
FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 1999

STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

SUBJECT: FY 1999 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

Concept of Reasonable Assurance

The system of internal accounting and administrative control, of the Department of the Navy (DON), in effect during the fiscal year ending September 30, 1999, was evaluated in accordance with the guidance provided by Office of Management and Budget Circular No. A-123 (Revised), "Management Accountability and Control," June 21, 1995, as implemented by DOD Directive 5010.38, "Management Control Program," August 26, 1996. The Office of Management and Budget guidelines were issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act of 1982. 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 administrative and accounting 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 accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The evaluation of management controls extends to every responsibility and activity undertaken by DON and is applicable to financial, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that the cost of management control should not exceed the benefits expected to be derived, and that 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 of 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 control of the DON in effect

during the fiscal year that ended September 30, 1999, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Determination of Reasonable Assurance Status

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. The DON Management Control (MC) Program is decentralized and encompasses all shore commands and afloat forces. SECNAV, through the Under Secretary of the Navy (UNSECNAV) and the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)), is responsible for overall administration of an MC Program that includes developing operational policy 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 major commands. Each of these fourteen components provides the Secretary with its own annual MC Program Certification Statement. These statements are used as the primary source documents for the Secretary's determination if a (qualified) reasonable assurance exists that the system of internal administrative controls is functioning within the DON.

Line managers at all organizational levels schedule and perform discrete risk assessments and local management control reviews, monitor and track associated corrective actions, and report weaknesses judged to be "material" to the Secretary through the chain of command. In fact, the DON has approximately 2,500 MC Program coordinators who, in turn, support its many thousands of managers as they evaluate the systems of internal controls related to their mission areas. Audits, inspections, and investigation reports issued by the General Accounting Office (GAO), the Department of Defense Inspector General (DODIG), the Naval Audit Service (NAVAUDSVC), the Naval Inspectors General (NAVINSGEN), and the Director, Naval Criminal Investigative Service (DIRNAVCRIMINVSVC) are reviewed to provide additional information concerning potential DON-wide MC Program issues.

Except for limited scope audits, by regulation the NAVAUDSVC is to routinely assess the effectiveness of management controls in the course of performing every audit and, where warranted, to explicitly address management control deficiencies by way of establishing managerial accountability. The Auditor General of the Navy (AUDGEN), in collaboration with the ASN(FM&C)'s Management Accountability and Control Division, is responsible for reviewing audit reports and identifying any potential material weaknesses (significant at the Departmental level) observed. Once identified, potential material weaknesses are reported to cognizant DON senior level functional managers for their review. Comments and suggestions concerning identified potential weaknesses are factored into the DON annual MC certification statement. In addition, the AUDGEN evaluates the DON annual MC certification statement and the procedures used in preparing it, and provides SECNAV an independent assessment of that

statement prior to certification. This independent assessment serves as a further internal control mechanism, and is yet another source of assurance to SECNAV that the systems of internal control are functioning properly, and, to the extent possible, have been appropriately evaluated.

Forces afloat are an integral part of the DON MC Program. Numerous alternative management control reviews, in the form of shipboard inspections and reviews, are conducted to safeguard the effectiveness of all operational, financial, administrative, and quality-of-life controls in place on naval ships. In fact, on average there are some 25 different inspections on each ship during any given fiscal year. The Department's Executive Steering Committee conducts weekly progress reviews to discuss material weaknesses that are found through the inspection program. Such issues as safety-related deficiencies on weapons elevators, high rates of communication system degradation, and ineffective maintenance practices on amphibious ships are given immediate attention. These regular progress reviews provide further assurance that corrective actions on identified deficiencies will be accomplished.

Another key component of the DON MC Program is the involvement of senior management. Before the FY 1999 Annual Statement is presented to UNSECNAV for acceptance and certification, the offices of the Assistant Secretaries of the Navy, AUDGEN, CNO, CMC, NAVINSGEN, and DIRNAVCRIMINVSVC review the statement and provide comments and concurrence. Thus, for each DON material weakness in the statement, the cognizant senior functional manager has been made aware of the problem, charged with the responsibility to ensure that all identified corrective actions are implemented, and made aware that progress will be monitored.

Discovery Process and Statistical Data — During FY 1999, Navy and Marine Corps components performed more than 7,450 MC Reviews and Alternative MC Reviews (such as audits, inspections, and investigations). They used the results of each to determine the adequacy of the present DON system of internal controls and, where ineffective or inadequate controls were found, to establish and implement new and improved controls.

In addition, the DON analyzed the results of the many hundreds of GAO, DODIG, and NAVAUDSVC audit reports issued during FY1999. Reports from the DON investigative and inspectors general organizations were also considered. Generally, weaknesses felt significant enough to merit reporting to the SECDEF (i.e., "material weaknesses") are either related to a consolidated information management issue or are a high visibility item as a result of congressional or media interest, or they represent a DON-wide pervasive problem.

FY 1999 Statement — Based on the feeder statements from the DON secretariat staff offices, echelon 1 components and the NAVAUDSVC/ASN(FM&C) evaluation process, five new weaknesses are being reported in FY 1999. One of the five, "Unaccompanied Enlisted Personnel Housing," was also corrected during the year. Reports on three weaknesses first reported in prior statements ("Uncorrected Material Weaknesses Identified During a Prior Period") reflect additional source materials (i.e., audit reports) that have noted that same weakness elsewhere in the DON. As a result, the milestones for correcting those three weaknesses have been expanded to encompass any additional necessary corrective actions. Adjustments to milestones and target

dates for the three, “Excess Material and Unrecorded Inventories,” and the two weaknesses related to financial statements, “DON Chief Financial Officers Act Financial Statements, Index 17,” and “DON Revolving Funds Chief Financial Officers Financial Statement Accountability,” reflect the DON commitment to full disclosure of systemic weaknesses and resolution of the issues discovered. The status of planned corrective actions (“Planned Milestones”) on all extant material weaknesses is also reported in this statement. Finally, the statement reports that during FY 1999 the DON completed corrective actions on six material weaknesses, one of which was also discovered in the current period (FY 1999).

Plan to Review the Reporting Process of the Management Control Program— During FY 2000, the DON will review its Management Control Program, with emphasis on a self-reporting concept. This review will identify processes to ensure that management employs a high degree of accountability to identify and manage risks, and to reduce the DON’s sole dependency upon auditors for the identification of management control weaknesses.

Conclusion— The DON MC Program is structured to provide for the evaluation and, where necessary, correction of internal controls as part of the normal day-to-day activities of its managers. The evaluation of controls is to be continuous, on-going and routine. Therefore, to the degree that information has been made available, despite issues identified in audits, and excepting the material weaknesses reported in this statement, the Secretary of the Navy has qualified reasonable assurance that the systems of management controls in place are operating as intended.

Training DON Managers

The education and training of DON managers at all levels on the processes and requirements of the MC Program is central to achieve the objectives of the FMFIA. In addition to general courses offered at other government agencies in which DON managers may participate, the following is a summary of DON actions contributing to the education and training of DON managers:

- The Chief of Naval Operations conducted Quality Assurance/Program Training on a one-on-one basis to various OPNAV Principal Officials and echelon 2 program coordinators.
- The Chief of Naval Education and Training reported that Automated Electronic Classrooms and Learning Resource Centers were installed to support over 35 courses in FY97-99. A 12% reduction in total time to train was realized. The investment of \$32.3 million, to date, has permanently reduced training time by 1,835 sailor man-years (\$68.8 million). Personnel related attrition and setbacks have been reduced by 3-5%.
- The Naval Financial Management Career Center revised the DON entry-level financial management courses, “Principles of Navy Budgeting, Introduction to Navy Working Capital Fund,” and “Introduction to Navy Financial and Managerial Accounting,” to include a section on

the significant aspects of the Anti-deficiency Act. Approximately 1,359 DON personnel completed the courses in FY 1999. Conversion of these courses to computer based delivery was completed in FY 1999, allowing the training to become available to a larger number of DON personnel.

- The Marine Corps is currently establishing controls in order to validate student input, academic hours, and student-to-instructor ratios and has developed a Training Development System (TDS) methodology to focus on staff resources and accurately capturing the resources necessary to support course instruction. By using the TDS methodology, the Marine Corps will modernize the nature of training by developing more effective and efficient delivery techniques using technology and traditional instruction and practical applications.
- The Naval Criminal Investigative Service provided extensive and comprehensive training to Fund Custodians and Field Office supervisors in the use of the new program, "Collection and Classification of Information (C&CI) Funds. This training included the newly established management oversight controls and the utilization of the computerized system.

