did not perform annual physical inventories, magazine-to-record reviews, and periodic record-to-record reconciliation. As a result, ordnance data reported as part of the DON financial statements and in logistic and operational systems databases were unreliable.
- The DON needs to take additional actions to further improve the monitoring and oversight of in-transit inventory.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1998

Original Targeted Correction Date: 4th Quarter (Qtr), FY 2001

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2005

Current Target Date: 2nd Qtr, FY 2005

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

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

The Naval Air Systems Command (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.

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 progress of NAVAIR SOM inventories are at 70%. To date, \$3.5 billion of estimated total \$5 billion of unrecorded SOM have been captured.

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

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

FY 2001 ROI = \$1:6:4

FY 2002 ROI = \$1:22

Number and Dollar Value of Fleet Issues: Approx. \$70M/FY 2002 issued to date.

Number and Dollar Value of High Priority (NMCS/PMCS/CASREP) Issues: Approx. \$59M issued to date.

Source(s) Identifying Weakness:

See Appendix A for sources identified in prior years.

- Office of the Inspector General (OIG), Department of Defense (DoD) Report No. D-2002-080, "Quality Deficiency Reporting Procedures for Naval Repair Parts," April 5, 2002.
- General Accounting Office (GAO), GAO Report No. GAO-03-708, "Defense Inventory: Navy Logistics Strategy and Initiatives Needed to Address Spare Parts Shortages," June 27, 2003.
- OIG, DoD Report No. D-2003-057, "Accountability and Control of Materiel at the Naval Air Depot, Jacksonville," March 5, 2003.
- OIG, DoD Report No. D-2003-084, "Ordnance Accountability at Fleet Combat Training Center Atlantic," April 29, 2003.
- OIG, DoD Report No. D-2003-098, "Followup Audit of Depot-Level Repairable Assets at Selected Army and Navy Organizations," June 5, 2003.

Progress to Date:

The DON has taken the following steps to correct its Supply Inventory Management 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.
- The implementation of the NAVSUP Realtime Residual Asset Management System (RRAM) has been completed at NAVAIR Foreign Military Sales Reserve Warehouse and Cheatham Annex.

Major Milestones:

Planned Milestones (FY 2004):

Date:	Milestone:
3/03	Naval Inventory Control Point (NAVICP) will implement notification procedures and provide appropriate disposition instructions to Department of Defense customers based on procurement quantities of the items .
9/03	Issue SOM Policy Instruction.
9/03	Develop stocking objective for SOM.
12/03	Ongoing NAVAIR/NAVSUP partnership with SOM visibility via RRAM Inventory Management System.

Planned Milestones (Beyond FY 2004):

Date:	Milestone:
10/04	Complete inventory of NAVAIR SOM
12/04	Complete identification of SOM
3/05	The Navy will develop an automated information technology system that will centrally account and control deficiency reports from inception to conclusion. Phase 1 is anticipated for completion by December 2003 and Phase 2 by December 2004.

3/05 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

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UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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 Information Assurance policy, strategy, and tools.

The primary IA weakness in the Department of the Navy (DON) is the status of certification and accreditation of DON systems. The new DON IA policy (Secretary of the Navy Instruction (SECNAVINST) 5239.3A), currently in final draft, incorporates requirements, requiring all information technology (IT) systems under DON authority to be certified and accredited. It also requires training for Designated Approving Authorities (DAA).

