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(FINANCIAL MANAGEMENT AND COMPTROLLER)
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JUN '8 2000

MEMORANDUM FOR DISTRIBUTION

Subj: FISCAL YEAR 2000 CHIEF FINANCIAL OFFICER NAVY WORKING
CAPITAL FUND MATERIAL WEAKNESS REPORTING REQUIREMENTS

Ref: (a) SECNAVINST 5200.35D3, DON Management Control Program

Encl: (1) Uncorrected Material Weakness Identified
During Prior Period FY 1993
(2) FY 2000 "CFO NWCF Material Weakness"
(Industrial Activities)
(3) FY 2000 "CFO NWCF Material Weakness"
(Supply Activities)
(4) Minimal POA&M to Correct NWCF Activity Level
Account Balance Inaccuracies

The Department of Defense (DoD) and the Department of the Navy (DON) are working towards obtaining an unqualified opinion on their Chief Financial Officers (CFO) financial statements. A critical element in this process is the need to eliminate the existing material weaknesses discovered during audits of the Navy Working Capital Fund (NWCF) financial statements from Fiscal Year (FY) 1991 through FY 1999. Past efforts to correct reported material weaknesses have been less than successful, as evidenced by the repetitive problems identified in the Naval Audit Service's (NAVAUDSVC) NWCF CFO financial statement audit reports. One of the efforts to overcome this difficulty by the NAVAUDSVC, is to address many of its findings and recommendations to the activity level.

Addressing findings and recommendations to the activity level is needed to directly relate the problems found with those responsible and accountable for correcting them. This approach also provides the activity level managers with a template for the identification and reporting of material weaknesses as discussed in the reference (a) DON Management Control Program. One facet of the DON Management Control Program is the requirement for all DON managers to continuously assess the effectiveness of their management controls and to inform their managers of those material weaknesses that affect the fulfillment of an activity's mission or weaken safeguards of assets. The Command submission

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to the DON annual Statement of Assurance, as required by the Federal Managers Financial Integrity Act (FMFIA - the Integrity Act) should include these matters. Pursuant to the Integrity Act each year the DON provides its Statement of Assurance, which describes the material weaknesses in the DON's system of management controls, to the Secretary of Defense for reporting to the President and the Congress. At enclosure (1) is the section of the FY 1999 Statement of Assurance that reports the material weakness in the NWCF CFO financial statements. Although much has been accomplished since it was first submitted in FY 1993, much is left to be done if the NWCF financial statements are to achieve an unqualified opinion.

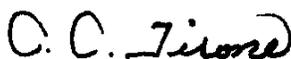
One major condition inhibiting such an opinion is inaccurate account balances. Although an identified account balance weakness may seem minor at an individual activity level, when discovered at numerous activities it must be presumed to be systemic (DON-wide) and thereby constitutes a Departmental material weakness. Thus activity level problems must be corrected if the Department as a whole is to improve. By Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) memorandum of 29 March 1999, NWCF management commands have commenced a review of conditions preventing the NWCF from receiving an unqualified opinion to determine the needed corrective actions. This is a start towards identifying the NWCF activities to which these deficiency conditions are applicable. However, a more comprehensive effort by your command and all levels of your chain of command is required to meet the goal of an unqualified opinion.

Therefore, in accordance with paragraph 13 of enclosure (1) to reference (a), the ASN(FM&C) has determined that open findings and associated recommendations on management controls that stem from financial statement audits are material weaknesses at the applicable level, and are to be considered open and uncorrected until all actions agreed to in the course of the audit are completed. To comply with this requirement, NWCF activities should report these identified deficiencies as a "CFO NWCF Material Weakness" through the chain of command in their FY 2000 Annual Management Control Certification Statement. Enclosures (2), (3) and (4) provide the reporting requirements for this "CFO NWCF Material Weakness".

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This FY 2000 "CFO NWCF Material Weakness" will be monitored and reported, in accordance with reference (a), until such time that documentary evidence exists to support both an unqualified Statement of Assurance and an unqualified audit opinion. Documentary evidence, for example, would include the ability to demonstrate the integrity of the reported account balances and the currency of the source data based on the quantitative results of the quarterly reconciliation process.

My point of contact is Ms. Linda Tread at (202)685-6733, DSN 325-6733 or Internet address (tread.linda@fmo.navy.mil) for audit and financial statements related questions. The fax number is (202)685-6700 or DSN 325-6700.



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