Accomplishments specific to the DON Management Control Program

- The Office of Financial Operations (FMO) implemented a major organizational restructuring on 1 July 1999. This restructuring altered the size, work processes, and communications systems to enable the Office to meet the challenges in the area of financial management. The objective of the restructuring was to enable the organization to focus on its' core accounting and finance functions. The restructuring moved the organization from the traditional hierarchical model. This traditional hierarchical organization centered around functional specialties with small spans of control. A benefit of this restructuring is that the "flatter" organizational structure requires less staffing than the traditional model, is more responsive to new initiatives, and provides greater flexibility to evolving work processes. The new organization is based on a team approach comprised of a core group of government employees supported by external and internal strategic alliances. The team approach focuses on desired strategic outcomes.

The teams are supported by the services of outside consultants and internal organizational alliances to work towards specific deliverables necessary for the organization to fulfill strategic outcomes. The three teams have designated focus areas – Financial Information, Financial Services, and Enterprise Controls. The teams' structure builds on the innovative business practices currently used by private sector entities.

- Senior Department of the Navy (DON) Officials conducted a series of Town Hall meetings in response to continual concerns being raised about military and civilian pay issues. Reports of incorrect pay, unpaid enlistment bonuses and general dissatisfaction with the pay systems were circulating. Senior DON officials and representatives from the Defense Finance Accounting Service (DFAS)-Cleveland, and the Navy/Marine Corps Relief Society met with sailors, officers and civilians to discuss the issues and provide an opportunity for the leadership to identify the

exact nature of the problem. Separate meetings were held in Millington, Norfolk, San Diego, Pensacola, Jacksonville, the Pacific Northwest, New Orleans, and Corpus Christi.

In conjunction with the Town Hall meetings, the Navy Comptroller determined that while system problems exist, many of the problems were found to be entitlement-based. As a result, a customer service center at the Naval Personnel Command was established to support fleet entitlement-driven pay issues and coordinate with DFAS Cleveland, Defense Joint Military Pay System training has been incorporated in the A and C school curriculum for disbursing clerks, and other initiatives that are being implemented in Fiscal Year 2000.

- The DON's overall Financial Management Improvement Plan (FMIP) to achieve an unqualified audit opinion on the DON-wide General Fund and NWCF financial statements involves a comprehensive review, analysis, and evaluation of financial management systems, and the overall structure for financial reporting, audit deficiencies, and financial management control practices. Included in this strategy, is the DON's implementation and maintenance of financial management systems that comply substantially with the Federal financial management systems requirements contained in OMB Circular A-127, "Financial Management Systems," applicable Statements of Federal Financial Accounting Standards, and the U.S. Government Standard General Ledger at the transaction level. An initial evaluation of system compliance to these standards was reported in the DON's FY 1999 FMIP submission to the Office of the Under Secretary of Defense (Comptroller). Remediation plans for systems that were determined to be non-or partially compliant are being reviewed and refined.

As part of the DON's effort in reviewing, evaluating and developing plans for the standardization, consolidation, and upgrade of both financial and non-financial feeder systems for the financial statements, thirteen Non-Financial Feeder Teams have been established, led by Senior Executives or Flag level personnel. The mission is for each of the teams to review current data requirements, existing data collection systems and processes, and to identify ways to reduce duplication, increase automation, and ensure completeness.

The thirteen teams focus in the areas of Property, Plant, and Equipment (PP&E) for General PP&E Real and Personal Property, National Defense PP&E and Heritage Assets; Government Property in Possession of Contractors; Inventory; Operating Materials and Supplies; Environmental Restoration; Hazardous Waste and Disposal; Deferred Maintenance; and Personnel Pay Systems. These non-financial feeder teams are also working the milestones and issues to implement the Department of Defense Implementation Strategies. These strategies address many of the audit issues and internal control weaknesses that have surfaced over the past several years. Each of the teams will continue through FY 2000 to assess what needs to be accomplished and develop milestones and tasks to achieve their objectives.

- A high priority effort is underway within the DON to implement the Defense Property Accountability System (DPAS) as the Department's standard personal property accountability system. This is directly related to DON efforts to eliminate redundant and manually intensive

legacy systems, to bring remaining systems into compliance with Federal Accounting Standards as required by statute, and most importantly, to achieve the government's goal of auditable financial statements.

During FY 1999, DPAS was fully implemented at all thirty-three sites within the Marine Corps. Implementation also began at forty-four Navy sites during FY 1999, and efforts will continue through FY 2000. As part of the effort of implementing DPAS, the Department is conducting a complete physical inventory of all PP&E to ensure that the system will reflect total and accurate accountability of all assets.

- As part of management responsibility to establish, maintain, review, and improve internal control systems, an extensive review of all ASN (FM&C) sponsored directives, publications and forms was completed. This review resulted in the cancellation of 12 directives, 15 publications and 100 forms. Upon completion of the review, a website was established to improve the availability of current ASN (FM&C) sponsored directives, publications and forms for all Navy activities. The web-site, located at www.fma.hq.navy.mil/publications, assists financial managers in obtaining financial management policy, guidance and financial management forms.

Accomplishments during FY 1999 stemming from Management Control Program Activities

- The DON's ability to detect, investigate, and deter procurement fraud has improved with enhanced training programs, more effective use of resources through consolidation, continued emphasis upon initiatives operations, and improved awareness through briefing programs. During FY 1999, a wide range of illegal practices was uncovered that included the mischarging of labor hours on labor intensive contracts, misrepresentation of manpower resources by companies during the bid process, violations of federal wage and standard under the Davis-Bacon Act, bribery of procurement officials, kickbacks by subcontractors to higher tier subcontractors and or prime contractors, illegal dumping, disposal, storage and transportation of hazardous toxic pollutant waste, and false claims with respect to pay and allowances and official travel. The illegal acts were not only stopped, they resulted in contractors agreeing to pay millions of dollars to the U.S. Government in restitution and fines.
- The Hotline Program (Navy and Marine Corps) opened 913 new cases, and closed more than 935 cases overall. Savings of more than \$62,296 were realized.
- The Marine Corps Inspector General's Office conducted an additional 30 Inspections, 265 inspection/assistant cases, 269 investigation/assistance cases, and 105 Congressional/special interest inquiries.
- NAVINSGEN opened 110 procurement fraud Hotline cases, and closed 235.

- NAVINSGEN also opened 32 Senior Official special inquiries, and closed 30. Of the closed cases, 8 were substantiated.
- NAVINSGEN conducted two combined command inspections and area visits involving the Chief of Naval Education and Training and the Pensacola area and the Bureau of Naval Personnel and Millington Area.
- The Naval Criminal Investigative Service (NAVCRIMINSVC) conducted an internal review of the Asset Management System, which is a database system utilized to track agency resources. In FY 1999, the NAVCRIMINSVC San Diego Field Office was subject to a command inspection. Field Office senior management personnel conducted mandated annual inspections and quarterly management visits of their respective subordinate components to enhance oversight of supervision, operations, administration and resources. In addition, the Headquarters' Inspection Team conducted a complete oversight review of management and organizational structure of the NAVCRIMINSVC HAWAII Field Office.
- ASN (Manpower and Resource Affairs) (ASN(M&RA)) conducted a strategic planning workshop, for the purpose of critically forecasting about the M&RA organization of the future. The workshop participants reached a consensus in developing a strategic vision, a mission statement for the organization, a set of guiding principles, and strategic goals. Goal Groups which consisted of members from throughout the M&RA organization, focused on improving processes in an effort to strengthen related management controls.
- Deputy Assistant Secretary of DON, Planning, Programs and Resources, co-chaired with CNO and the Marine Corps a Cost Reduction and Effectiveness Improvement Council. This Council was first established in FY 1999 to oversee from a DON-wide perspective the program of Total Ownership Cost reduction and cost-effectiveness improvement and ensure integration of this effort into the DON's Planning, Programming, and Budgeting System.
- Naval Criminal Investigative Service implemented a new program for the enhanced management and use of C&CI Funds. A computerized program was designed wherein each transaction is now tracked in its entirety, thereby providing complete accountability. The new C&CI system will be implemented within the remaining Field Offices in the NCIS global system during the current FY 1999.