Issues:

- Certification and Accreditation of DON Systems. There are approximately 1000 mission critical and mission essential IT systems in the DON IT Registry. A sampling of these systems taken for the DoD FY 2003 Federal Information Security Management Act (FISMA) Report indicated that 74 percent of these systems have been certified and accredited or are operating under a current Interim Authority to Operate (IATO). This represents an increase of 30% from the sample collected in FY 2002.
- Y2K Renovation of DON Systems. 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. Since the DoDIG Year 2000 Renovation audit was conducted, over 85 percent of the systems have been accredited or authorized to operate under an IATO, have been terminated or slated for termination, or have been identified as having no external connectivity (e.g. shipboard combat systems) and therefore not subject to the accreditation process.
- Government Information Security Reform Act (GISRA) Reporting. 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: 4th Quarter (Qtr), FY 2004

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2004

Current Target Date: 4th Qtr, FY 2004

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

Component/Appropriation/Account Number:

(\$000s)

Information Assurance	FY02	FY03	FY04
MP,N Military Personnel-Navy	25,467	37,483	46,764
NWFCST Navy Working Capital Fund-COST	9,184	6,267	4,942
O+M,MC Operations & Maintenance-MC	43,882	95,467	89,623
O+M,MCR Operations & Maintenance-MC Res	0	0	2,625
O+M,N Operations & Maintenance-Navy	72,629	71,067	60,544
OP,N Other Procurement-Navy	113,653	88,825	81,975
P,MC Procurement-Marine Corps	4,730	1,758	2,510
RDTE,N R, D, T and E-Navy	27,291	25,850	21,507
TOTAL *	296,836	326,717	310,490

The figures shown are taken from the FY 2004 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:

- Implement the DON IA Policy, including the following requirements:
 - Certify and accredit all systems in the DON IT Registry.
 - Update the DON IT Registry quarterly.
 - Implement IA training requirements.
 - 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.
 - Conduct detection, notification, and remedial action for significant deficiencies and security incidents.
 - Independently test intrusion detection systems and contingency plans.
- DON CIO, Navy, and Marine Corps review quarterly the DON IT Registry for system

accreditation status.

- DON CIO review IA metrics at least quarterly, keeping senior management informed by indicators on the DON CIO website.

Source(s) Identifying Weakness:

The following sources were identified in FY 2003. See Appendix A for sources identified in prior years.

- Naval Audit Service (NAVAUDSVC), NAVAUDSVC Report No. N2003-0015, "Department of the Navy's Implementation of Government Information Security Reform Act for Fiscal Year 2001," November 13, 2002.
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0051, "Weapon Systems Information Available on the Internet," May 20, 2003.

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 and FY 2002 GISRA Reports to OSD.
- DON CIO and Services placed 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, 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, Navy, and Marine Corps conducted an assessment of the quality and accuracy of the FY 2002 GISRA Report input.

Major Milestones:

Planned Milestones (FY 2004):

Date:

Milestone:

- 10/03 SECNAV issue revised IA Policy (SECNAVINST 5239.3A)
- 10/03 DON CIO issue and implement the FISMA Action Plan, in coordination with Navy and Marine Corps.
- 9/04 DON complete certification and accreditation of Y2K renovated systems identified in Office of the Inspector General, Department of Defense (DoDIG) Report 2001-016.
- 9/04 DON reach Office of Management and Budget (OMB) goal of 90% certification and accreditation of applicable systems in DON IT Registry.
- 9/04 Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond 2004):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization:

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

Point of Contact: Mr. Robert Grady, DON CIO, 703-602-6307

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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: 4th Quarter (Qtr), FY 2003

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2003

Current Target Date: 4th Qtr, FY 2004

Reason for Change in Date(s): The Navy Selection and Classification Office did not stand up until FY 2003. At that time, the office began to take action to charter a Selection and Classification Advisory Panel with representatives from the various Navy stakeholder organizations critical to effectively identifying and reducing the identified error rate deficiency. Unfortunately, delays in completing the charter and constituting the panel to begin corrective action for this deficiency caused unforeseen delays in reaching the targeted completion date. This panel has now been constituted and during their July 2003 session began corrective action by directing a cross-functional workgroup led by Chief of Naval Operations (CNO) (N132F) to more specifically identify the specific causes of the error and further identify specific, corrective actions required to achieve the targeted reduction of errors. The workgroup is required to report to the Advisory Panel quarterly, with the first report in early October 2003, which will include a detailed POA&M to include all corrective actions, milestones and responsible

agencies/individuals.