Significant Issues

Several issues emerged during Fiscal Year (FY) 1999 audits that, while notable, do not represent department-wide "Material Weaknesses," and are not reported as such. The issues are nonetheless significant, and are briefly discussed here:

- The DON is aware and recognizes the criticality of the Year 2000 (Y2K) problem. The DON has actively addressed and identified solutions to the Y2K issue by preparing and issuing a Year

2000 Action Plan, a Y2K Contingency and Continuity-of-Operations Planning Guide, and a Naval Y2K Master Test Plan. The DON Y2K Action Plan, published in September 1998, provides the Navy strategy and management approach to addressing the Y2K data processing problem in the Navy. Specifically, it provides guidance for inventorying systems, prioritizing systems, retiring systems, and monitoring Y2K progress. The Navy Y2K Project Office published the Navy Y2K Contingency and Continuity-of-Operations Planning Guide on November 1, 1998 to help ensure that no loss of mission capability would result from a Y2K problem. The planning guide assists afloat and ashore Navy organizations and units in the identification and revision of existing contingency planning and continuity-of-operations efforts. The DON Y2K Project Office published the Naval Y2K Master Test Plan on August 20, 1998. The DON developed a multi-tiered, three-level test strategy to ensure the operational readiness of its critical functions and mission capabilities before, on, and after the year 2000. The three test levels are systems certification, functional testing, and integration validation.

Although the DON placed strong emphasis on mission-critical systems, its goal is to evaluate all Y2K vulnerable systems and equipment and to renovate those systems and equipment that have a Y2K concern. These and other efforts will continue to receive the DON's priority attention to expeditiously solve this critical national defense issue. The Office of the Department of Defense, Inspector General (DODIG) has issued three audit reports that discuss Department of Defense and DON efforts regarding the Y2K issues: DODIG Report No. 99-170, "Year 2000 Contingency Plans for Surface Ship Hull, Mechanical, and Electrical Systems," May 24, 1999; DODIG Report No. 99-171, "Space and Naval Warfare Systems Command Preparations For Year 2000 Battle Group Systems Integration Testing," May 26, 1999; and DODIG Report No. 99-126, "Year 2000 Issues Within the U.S. Pacific Command's Area of Responsibility Strategic Communications Organizations," April 6, 1999. The DODIG noted that DON contingency plans required quality assurance review processes and procedures, and that Y2K tests necessitated initialization procedures to ensure compliance with associated requirements. Also, it was reported that adequate guidance needs to be disseminated to subordinate commands in order to effectively and promptly implement Y2K corrective actions and the status of systems and/or remediation schedules. Although no systemic DON material management control weaknesses were identified, each of the audit reports addressed the significance and breadth of the Y2K issues; the DON concurred with each of the findings and is currently actively pursuing solutions towards the problems identified.

- The DOD is using competitive sourcing through the Office of Management and Budget Circular A-76 process as a means of realizing an estimated \$6 billion savings in support costs between fiscal years 1997 and 2003 by opening over 229,000 government positions to competition within the public and private sectors. The Military Departments underestimated A-76 Study costs and in meeting the saving targets needed to offset operating budget reductions taken in advance and in anticipation of the savings. Also, the Departments did not perform a multi-year implementation analysis by function and location to assist in determining whether the number of positions to be competed was practical. (GAO/NSIAD 99-46, "DOD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative," February 22, 1999)

- DON shore installations did not accurately identify, adequately budget or effectively execute legally mandated environmental projects because the internal control system for budgeting environmental compliance projects was not adequate. Shore installations used the Environmental Requirements Cookbook to identify and budget for the projects. DON policy is to fund only environmental compliance projects required to meet compliance deadlines that have already passed, or projects that must be funded during the budget year in order to meet mandated deadlines. (NAVAUDSVC 045-98, "Budgeting for Fiscal Year 1997 Environmental Compliance Projects at the Commander in Chief, U.S. Atlantic Fleet," September 18, 1999)
- The DON's management process for heavy equipment was fragmented and was not adequately structured to ensure that mission needs were met in an efficient and economical manner. The quantity of equipment needed was not minimized because commands were not accountable for, or did not have the authority and a mechanism for, overall management of funds, inventory, and utilization of heavy equipment. There was not an effective management information system in place or standards to measure the economical performance of the heavy equipment program on a DON-wide basis. Finally, the use of inadequate substitutes to satisfy current Table of Allowance requirements was determined to be an internal control weakness. (NAVAUDSVC 036-99, "Civil Engineer Support Equipment Assigned to Naval Mobile Construction Battalions," May 19, 1999 and NAVAUDSVC 037-99, "Navy Management of Heavy Equipment," May 26, 1999)
- Financial internal controls used by DON activities for financial reporting were unreliable, resulting in high audit risk assessment. The overall condition increased the likelihood of errors and material misstatements, and reduced the potential for detection of those errors and misstatements in the activity's financial information. Deficiencies involved such areas as subsidiary ledgers, audit trails, desktop procedures, commingling of accounts, cash reconciliations, inventory systems and the Management Control Program. (NAVAUDSVC 070-99, "Fiscal Year 1998 Financial Internal Controls at Naval Air Warfare Center Weapons Division, September 30, 1999 and NAVAUDSVC 055-99, "Fiscal Year 1998 Financial Internal Controls at Military Sealift Command," August 19, 1999)

Items to be Revisited in FY 2000 — There were several management control issues noted in FY 1999 that, while significant and otherwise meriting being included in this statement, do not as yet meet the criteria established by OMB and DOD for being considered as "Material Weaknesses" in an FMFIA statement (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). For these specific issues, DON management either does not agree with the auditors' findings (by "non-concurring" with the findings), has not agreed with the recommended corrective measures or established alternatives, or has not resolved other issues raised by the audit. Actions on these audits will be monitored during FY 2000 and they will be reconsidered for inclusion in the FY 2000 FMFIA statement. The items are:

- DODIG Report No. 99-023, “Procurement of Military Clothing and Related Items By Military Organization,” October 29, 1998.
- DODIG Report No. 99-123, “Assessment of the DOD Biennial Financial Management Improvement Plan,” April 2, 1999.

DOD-wide Systemic Weaknesses

USD(C) has identified seven (7) DOD-wide systemic management control material weaknesses. Many of the material weaknesses included in the DON FMFIA statement 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"> • Inadequate Financial Accounting Process and System <ul style="list-style-type: none"> DON Chief Financial Officers Act Financial Statements, Index 17 Cash Management and Contract Payments at Selected Navy Activities in Europe DON Revolving Funds Chief Financial Officers Act Financial Statements Accountability Unmatched Disbursements Productivity Gain Sharing (PGS) Undefinitized Contracts | <ul style="list-style-type: none"> B-2-41 B-2-48 B-2-51 B-2-59 B-2-63 B-3-3 |
| <ul style="list-style-type: none"> • Unreliable Financial Reporting of Personal and Real Property <ul style="list-style-type: none"> Excess Material and Unrecorded Inventories | <ul style="list-style-type: none"> B-2-22 |
| <ul style="list-style-type: none"> • Total Asset Visibility <ul style="list-style-type: none"> Asset Visibility of In-Transit Inventory | <ul style="list-style-type: none"> B-2-7 |
| <ul style="list-style-type: none"> • Acquisition Process and Systems <ul style="list-style-type: none"> Requirements Determination | <ul style="list-style-type: none"> B-2-16 |
| <ul style="list-style-type: none"> • Information Systems Security <ul style="list-style-type: none"> Management and Use of Navy Cellular Telephones Telecommunications Services Navy's Military Personnel Records System (MPRS) Needs Replacement | <ul style="list-style-type: none"> B-3-7 B-3-9 B-2-30 |
| <ul style="list-style-type: none"> • Year 2000 Computer Problem <ul style="list-style-type: none"> There are no DON FMFIA Reportable Material Weaknesses in this category. | |

- **Management of Unexploded Ordnance**

There are no DON FMFIA Reportable Material Weaknesses in this category.

Point of Contact

The DON point of contact for the Management Control Program and issues dealing with material weaknesses reported in the FY 1999 FMFIA Statement of Assurance is Mr. Gilbert Gardner, FMO. Mr. Gardner can be reached (voice) at commercial (202) 685-6727, DSN 325-6727 or (by facsimile) at (202) 685-6761.

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING THE PERIOD
(FY 1999)

| <u>Title</u> | <u>Targeted Correction Date</u> | <u>Page #</u> |
|---|---|---------------|
| | | |
| <i>Force Readiness</i> | | |
| Unit Chemical and Biological Defense Readiness Training | FY 2000 | B-2-1 |
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| Instructor Requirements and Student Input Planning | FY 2005 | B-2-4 |
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| | | |
| <i>Property Management</i> | | |
| Asset Visibility of In-Transit Inventory | FY 2001 | B-2-7 |
| | | |
| | | |
| <i>Comptroller and/or Resource Management</i> | | |
| Unliquidated and Invalid Obligations | FY 2000 | B-2-10 |

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIODS

| <u>Title</u> | <u>Year First Reported</u> | <u>Correction FY Date per Last Annual Statement</u> | <u>Correction FY Date per This Annual Statement</u> | <u>Page #</u> |
|---|------------------------------------|---|---|---------------|
| <i>Force Readiness</i> | | | | |
| Computer-Based Training | FY 1997 | FY 2000 | FY 2002 | B-2-13 |
| <i>Supply Operations</i> | | | | |
| Requirements Determination | FY 1993 | FY 1999 | FY 2001 | B-2-16 |
| Excess Material and Unrecorded Inventories | FY 1993 | FY 2002 | FY 2002 | B-2-22 |
| <i>Information Technology</i> | | | | |
| Navy's Military Personnel Records System (MPRS) Needs Replacement | FY 1994 | FY 1999 | FY 2001 | B-2-30 |
| <i>Personnel and/or Organizational Management</i> | | | | |
| Lessons Learned Information from Major Training Exercises | FY 1996 | FY 1999 | FY 2000 | B-2-33 |
| Navy Enlisted Classification (NEC) Code Training | FY 1993 | FY 1999 | FY 2000 | B-2-36 |

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIODS

| <u>Title</u> | <u>Year First Reported</u> | <u>Correction FY Date per Last Annual Statement</u> | <u>Correction FY Date per This Annual Statement</u> | <u>Page #</u> |
|--|------------------------------------|---|---|---------------|
| | | | | |
| <i>Comptroller and/or Resource Management</i> | | | | |
| Improper Utilization of Administrative Vehicles | FY 1998 | FY 2000 | FY 2000 | B-2-39 |
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| Department of the Navy Chief Financial Officers (CFO) Act Financial Statements, Index 17 | FY 1997 | FY 2000 | FY 2003 | B-2-41 |
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| Cash Management and Contract Payments at Selected Navy Activities in Europe | FY 1996 | FY 1999 | FY 2000 | B-2-48 |
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| Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statement Accountability | FY 1993 | FY 1999 | FY 2000 | B-2-51 |
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| Unmatched Disbursements | FY 1993 | FY 1999 | FY 2000 | B-2-59 |
| | | | | |
| | | | | |
| <i>Other</i> | | | | |
| Productivity Gain Sharing (PGS) | FY 1994 | FY 1999 | FY 2000 | B-2-63 |

CORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING ALL PERIODS

| <u>Title</u> | <u>Year First Reported</u> | <u>Page #</u> |
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| | | |
| <i>Contract Administration</i> | | |
| Undefinitized Contractual Actions | FY 1998 | B-3-3 |
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| <i>Property Management</i> | | |
| Unaccompanied Enlisted Personnel Housing | FY 1999 | B-3-1 |
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| Navy Management of Missile Storage, Handling and Inspections | FY 1996 | B-3-5 |
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| <i>Communications and/or Intelligence and/or Security</i> | | |
| Management and Use of Navy Cellular Telephone | FY 1997 | B-3-7 |
| | | |
| Telecommunications Services | FY 1997 | B-3-9 |
| | | |
| | | |
| <i>Personnel and/or Organizational Management</i> | | |
| Naval Selected Reserve Force Mobilization Requirements | FY 1992 | B-3-12 |

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 1999

Title and Description of Material Weakness: Unit Chemical and Biological Defense Readiness Training. The Department of the Navy (DON) management controls were not adequate to ensure that unit commanders fully integrated chemical and biological (CB) defense with unit mission training exercises. The requirement to fully integrate CB defense training with unit mission training included conducting combat, combat support, combat service support, and command and control exercises. Although DON required training assessments at different levels, unit level CB defense readiness assessment and reporting did not provide adequate measures and feedback to determine whether units could successfully complete their wartime missions under CB conditions.

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2000

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

Current Target Date: FY 2000

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

Component/Appropriation/Account Number: Various, i.e., OMMC (171106) and OMN (171804)

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: Full integration of CB defense with unit mission training and accurate readiness reports reflect unit readiness to successfully conduct wartime missions under CB conditions.

Source(s) Identifying Weakness:

- DODIG Report No. No. 98-174, "Unit Chemical and Biological Defense Readiness Training," July 17, 1998

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Marine Corps commanders will conduct periodic training briefings that will address unit readiness under chemical and biological conditions. |
| C | Prior to deployment, unit commanders are provided updated intelligence reports which include the chemical and biological threat in their area of operations. |
| C | Marine Corps will use both the Marine Corps Combat Readiness Evaluation System and Marine Corps Inspector General (IG) Readiness Assessment team reports in assessing unit readiness under CB conditions. |
| C | Marine Corps Combat Readiness and Evaluation System evaluations are conducted biannually for all Marine Air Ground Task Force elements. These evaluations include chemical and biological scenarios. Marine Expeditionary Units must accomplish a mission under chemical and biological defense condition to be certified as special operation capable. |
| C | Marine Corps will require the results of the Marine Corps Combat Readiness Evaluation System evaluations and IG Readiness Assessment team visits be forwarded through the chain of command to HQMC. |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 9/00 | Require DON activities to report periodically to the appropriate DON Commander on chemical and biological defense training conducted. |
| 9/00 | Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|------------|
| | None |

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507
Mr. Joseph Condry, CMC, (703) 614-4500

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
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. The absence of a requirement to periodically review the need for training courses contributed to the lack of supporting documentation. The internal control system to develop and revise student input plans was not adequate. These plans were based primarily on either historical input data or resource constraints, such as classroom capacity, instructor availability, student-instructor ratio, equipment limitations, and budget controls. 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 these plans. Different methodologies were used to develop and revise training requirements and student input plans for skills training. 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. There was no control to ensure that authorized instructor billets agreed with requirements reported.

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2005

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

Current Target Date: FY 2005

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

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

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: DON will support training requirements by developing, documenting, and implementing standard procedures and by establishing internal controls requiring the periodic validation of student input plans, by ensuring that these plans are properly recorded and utilized.

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Establish internal controls to ensure only approved training requirements and student input plans are recorded in the Navy Integrated Training Resources Administration System. |
| C | Direct training activities to review F school courses they teach and deactivate those that do not support valid, documented needs. |
| C | Direct training activities to obtain appropriate documentation from applicable command when F school courses meet valid needs but lack supporting documentation. |
| C | Amend OPNAV Instruction 1500.47 to specifically require training activities to: (a) maintain documentation supporting the need for each F school course they teach; and (b) perform periodic reviews to validate the continuing need for each F school course. |
| C | Require training management systems similar to the Submarine Training Management Program System be fully developed that would identify specific F school course training requirements for all Navy communities and provide adequate procedures to assist training activities in planning student input loads. |

C Direct fleets, type commands, and shore activities having F school course requirements to identify and consolidate requirements for subsequent input to a fully developed training management system, and provide requirements directly to applicable training activity until a fully developed system is available.

C Direct training activities to use F school course requirement data received from the fleets, type commands, and shore activities to plan annual student input loads and input those planned loads into Navy Integrated Training Resources Administration System until a fully developed training management system is available.

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 3/00 | Develop, document, and implement standard procedures for determining (a) formal training requirements and (b) student input plans. |
| 3/00 | Designate an accountable official to validate and approve changes to training requirements and student input plans. |
| 9/00 | Marine Corps will develop a Training Development System (TDS) methodology to focus on staff resources and accurately capture the resources necessary to support not only a course of instruction but the school as a whole. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|---|
| 9/04 | Using the TDS methodology, the Marine Corps will modernize the nature of Marine Corps training by developing more effective and efficient delivery techniques using technology, traditional instruction, and practical application. |
| 9/05 | Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification. |

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507
Mr. Joseph Condry, CMC, (703) 614-4500

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 1999

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

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2001

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

Current Target Date: FY 2001

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

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: In conjunction with developing a statutorily required, comprehensive plan to address visibility over in-transit inventory, the Department of Defense (DOD) should take a number of immediate steps to improve controls over the Department of the Navy's (DON) in-transit inventory to include: complying with existing DOD and DON procedures, modify the DON's integrated accounting and logistics systems, targeting in-transit inventory problems as an

issue for review in Federal Managers' Financial Integrity Act assessments and establishing performance measures, milestones and timetables to monitor progress.