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:

- Naval Audit Service (NAVAUDSVC), 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.
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0047, "Use of Navy Recruiters to Perform Administrative and Support Jobs," May 6, 2003.

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). PSD RTC now provides monthly reclassification and error reports to CNO (N13) and CNRC who liaison with MEPS/MEPCOM.

- 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. 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.
- Established the Selection and Classification Advisory Panel, with representatives from appropriate Navy stakeholder organizations.

Major Milestones:

Planned Milestones (FY 2004):

Date:	Milestone:
07/04	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.
9/04	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2004):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization: N/A

Point of Contact: CDR Anne-Marie Hartlaub, Chief of Naval Operations (CNO), anne-marie.hartlaub@navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (FY) 2002

Title and Description of Material Weakness: Government Travel Charge Card. Internal controls over the Department of Defense individually billed travel charge card program has been the subject of Congressional, General Accounting Office (GAO), and media interest. On January 27, 2003, the GAO released their final report on the Department of the Navy (DON) travel card program. The report cited material weaknesses in the travel card program internal controls and delinquency management. In addition, the proliferation of inactive cardholder accounts, lack of documented training, and apparent misuse and abuse were discovered by the audit. The following milestones will significantly enhance the internal controls and delinquency management of the DON Travel Card program.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 2002

Original Targeted Correction Date: 4th Qtr, FY 2004

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2004

Current Target Date: 4th Qtr, 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 and monthly metrics from DoD.

Source(s) Identifying Weakness:

- GAO, GAO Report No. GAO-03-147, "Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse," December 23, 2002
- GAO, GAO Report No. GAO-03-148T, "Travel Cards: Control Weaknesses Leave Navy Vulnerable to Fraud and Abuse," October 8, 2002
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0027, "Auditor General Advisory Department of the Navy Travel Card Program," February 14, 2003

Progress to Date:

During fiscal year 2003, the DON took significant actions to reduce delinquencies and strengthen the travel card program. The DON's 60+ day delinquency dollars declined by 36% from October 2002 to August 2003. The progress was attributed to the increased attention of leadership and a number of actions focusing on delinquency management. In addition to a continuing effort to reduce delinquency, command attention has been directed to the following other important aspects of travel card program management:

- Identification of potential travel card misuse. Agency program coordinators (APCs) are required to review a series of online reports provided by the card contractor to identify suspect transactions. APCs are then to determine if cardholders were on official travel when the charges occurred and question the cardholder and the cardholder's supervisor on the appropriateness.
- Account monitoring. The DON has comprehensively reviewed unused accounts identified by the card contractor to ensure those left open are necessary. Between September 2002 and June 2003, 158,000 accounts were cancelled.
- Increased use of split disbursement. The DON's travelers have always been highly encouraged to use the split disbursement option when submitting their travel claims. Consequently, the number of split disbursement transactions processed in June 2003 show a 27% increase from the month of October 2002. With the recent policy change making split disbursement mandatory for DON military personnel, this figure will continue to increase.

Previously, the Assistant Secretary of the Navy (Financial Management and Comptroller (ASN(FM&C))) challenged all DON commands to adhere to a delinquency metric of no more than 4% of the total dollars outstanding being more than 60 days past the billing date.

- As part of this effort, commands failing to meet the 4% delinquency metric are required to report to the ASN(FM&C) on actions they are taking to reduce delinquencies.
- The senior leadership of the commands failing to meet the 4% delinquency metric are required to brief the ASN(FM&C) on the actions taken by their command to meet the goal.
- The ASN(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. The audit commenced December 2002 and the DON will distribute appropriate guidance to all major commands upon completion of the audit estimated for October 2003.

Major Milestones in Corrective Action:

Planned Milestones (FY 2004):

Date:	Milestone:
3/04	Reviews will be conducted for card usage, with accounts being closed when they have not been used in the previous 12 months.
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.

Planned Milestones (Beyond FY 2004):

Date:	Milestone:
	None

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
FISCAL YEAR (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, reconciling records, timely disposing of excess assets, and requesting the appropriate write off authority. In summary, the management control weakness consists of 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 DON GF and NWCF financial statements.

The DON financial management community fully supports the Department of Defense Business Enterprise Architecture (BEA) and the Business 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 BEA 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: 4th Quarter (Qtr), FY 1998

Targeted Correction Date in Last Year's Report: TBD

Current Target Date: 4th Qtr, FY 2007

Reason For Change in Date(s): Consolidated the DON GF and NWCF material weaknesses to align with the Department of Defense (DoD) FMEA and associated initiatives. By direction received from Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) memo of August 8, 2003, Military Departments are required to provide a Mid-Range Financial Improvement Plan with the goal of a clean opinion on the financial statements by FY 2007.

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

Budgeted resource requirements are dependent upon the outcome of the BEA 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:

The following sources were identified in FY 2003. See Appendix A for sources identified in prior years.

- General Accounting Office (GAO), GAO Report No. GAO-03-275, "Defense Budget: Improved Reviews Needed to Ensure Better Management of Obligated Funds," January 30, 2003
- Naval Audit Service (NAVAUDSVC), NAVAUDSVC Report No. N2002-0082, "Validation of Selected Unliquidated Obligations at Naval Sea Systems Command," September 30, 2002
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0003, "Validation of Selected Fiscal Year 2000 Unliquidated Obligations at Space and Naval Warfare Systems Command," October 18, 2002
- NAVAUDSVC, NAVAUDSVC Report No. N2003-0019, "Shipyard Management Information System," December 9, 2002
- Office of Inspector General (OIG), DoD Report No. D-2003-017, "Naval Ammunition Logistics Center Financial Reporting of Ammunition and Other Ordnance Assets in Operating Materials and Supplies for FY 2002," October 30, 2002
- OIG, DoD Report No. D-2003-020, "Naval Air Systems Command Financial Reporting of Non-Ammunition Operating Material and Supplies for FY 2002," November 8, 2002
- OIG, DoD Report No. D-2003-039, "Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost," December 31, 2002
- OIG, DoD Report No. D-2003-058, "Financial Reporting of Deferred Maintenance Information on Navy Weapon Systems for FY 2002," March 6, 2003

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. (Note: Guidance has been revised and is back in the chop chain for review and approval.)
- 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 personal property and adjust records as needed. (Implementation Strategy: PP&E Existence and Completeness, USD(C) issued a Statement of Work (SOW) dealing with personal property.) SOW implemented. DON activities reconciled personal property records as they implemented the Defense Property Accountability System (DPAS). Fielding of DPAS was completed at DON General Fund Activities in FY 2002.
- Developed and issued guidance and procedures for reporting estimates for Non-Defense Environmental Restoration Liabilities. Per CNO letter of May 1, 2003, the guidance was promulgated to the appropriate Navy commands. However, OUSD(AT&L)/Installations and Environment continues to develop guidance and once that guidance is completed, DON will revise the May 1, 2003 guidance.
- Participated in the OUSD(C) Accounts Receivable working group to identify and recommend changes in practices and procedures for Accounts Receivable.
- Worked with OUSD(C) and Acquisition and Technology (AT&L) staff, completed 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.

Major Milestones:

Planned Milestones (FY 2004):

Date:	Milestone:
12/03	Complete and provide the DON Mid-Range Financial Improvement Plan to OUSD(C). Per USD(C) memo of August 8, 2003, all Military Departments are required to provide a Mid-Range Financial Improvement

Plan by October 31, 2003.