Source(s) Identifying Weakness:

- GAO/NSIAD Report No. 99-61, "Defense Inventory: Navy's Procedures for Controlling In-Transit Items Are Not Being Followed," March 31, 1999

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|------------|
| | None |

Planned Milestones (FY2000):

| Date: | Milestone: |
|-------|------------|
| | None |

Planned Milestones (Beyond FY2000):

| Date: | Milestone: |
|-------|---|
| 3/01 | Comply with existing Department of Defense and Department of the Navy (DON) procedures regarding material receipt acknowledgement of in-transit shipments and emphasize follow-up procedures on unconfirmed warehoused and purchased material receipts. |
| 3/01 | Modify DON's integrated accounting and logistics systems so that they routinely update both financial and inventory records when in-transit inventory items are received. |
| 3/01 | Establish routine reconciliation procedures for the supply and financial records to ensure oversight and control over in-transit inventory items. |
| 3/01 | Target in-transit inventory problems as an issue for review in Federal Manager's Financial Integrity Act Assessment. |
| 3/01 | Establish performance measures, milestones, and timetables to help monitor the progress being made to reduce the vulnerability of in-transit inventory to undetected loss or replacement. |

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 1999

Title and Description of Material Weakness: Unliquidated and Invalid Obligations. Within the Operation and Maintenance, Navy (O&M,N) appropriation, some activities were not verifying that only valid obligations were entered into its accounting system. "Holding" documents (existing valid obligations to which funds were being added, or the creation of an invalid obligation for the same purpose) were being used to maintain control of funds while waiting for valid obligation documents to be processed. Major claimants were deobligating funds from field commands without the command's knowledge and approval. Additional guidance was needed to instruct field activities to commit rather than obligate funding for "holding" documents in order to maintain control of funds and that funds not be deobligated from field activities without the field activities' knowledge and approval.

Invalid obligations were also associated with indefinite delivery contracts and basic ordering agreements. Systems Commands did not have adequate internal controls to ensure that they and their subordinate commands would perform complete and timely reviews of unliquidated contractual obligations and deobligate invalid contractual obligations. Unmatched disbursements existed in DON's accounting system because: (1) funding organizations did not always obligate funds properly; (2) disbursing office controls were not adequate to ensure prompt detection and correction of errors; (3) accounting data accuracy was not maintained; and (4) resolving unmatched disbursements was not timely.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2000

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

Current Target Date: FY 2000

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

Component/Appropriation/Account Number: Various, i.e., OMN (171804), OPN(171810), NWCF (17X4930), APN (171506), WPN (171507)

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: DON activities will implement various policies and procedures to ensure that (1) funds control systems maintain accurate unobligated and unexpended balances, (2) reviews of unliquidated contractual obligations are timely and complete, and (3) invalid contractual obligations are deobligated. Proper funds control will reduce the likelihood of a violation of the Antideficiency Act.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. 053-98, "Deobligation and Reobligation of Operation and Maintenance, Navy Funds," September 30, 1998
- NAVAUDSVC Report No. 025-99, "Obligations Associated Primarily with Indefinite Delivery Contracts and Basic Ordering Agreements," February 18, 1999
- GAO/AIMD Report No. 99-19, "Financial Management: Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting," January 19, 1999

MAJOR MILESTONES IN CORRECTIVE ACTION: (C=COMPLETED)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Instruct field commands to discontinue using "holding" documents and stress the importance of entering only valid obligations into the accounting system. |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 3/00 | Promulgate policy that funds not be deobligated from field activities without the field activities' knowledge and approval. |
| 9/00 | Verification: All corrective actions will be certified by the responsible component(s) through command inspections and quality assurance reviews, and audits. |

Planned Milestones (Beyond FY 2000):

Date: Milestone:

None

Status of Participating Functional Office/Organization:

| | |
|--|---------|
| DOD Comptroller (X) | Assured |
| Naval Sea Systems Command (I) | Assured |
| Assistant Secretary of the Navy, Financial Management and Comptroller (I) | Assured |

Point of Contact: Mr. Gilbert Gardner, FMO, (202) 685-6727
Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1997

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

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: FY 2000

Current Target Date: FY 2002

Reason For Change in Date(s): CBT regulatory requirements will be published after publication of DODI 1322.20, Development and Management of Interactive Courseware (ICW) for Military Training, ASD (FM&P).

Component/Appropriation/Account Number: OMN (171804)

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

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

Source(s) Identifying Weakness: NAVAUDSVC Report No. 034-97, "Implementation of Computer-Based Training in the Navy," April 29, 1997

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|--|
| C | The problem of overlap between CBT and visual information regulations is resolved. |
| C | Correct Navy database errors. |
| C | Provide guidance for funding CBT projects. |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|------------|
| | None |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|---|
| 3/01 | Establish a method to identify, document, track and reprogram projected benefits. |
| 3/01 | Establish thresholds for documentation requirements for CBT development. |
| 9/01 | Publish CBT development regulatory requirements. |
| 9/01 | Clarify governing policy for development of courseware using advanced training technology. |
| 3/02 | Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify to ensure appropriate use of CBT. |

Status of Participating Functional Office/Organization:
DUSD(R) Assured

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

Title and Description of Material Weakness: Requirements Determination (OSD #93-061). The Department of the Navy (DON) has identified deficiencies in the area of requirements determination for equipment, supplies, materials, training, and systems acquisition. In many instances the requirements are either 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.

These inaccuracies result from using out of date or inaccurate data, flawed assumptions, incorrect alignment of system resources and requirements, inadequate control of extant requirements' revalidation, miscommunication among responsible activities, requirements not updated to current DON force structure, lack of a documented process or standard methodology, and not following guidance to develop requirements.

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

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

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2001

Reason For Change in Date(s): Full NAVICP DCN functionality will be completed by January 2000, in final systems testing. Implementation date delayed until approximately January 2000. Verification will be conducted during the NAVSUP Command Assessment of NAVICP following completion of the action items mentioned.

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

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.

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

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

- 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

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

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

Major Milestones in Corrective Action [for OSD Case #93-061]: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|--|
| C | Ensure that DON activities follow established backorder validation procedures, to include periodic revalidation. |
| C | Develop procedures for determining availability of on-hand assets prior to starting procurement or refurbishment of identical components. |
| C | Establish written procedures for recording requirements. |
| C | Clarify and document DON activities' responsibilities for requisition and planned program requirement processing. |
| C | Review and revalidate requirements using current guidance. |
| C | Correct budgeted and programmed quantities for FYs 1996 through 2001 and planned out year quantities to reflect actual Consolidated Automated Support System (CASS) procurement requirements. |
| C | Update the engineering cost model as new information becomes available. |
| C | Establish a valid requirement of C-130s. |
| C | Base future revisions to T-45A aircraft requirement calculations on the most cost effective ways of meeting the Navy's training needs. |
| C | Revise guidance for the development and approval of weapons systems modification programs to require the weapons systems program managers to perform a breakout analysis of reparable items being removed from the weapons systems to identify components of those reparable items that are affected by the modification. |
| C | Issue supplemental guidance expanding the oversight responsibilities of weapons systems program managers to ensure that current and accurate program data are provided to inventory control points (ICPs), and revise guidance to establish controls to ensure cataloging actions for modification programs are completed. |
| C | Periodically review status of weapon inventory versus requirements to identify excess stockpiles which are in an inactive status or which have been disposed of. |

- C Establish a procedure preventing program acquisition quantitative requirements that are determined by the non-nuclear ordnance requirements (NNOR) and non-combat expenditure requirements (NCER) processes. [NCER is an annual requirement. The program acquisition quantity includes NCER for the life of the program, and is not limited to the sum of NNOR and the annual NCER.]
- C Reduce the quantitative requirement for C-2A(R) aircraft to the number needed to support the current force structure and identify the potential funds put to better use as a result.
- C Require DON activities to either follow prescribed life cycle management policies and prepare required acquisition documentation, or to request a waiver.

Completed Milestones [for OSD Case #91-024]:

- | Date: | Milestone: |
|-------|---|
| C | Cancel the FY 1992 POM planned procurement of the EA-6B and consider options to eliminate the remainder of the planned buy. |
| C | Reduce planned procurement of T-44A aircraft by five, and adjust programmed T-44A flying hours to reflect actual requirements. |
| C | Develop guidance for reviewing and validating planning factors. |
| C | Align system inventories programmed/required with personnel/resources, and document the process. |
| C | Review requirements and adjust to reflect correct quantities, including force structure reductions. |
| C | Improve established procedures for verifying requirements data before initiating purchases and awarding contracts. |
| C | Calculate primary training requirements based upon planned training rates, supportable overhead hour requirements, the utilization formula, and supportable planning factor values. |
| C | Streamline development of planned program requirement training course, and include a yearly refresher course. |

- C Reevaluate quantity requirements of the T-45A upon attainment of initial operational capability. Make appropriate revisions to production quantities of the T-45A.