- 9/04 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.
- 9/04 Continue to work with OUSD(AT&L) in implementing the Statement of Federal Financial Accounting Standards No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment." Per OUSD(C) decision memo of July 17, 2003, plans are to focus on validating, defining and extending the BEA for military equipment by April 2004 and develop the IT solution requirements by May 2004.
- 9/04 Once the DoD BEA is completed, working with OUSD(C), begin to implement appropriate segments or align current system initiatives with the BEA 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 intra-governmental eliminations for the financial statements.

Planned Milestones (Beyond FY 2004):

- | Date: | Milestone: |
|-------|--|
| 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. |
| 9/06 | Complete implementation of the Mid-Range Financial Improvement Plan so financial statements will be ready for external assessments and audits. |

9/07 Work with the DoD Business Management Modernization Program to assist in the development of the DoD Business Enterprise Architecture.

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 & Logistics) (X)	Assured
Defense Finance & Accounting Service (X)	Assured

Point of Contact: Mr. Gilbert Gardner, Assistant Secretary of the Navy (Financial Management & Comptroller) (ASN(FM&C)), (202) 685-6727, gardner.gilbert@fmo.navy.mil

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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: 4th Quarter (Qtr), FY 2003

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2003

Current Target Date: 4th Qtr, FY 2003

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

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 Department of Defense (DoD) guidance for reporting those costs becomes available.

Source(s) Identifying Weakness:

- Office of the Inspector General (OIG), DoD Report No. D-2000-022, “Hazardous Material Management for the Nimitz-Class Nuclear Aircraft Carrier Program,” October 27, 1999.

Progress to Date:

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

Point of Contact: Ms. Kathy Llewellyn, Assistant Secretary of the Navy (Research, Development & Acquisition) (ASN (RD&A)), 703.693.8825, llewellyn.kathy@hq.navy.mil

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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: 2nd Quarter (Qtr), FY 2003

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2003

Current Target Date: 2nd Qtr, 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.

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.
- Processed thirty-five civilian employee applicants.
- Awarded Phase II Contract (\$8.4 million).
- Eliminated clearance backlog by end of FY 2003. (Reduced--current backlog is 25,109.)
- Verification: Validation of the implementation of the corrective milestones accomplished by an on-site verification.

Point of Contact: Ms. Carol Kisthardt, NCIS, (202) 433-0211, ckisthar@ncis.navy.mil

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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: 2nd Qtr, FY 2001

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2003

Current Target Date: 4th Qtr, FY 2003

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

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:

- Naval Audit Service (NAVAUDSVC), NAVAUDSVC Report No. N2000-0027, "Independent Logistics Assessment Process," June 27, 2000.

Progress to Date:

- Revised 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.

- Revised 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).
- Revised SECNAVINST 4105.1, which addresses ILAs in detail, to provide additional guidance to SYSCOMS, PEOs and Program Managers.
- Verification: Validation of the implementation of the corrective milestones was accomplished by an on-site verification.

Point of Contact: Ms. Kathy Llewellyn, ASN(RD&A), (703) 693-8825,
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CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (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: 4th Qtr, FY 2002

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2003

Current Target Date: 2nd Qtr, FY 2003

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

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:

- Office of the Inspector General (OIG), Department of Defense (DoD) Report No. D-2001-027, "Navy Management Controls over General and Flag Officer Quarters Costs," December 26, 2000.

- OIG, DoD 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.
- Completed 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. Beginning in FY 2003, family housing funding was realigned to pass through the Fleet to the regions.

- Validation of the implementation of the corrective milestones has been accomplished by an on-site verification.

Points of Contact:

Mr. Steve Keating, ASN(I&E), 703-588-6609, keating.steve@hq.navy.mil

CDR Kathy Allen, CNO, 703-601-1650

Mr. Alan Bergo, Commander, Naval Facilities Engineering Command, 202-685-9339

Mr. Lynn Jewett, ASN(FM&C) FMB-53, 703-693-6588

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FISCAL YEAR (FY) 1997

Title and Description of Material Weakness: Unmatched Disbursements (Office of the Secretary of Defense (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: 4th Qtr, FY 2003

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2003

Current Target Date: 4th Qtr, 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)

Title	Appn(s)	(\$000)				Cost-To-Complete	Total
		FY2001	FY2002	FY2003	FY2004		
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	\$407
Absolute	\$2,048	\$1,009	\$548	\$496

As of July 2003, the net balance for PDs was \$306 million, and the absolute balance was \$449 million, exceeding the FY 2003 goal. These balances represent respectively, a 62 percent and 60 percent reduction from September 2001 balances.

Source(s) Identifying Weakness:

No new sources identified in FY 2003. The following source was identified in FY 2001:

- Naval Audit Service (NAVAUDSVC), 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.
- Verification: The amount of problem disbursements is at an acceptable level over a specified time period.

Point of Contact: Ms. Vicki Beck, ASN(FM&C), (202) 685-6721, beck.vicki@fmo.navy.mil

MANAGEMENT CONTROL PROGRAM AND RELATED ACCOMPLISHMENTS

Most significant management control program and related accomplishments achieved during fiscal year (FY) 2003 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.

Security Clearance Backlog

Description of the Issue

- 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) remained at more than 60,000 at the end of fiscal year (FY) 2002.
- The backlog prevented the Navy from meeting the Office of the Secretary of Defense (OSD) mandate to complete clearance decisions within thirty days.

Accomplishments

The DON CAF has made significant progress in reducing the clearance adjudication backlog from 65,000 in October 2002 to 25,109 in August 2003. The backlog is expected to be eliminated by 30 December 2003.
The DON CAF increased funding and hired and trained additional civilian personnel security.
The DON CAF met with the Naval Audit Service for the purpose of discussing the possibility of developing a partnership that will assist the DON CAF in developing a matrix that will improve the tracking, monitoring, and reporting of case loadings and adjudication completion rates, to continue to validate sufficient staffing and resource requirements and develop a reporting system that will respond to the DON CAF progress in resolving backlog throughout FY 2003.

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.

- Beginning in FY 1999, the DON Leadership took direct action to mitigate and enhance the DON MCP. Progress has been achieved, and the DON will continue to apply management attention to this program.
- The DON, through the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C)), has just completed year two of its back-to-basics approach to improve its Management Control Program (MCP). This approach focuses on: increasing awareness of the MCP through additional 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.
- During FY 2003, the DON has seen a change in attitude among many DON commands and an improved working relationship with the Naval Audit Service (NAVAUDSVC) and the Chief of Naval Operations (CNO).

Accomplishments

<p>Conducted 25 MCP training sessions. A total of 428 DON personnel (predominately MCP Coordinators) were trained through August 2003. In addition, the DON has developed another regional training schedule for FY 2004.</p>
<p>Developed training materials for a management control training course for DON managers. This training course was tested at two DON commands and is being disseminated to all DON MCP Coordinators for their use. Training content focuses on definitions, purpose of a MCP, DON MCP requirements, roles, responsibilities, preventive steps to take, and tips on what to do when abuse happens.</p>
<p>Met with DON commands to provide one-on-one training on program requirements and tools available to assist in strengthening their MCPs.</p>
<p>Expanded the use of the web-based Statement of Assurance (SOA) Tool to include all Echelon 1 or headquarter commands and Echelon 2 or one level below headquarter commands. This Tool gives commands the ability to add weaknesses, whether material or not, throughout the year and provides historical SOA data from previous fiscal years.</p>
<p>Developed a database to capture information on DON MCP coordinators and their alternates. This database was developed to promote accountability for the DON MCP and assist the FMO in communicating with the department's MCP Coordinators.</p>
<p>Developed a MCP website. This website serves as a one-stop resource to meet MCP needs and to assist DON commands with their MCPs. The website includes MCP statutory and regulatory guidance, tools to enhance your organization's program, MCP training information, the DON SOA, and the latest MCP news.</p>

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 (NULOs) where the disbursement exceeds the recorded obligation. UMDs and NULOs are classified as problem disbursements (PDs).
- The Office of Financial Operations (FMO) continued to focus on eliminating problem disbursements (PDs) in fiscal year (FY) 2003.
- At the end of FY 2003, major commands' success will be measured against the above goals while their fiscal year ending balances must not exceed their ending balances for FY 2002 unless due to inflow.