- C Obtain independent validation of aircraft requirements data when developing major acquisition baselines.

- C Complete an internal control assessment of the existing production and spare kit requirements determination process for the H-46 Helicopter.

Planned Milestones (FY 2000) [for OSD Case #93-061]:

| Date: | Milestone: |
|-------|--|
| 3/00 | Develop procedures and processes for DON program managers to notify the 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. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|--|
| 3/01 | Verification: All corrective actions will be certified by the responsible component(s) through command inspections, audits, and quality assurance reviews. |

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

Title and Description of Material Weakness: Excess Material and Unrecorded Inventories (OSD #93-062). Department of Navy (DON) activities did not exercise necessary oversight to ensure the implementation and monitoring of subordinate commands' controls over Government furnished material held at contractor sites including interim supply support contractors, resulting in the DON maintaining excess material, incurring unnecessary storage costs and not fully realizing cash value from disposal of excess material. DON activities canceled their efforts to return excess material even after Material Returns Program (MRP) notified them that the material was not required and residual material was not reported in a timely manner for possible credit. Controls were needed to ensure that residual material storage activities continued to actively offer up residual material to the MRP and to process reports of excess on a timely basis. The DON did not have detailed procedures for the review of currency and the continuing requirement for AEGIS Common Equipment Program (ACE) assets during annual inspections and ACE Program material was not consistently reported in Real Time Operating Management Information System. The ACE Program inventories included stock number items that were also stocked in the DON supply system in sufficient quantities to fill future ACE requirements.

DON activities did not screen non-Defense Business Operations Fund (DBOF) (now known as Navy Working Capital Fund (NWCF)) material on receipt or purge uneconomical-to-retain and unserviceable stock excesses. The accounting for such "sponsor's" material had significant errors (e.g., inaccurate and unreported inventory) and inconsistencies (e.g., incorrect memorandum account, and incorrect value).

Many DON activities carried excess DBOF inventory and had unrecorded DBOF inventory. Internal controls did not consistently identify non-DBOF inventories that exceeded requirements, and when excesses were identified, they were not effectively redistributed or reclaimed, resulting in excess inventory. Inventories of materials were not recorded on official inventory records, and more shop store material was issued than needed. As a result, inventory records were not accurate and material funds were wasted.

Some activities were ordering unneeded materials and were not returning unused material to the supply system. Still others were ordering standard stock materials from an alternate source without canceling prior orders. Some activities did not dispose of unneeded direct material within 60 days following the completion or cancellation of key operations. Some activities did not have a database for recording and analyzing material usage data for availabilities, and did not have a central control point for ordering materials for availabilities. Planners had limited incentive to order the proper amount of material.

Managers do not have complete information on hundreds of millions of dollars of operating materials and supplies on ships and at redistribution sites, information that is needed for budget and purchase decisions. This occurs because the inventory systems on ships and at the

redistribution sites do not provide the item managers complete and accurate data on operating level excess items.

Activities are holding millions of dollars unneeded Coordinated Shore-based Allowance List (COSBAL) materials that could be returned to the Navy supply system without impairing mission readiness. Managers were concerned that emerging future requirements for COSBAL materials would not be met in a timely fashion, and held these excess COSBAL materials to meet that unknown future possibility.

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

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993 (FY 1990 for #90-020)

Original Targeted Correction Date: FY 1997 (FY 1992 for #90-020)

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

Current Target Date: FY 2002

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

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

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

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

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

- GAO/NSIAD Report No. 92-216, “Navy Supply, Excess Inventory Held at the Naval Aviation Depots,” July 1992

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

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

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

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones [for OSD CASE #93-062]:

| Date: | Milestone: |
|-------|--|
| C | Establish internal controls for all non-NWCF ("sponsor's") material. |
| C | Ensure unrecorded NWCF material is identified, returned to inventory control, and not permitted to accumulate. |
| C | Assign central management the responsibility to generate material requirements. |
| C | Establish procedures to verify return of standard stock materials to the supply system and to cancel requisitions when delivery dates are unacceptable or alternative methods are used. |
| C | Revise material ordering policy. |
| C | Issue guidance requiring top management to make periodic spot checks for unrecorded NWCF inventory. |
| C | Issue and implement aeronautical change kit procedures to include defining what is an excess, actions to be taken as a result of excess determinations, time frames for reviewing potential excess, and feedback to managers. |
| C | Issue and implement procedures which assign a high priority to management of government furnished equipment aeronautical change kits to ensure that excess are identified and that timely redistribution or reclamation takes place. |
| C | Establish mandatory material designator assignment procedures, and include those procedures in a material usage feedback system. |
| C | Establish additional controls over issues of items with personal use value. |

- C Determine the causes for lost material at shipyards and develop strategies to reduce losses.
- C Require shipyards to identify and analyze the causes of unused material as a step toward developing strategies to improve the accuracy of material orders.
- C Ensure that over the five-year Material Control Program cycle, all aspects of excess material are covered throughout the various assessable units.
- C Study group formed to develop procedures to identify and track sponsor material.
- C \$1.6 billion of sponsor material made visible to the Navy supply system.
- C Develop and implement a material usage data base that accumulates and retains all data on material ordered and material usage by availability.
- C Report progress made on asset visibility efforts for item manager reporting needs.
- C Establish controls to ensure that residual material storage activities continue to actively offer up residual material to the MRP and comply with Chief of Naval Operations business rules to return or dispose of material within 1 year if there is no demand for the excess material. *
- C Establish controls that require residual material storage sites to process reports of excess on a monthly basis to take better advantage of the changing credit status of the MRP. *
- C Establish specific internal procedures to monitor the effectiveness of subordinate commands' controls over GFM. *
- C Review subordinate commands' implementation plans for managing GFM. *
- C Periodically monitor and test subordinate commands' controls and procedures over GFM to determine whether they are operating effectively and efficiently, and direct corrective action where necessary. *
- C Include inventory accuracy as a provision or clause in new Moorestown DVD contract in line with NAVSUP Instruction 4440.115G guidance. *

- C Disestablish COSBAL allowances, return excess material to supply system and dispose of remaining unneeded material that will not be accepted by the supply system.

Completed Milestones [for OSD Case #90-020]:

- | Date: | Milestone: |
|-------|--|
| C | Establish procedures to verify assets held by commercial facilities when making supply decisions. |
| C | Ensure that appropriate DON components are aware of failure information reported by commercial repair facilities. |
| C | Validate records of material due in from repair when making supply decisions. |
| C | Establish procedures for periodic verification of commercial facilities' proper use of the CAV reporting program. |
| C | Develop procedures for posting commercial repair transactions to financial inventory records. |
| C | Notify all repair contractors to prepare monthly repair status reports in accordance with requirements. Require repair contractors under indefinite quantity-type contracts to report material received under those contracts. Obtain inventory of material held for storage at commercial repair facilities and take appropriate disposition action. |
| C | Adjust financial inventory control (FIC) ledgers to reflect standard unit price changes. Maintain FIC ledgers for all commercial facilities. |
| C | Make accounting entries, prior to the close of the fiscal year, to eliminate any remaining negative inventory balances from the yearend financial inventory report. |
| C | Establish procedures at interservice repair facilities: to verify records of assets held, pending implementation of the Interservice Material Accounting and Control System; for periodic verification of repair items reported on monthly status reports to ensure inventories are properly reported; and, to prevent Navy assets from being misidentified, commingled with non-Navy assets, or lost. |

- C Develop procedures to provide constant visibility over excess material and promptly offer the material to other services when appropriate.
- C Determine validity of financial inventory ledger balances for one-time repair contracts, and adjust to show correct value.
- C Coordinate with other services to develop a standardized system for reporting and recording assets on FIC ledgers.
- C Revise guidance on the physical inventory program at interservice repair facilities.
- C Use monthly repair status reports for non-CAV commercial facilities to update supply records.
- C Perform quarterly reconciliation between financial and supply records. [Project Order Number N0632-051-1231 was assigned to the Ready for Issue>Returns Redistribution Order requirements statement, and forwarded for the development of the associated accountability and control system.]
- C Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

Planned Milestones (FY 2000) [for OSD Case #93-062]:

| Date: | Milestone: |
|-------|--|
| 3/00 | Revise Program Executive Office SC/AP Instruction 4408.2A to require annual comparisons of ACE Program material to Navy supply system records to determine if sufficient assets are available in the Navy Supply system to satisfy ACE Program requirements. * |
| 3/00 | Direct Supervisor of Shipbuilding Bath, Maine, to include ACE Program inventory data in the Real Time Operating Management Information System. * |

Planned Milestones (Beyond FY 2000) [for OSD Case #93-062]:

| Date: | Milestone: |
|-------|--|
| 3/01 | Develop a joint policy to reduce the amount of material stored at activities. |
| 3/01 | Establish policies and procedures governing the management, control and accounting for sponsor material. |

- 3/01 Identify, inventory and report by category and ownership all sponsor material.
- 9/01 Make all sponsor owned material visible for use in accordance with prudent management practices.
- 3/02 Verification: All corrective actions will be certified by the responsible component(s) through command inspections and quality assurance reviews, and audits.

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

* *Milestones added in FY 1999*

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1994

Title and Description of Material Weakness: Navy's Military Personnel Records System (MPRS) Needs Replacement (OSD #94-011). MPRS administers, maintains, and controls official Navy military personnel records. MPRS is a stand-alone hybrid system of electro-mechanical, photographic, manual and automated processes. Originally designed to accommodate 760,000 records with the capability to "pull" and refile 66,000 records per day, the system has grown to include 1,170,500 records and file actions in excess of 72,000 daily. Overall, many users of the system are not satisfied with its accuracy and response times. In particular, the selection board function is inadequately supported. This has adversely affected the careers of Navy members in the past. The MPRS is heavily dependent upon specific key individuals with unique functional, managerial, and technical skills.

Functional Category: Information Technology

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2001

Reason for Change in Date(s): System is scheduled to be fully operational in the first quarter of FY 2001. Overall program funding lagged behind program budget requirements.

Component/Appropriation/Account Number: OMN (171804), OPN (171810)

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 Navy will have a single authoritative official system containing records of each military member. The system will provide for timely and accurate update of records, timely (authorized) user access to accurate information, protection from unauthorized use or inadvertent disclosure, and effective records retention at a lowest cost to the Navy.

Source(s) Identifying Weakness: Alternative Management Control Review and DON Automated Information System (AIS) Program Life Cycle Management (LCM) Documentation, "Electronic Military Personnel Records System (MPRS)," June 1993

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Initiate procurement of MPRS replacement system which employs digital storage of imagery. |
| C | Award Digital Camera System contract. |
| C | Award documentation contract for Defense Personnel Record Imaging System (DPRIS)/Electronic Military Personnel Records System (EMPRS) life cycle management (LCM) milestone I/II. |
| C | Install digital camera system and the storage and retrieval system. |
| C | Award Backfile Conversion contract and begin converting present holdings of microfiche records to digital format. Initiate microfiche to digital backfile conversion project. |
| C | Award DPRIS/EMPRS contract. |
| C | Install pre-installation officer fitness report, enlisted evaluation, and selection board modules. |
| C | Install DPRIS/ EMPRS at various locations. |
| C | Begin DPRIS/EMPRS user/staff training. |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 9/00 | Complete microfiche to digital backfile conversion. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|--|
| 3/01 | Complete DPRIS/EMPRS acceptance testing and have system fully operational. |
| 3/01 | Complete LCM milestone III documentation. Plan system decision paper III briefing. |
| 3/01 | Verification: All corrective actions will be certified by the responsible component(s) through command inspections, audits, and quality assurance reviews. |

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1996

Title and Description of Material Weakness: Lessons Learned Information from Major Training Exercises (OSD #95-051). Despite lessons learned programs, many of the same mistakes are repeated during subsequent major training exercises and operations. Some of these mistakes could result in serious consequences, including friendly fire incidents and ineffective delivery of bombs and missiles on target. As a result, the Department of the Navy (DON) cannot be assured that significant problems are being addressed or that resources are being devoted to solve the most serious problems already identified.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 1998

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2000

Reason for Change in Date(s): Dis-establishment of NAVDOCCOM and lack of full staffing for this effort at the Naval Warfare Development Command delays verification.

Component/Appropriation/Account Number: MPN (171453), MPMC(171105)

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: Lessons learned information is used to identify and make known recurring problems, and is used to develop and put into practice corrective measures so problems are not repeated.

Source(s) Identifying Weakness: GAO/NSIAD Report No. 95-152, "MILITARY TRAINING: Potential to Use Lessons Learned to Avoid Past Mistakes Is Largely Untapped," August 9, 1995

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Incorporate a validation process into the DON's lessons learned programs. |
| C | Provide training to key personnel in the use of lessons learned information and the technology for accessing and reviewing that information. |
| C | Modify DON lessons learned program to capture and retain all significant lessons learned from operations and exercises. |
| C | Analyze lessons learned information so that trend data can be developed to identify recurring problems, and prioritize these recurring problems so that limited resources can be concentrated on the most pressing areas. [Present funding does not support the long term addition of Remedial Action Program analysts at the Fleet Management Sites (FMS). In the interim, emphasis within the FMS on reviewing and categorizing lessons learned databases has reduced the number of active lessons and eased the burden of tracking and analyzing. Other options to provide manpower using Naval reservists are being considered.] Status: Revised. After additional resources identified, identify and analyze lessons learned information so that trend data can be developed. Trend analysis requirements and procedures to be provided by DOD. Program would identify recurring problems, and prioritize these recurring problems so that limited resources can be concentrated on the most pressing areas. In the interim, emphasis within the FMS on reviewing and categorizing lessons learned databases has reduced the number of active lessons and eased the burden of tracking and analyzing. The audit report findings and recommendations for this material weakness has been closed for further followup. |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|--|
| 3/00 | Verification: Subsequent on-site verification, audit, inspection, quality assurance review, and management control reviews verify that an active lesson learned program has reduced incidence of problems recurring. |

Planned Milestones (Beyond FY 2000):

Date: Milestone:

None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

Title and Description of Material Weakness: Navy Enlisted Classification (NEC) Code Training (OSD #93-049). The control system for NEC training records and assignments is not adequate to prevent or promptly detect all material errors and irregularities in operations. Data transmission errors have occurred, reducing the accuracy of the system; unqualified enlisted personnel were allowed to enroll in and complete NEC producing courses; all NEC codes earned by enlisted personnel through formal school training were not recorded in official personnel records; and valid NEC code transactions were lost each year during automated electronic data transmissions between the training and personnel systems.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2000

Reason For Change in Date(s): Issuing new/revised guidance is taking longer than originally expected.

Component/Appropriation/Account Number: OMN (171804), MPN (171453)

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 inventory of NEC codes held by enlisted personnel will be accurately stated in official records. As a result, the Navy will train only the number of personnel needed to satisfy requirements, saving a portion of scarce training funds.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. 049-S-93, "Enlisted Classification Code Training," June 30, 1993
- NAVAUDSVC Report No. 016-95, "Utilization of Navy Enlisted Classification Code Training," January 6, 1995

Major Milestones in Corrective Action: (C=Completed)

Completed Milestone:

| Date: | Milestone: |
|-------|--|
| C | Establish separation of duties and accountability for NEC removals. |
| C | Research and, as appropriate, award the 121 identified NECs recorded in Navy Integrated Training Resources Administration System (NITRAS) but not listed in the personnel system. |
| C | Establish internal controls to ensure accuracy of all NEC data transmitted. |
| C | Require detailers to use the NEC Manual to determine qualifications for assignments to NEC producing courses. |
| C | Reemphasize to activities, including detaching commands and training activities, their responsibility for screening service members for proper qualifications before sending them to training. |
| C | Investigate interface problems between NITRAS and the personnel system, including transmission errors not appearing on reject listings. |
| C | Establish internal controls (such as detailers' supervisors review of detailer course assignments) so that questionable assignments can be identified, investigated, and corrected. |
| C | Require enlisted community managers to review and document approval of requests for waiver of qualifications for NEC producing courses prior to detailer assignment. |
| C | Document reason for and approval of training assignments that deviate from NEC requirements stipulated in requisitions. Require supervisory approval of detailer training assignments that do not meet documented job vacancies. |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|--|
| 3/00 | Revise guidance to require Quota Control Authority approval for all assignments to NEC-producing courses. CNO will issue new PNAVINST 1500.47A early in 1999, which will be the governing authority. |

3/00 Verification: Conduct/utilize a management control review or alternative management control review to certify the effectiveness of all corrective actions.