Accomplishments

PDs at the end of FY 2002 were \$405M absolute and \$292M net. Because the DON exceeded by 25% the FY 2002 absolute and net goals of \$548M and \$390M respectively, FMO issued a memo dated March 5, 2002 establishing aggressive General Fund and Navy Working Capital Fund (WCF) PD reduction goals in three key areas:

- Eliminate PDs greater than 120 days
- Show a constant downward trend of the PD amounts aged 61 to 120 days
- Reduce PD inflow and show no more than a 60-day balance each month.

FMO continued to implement problem disbursement reduction programs to assist the Major Commands in achieving year-end goals.

General Fund PD Inflow Reduction: The PD Inflow Process Improvement team submitted the results of its study to identify the root causes of PD inflow for contracts, reimbursable work orders, and Military Standard/Requisitioning and Issue Procedures (MILSTRIP), the top three categories of monthly inflow. An implementation plan has been drafted to roll out key recommendations.

Navy WCF PD Process Improvement Efforts: The joint FMO-Defense Finance and Accounting Service (DFAS) Cleveland Process Improvement Team completed efforts to document the WCF PD process at the top PD producing DFAS field sites. FMO completed the first two recommendations below, and implementation of the third is in progress:

- Obtain usable WCF PD detailed data and initiate WCF PD trend analysis
- Identify PD inflow issues and develop recommendations for improvements
- Task DFAS Cleveland to draft standard operation procedures for the WCF PD reporting process.

APPENDIX A: Prior Period Sources Identifying Weaknesses*

Government Purchase Card Program (B-2-4)

- 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

Readiness Reporting (B-2-7)

- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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

Requirements Determination (B-2-14)

- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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
- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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

Supply Inventory Management (Excess Material and Unrecorded Inventories) (B-2-17)

- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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
- 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
- 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

Information Assurance (B-2-21)

- DODIG Report No. D-2001-016, “Security Controls Over Contractor Support For Year 2000 Renovation,” December 12, 2000

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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”

Accuracy of Financial Statements (B-2-31)

- 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
- 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
- NAVAUDSVC Report No. N2001-0012, “Fiscal Year 2000 Department of the Navy General Fund Principal Statements,” February 7, 2001

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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
- NAVAUDSVC Report No. 045-97, “DON FY 1996 Annual Financial Report: Accounts Receivable, Net,” May 12, 1997

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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 Financial Statements and subsequent memo same subject
- NAVAUDSVC Report No. 040-98, “DON Principal Statements for Fiscal years 1997

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

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

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Regulations for the DoD Agency-Wide Financial Statements for FY 1999,”
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- 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
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- NAVAUDSVC Report No. 053-H-94, “FY 1993 Consolidating Financial Statements of the Department of the Navy DBOF,” June 29, 1994
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- 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
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*Sources were not previously identified in Tabs B-2 and B-3.

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- 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
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- 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
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Unmatched Disbursements (B-3-8)

- GAO/AFMD Report No. 93-21, “Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements,” June 1993
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- NAVAUDSVC Report No. 021-97, “Navy Fleet and Field Level Unmatched Disbursements,” March 7, 1997

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- GAO/AIMD Report No. 98-040, “Financial Management: Seven DoD Initiatives That Impact the Contract Payment Process,” July 30, 1998
- NAVAUDSVC Report No. N2001-0033, “Fiscal Year 2000 Department of the Navy General Fund Financial Statements: Navy Problem Disbursement Resolution Process,” June 28, 2001

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