Planned Milestones (Beyond FY 2000):

| | |
|-------|------------|
| Date: | Milestone: |
| | None |

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD

FY 1998

Title and Description of Material Weakness: Improper Utilization of Administrative Vehicles (OSD #98-006). The DON did not have a systemic mechanism (validation process) within the transportation management structure to enforce DON policy requiring resources be organized and managed to ensure optimum responsiveness, efficiency, and economy in support of the Department of Defense mission. Naval installations did not ensure that only the minimum necessary amount of administrative vehicles were used to satisfy mission requirements.

Functional Category: Comptroller/Resource Management

Pace of Corrective Action:

Year Identified: FY 1998

Original Targeted Correction Date: FY 2000

Targeted Correction Date in Last Year's Report: FY 2000

Current Target Date: FY 2000

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

Component/Appropriations/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: With the implementation of Installation Management Regionalization, transportation management will be consolidated and centralized under regional commanders, who will issue regional guidelines that will set a clear process for allocation of vehicles.

Source(s) Identifying Weakness: NAVAUDSVC Report No. 030-98, "Management of Non-Tactical Administrative Transportation Vehicles," March 24, 1998

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|------------|
| | None |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 9/00 | Coordinate and/or direct major Claimants, Regional Commanders, and Installation Commanders to review and rejustify all administrative vehicles (Alpha Codes A through N) using DOD mileage standards of other documented alternative measurement criteria to justify vehicle retention. |
| 9/00 | Coordinate and/or direct major TEMCs to redistribute those vehicles identified through Recommendation 1 as not justified or needed to where vehicles are needed, dispose of overaged and unneeded vehicles, and delete the inventory objective associated with these vehicles to avoid future procurements. |
| 9/00 | Centralize vehicle transportation management function into a single process under Regional Commanders and/or Host Installation management Claimants to include a validation unit and a vehicle supplier, and develop a regional transportation program. |
| 9/00 | Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify all actions are completed. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|------------|
| | None |

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1997

Title and Description of Material Weakness: Department of the Navy (DON) Chief Financial Officers (CFO) Act Financial Statements, Treasury Index 17 (OSD #97-011). The lack of an integrated transaction-driven general ledger accounting system has contributed to overstatements or understatements of account balances. In addition, the presentation of accurate financial data was inhibited by data call, accounting system, procedural, and guidance issues. When an accounting system was used, balances could not always be reconciled to detailed accounting records due to poor general ledger controls and the lack of sufficient audit trails. Lack of established written policy and procedural guidance affected closed account balances, pricing and physical inventory accuracy of ammunition, recording acquisition and disposition of Property, Plant, and Equipment (PP&E) Personal Property, and Accrued Payroll and Benefit costs. FY 1998 was the first year for reporting deferred maintenance for General PP&E Real Property and National Defense PP&E. Deficiencies occurred in reporting because guidance for classifying and reporting deferred maintenance was inadequate and inconsistently applied.

Instances were found where Department of Defense (DOD) guidance was either conflicting or inconsistent with Federal Financial Accounting Standards and Office of Management and Budget requirements.

The President's goal of achieving an unqualified opinion on the FY 1999 government-wide audited financial statements and the Biennial Financial Management Improvement Program (BFMIP) reporting requirements have focused attention on resolving those issues and problems that are preventing Department of the Navy (DON) from obtaining an unqualified opinion on the financial statements. The major categories preventing the DOD and DON from obtaining a favorable audit opinion on its audited financial statements are: (1) PP&E, (2) Inventory to include Operating Materials and Supplies, (3) Liabilities, (4) Fund Balance with the Treasury, and (5) Intragovernmental Eliminations. The DON has been working with DOD in formulating implementing strategies to achieve an unqualified opinion on the FY 1999 financial statements and providing input to the BFMIP. DON BFMIP non-financial feeder initiatives that have CFO implications are: (1) General PP&E Accountability Project, (2) Evaluation of the DON Real Property System, (3) Assessment of National Defense PP&E, and (4) Assessment of Logistics/Inventory Systems. * During FY 1999 the DoD Implementation Strategies were approved by the Office of Management and Budget and the General Accounting Office. The strategies address the following areas: General PP&E, Existence and Completeness; Government Property in the Hands of Contractors; Inventory issues; Liabilities Issues; Valuation of General PP&E; and Deferred Maintenance. **

The corrective actions described here are limited in nature, and are directed toward correcting the specific issues addressed in those sources listed. The DON's strategy for producing auditable financial statements, as required by the CFO Act, has both near-term and long-term initiatives

addressing the issues and will not result solely from the actions described in this weakness. In addition, this material weakness is not entirely correctable within the DON. To produce accurate and auditable financial statements will take the cooperative efforts of the appropriate DOD, Defense Finance and Accounting Service (DFAS) and DON organizations.

Functional Category: Comptroller and Resource Management

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 1998

Targeted Correction Date in Last Year's Report: FY 2000

Current Target Date: FY 2003

Reason For Change in Date(s): Change in strategy and additional requirements identified in additional sources.

Component/Appropriation/Account Number: Treasury Index 17

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: Correction of material weaknesses identified during subsequent audits of CFO Financial Statements Index 17.

Source(s) Identifying Weakness:

- 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

- 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 and 1996: Plant Property," July 23, 1998 *
- NAVAUDSVC Report No. 024-99, "Department of the Navy Principal Statements for Fiscal Year 1998: Report on Auditor's Opinion," February 10, 1999 **

- NAVAUDSVC Report No. 028-99, “Reports on Internal Controls and Compliance with Laws and Regulations,” February 22, 1999 **
- USD(C) memorandum dated March 22, 1999, Implementation Strategy for Operating Materials and Supplies **
- NAVAUDSVC Report No. 046-99, “National Defense Property, Plant, and Equipment Deferred Maintenance,” July 15, 1999 **
- NAVAUDSVC Report No. 049-99, “Inventory and Related Property, Net,” July 27, 1999 **
- NAVAUDSVC Report No. 050-99, “Real Property Deferred Maintenance,” July 30, 1999 **
- USD(C) memorandum dated August 6, 1999, Amended DoD Implementation Strategy for Auditable Financial Statements **
- NAVAUDSVC Report No. 053-99, “Classes 3 and 4 Plant Property,” August 18, 1999 **
- NAVAUDSVC Report No. 058-99, “Classes 1 and 2 Plant Property,” August 25, 1999 **
- USD(C) memorandum dated October 5, 1999, DoD Implementation Strategy for Auditable Financial Statements **
- USD(C) memorandum dated November 19, 1999, DoD Implementation Strategy for Auditable Financial Statements **

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|--|
| C | Establish a working group involving the appropriate organizations to address specific issues as they relate to completing the financial statements. |
| C | Establish a Plan of Action and Milestones identifying actions and issues that need to be completed and resolved. |
| C | Assign responsibilities for updating ammunition inventory unit prices to reflect latest acquisition cost or change in asset status and maintain the related documentation. |

- C Direct the appropriate DON activities to identify all inventory systems. (Completed during FY 1998)
- C Direct appropriate DON activities through the data call to report and provide values for all Military Equipment Property, Plant, and Equipment, Net, including stricken equipment. (Note: Beginning with the reporting FY 1998, all Military PP&E will be expensed and removed from the balance sheet. Per USD(C) guidance, FMR 6B, Chapter 11 and the SFFAS's 6 and 8 and the Exposure Draft amending 6 and 8, the services will report quantities by major category and an annual investment by major category. Therefore, this milestone was overtaken by new requirements.)
- C Revise data call to include a provision for weapons system progress payments to be compiled and reported as Advances and Prepayments. (Did not use Data Call rather, used the Accounting Information System to extract the data needed to report Advances and Prepayments.) (Completed during FY 1998)
- C Require Data Call submissions from major commands to be prepared per DOD 7000.14R by General Ledger Account with a footnote breaking equipment balances down by appropriation. (The FY 1999 DON CFO Data Call contains the USGSGL where appropriate, therefore completed during FY 1999.)
- C Establish teams comprised of functional, system, financial, and audit personnel for DON non-financial feeder initiatives and review and document requirements relative to "A Guide to Federal Requirements For Financial Management Systems".* (Work groups/teams were established during FY 1999 with each addressing a separate issue as identified in the DoD Implementation Strategies, therefore completed during FY 1999.)

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 9/00 | Request interim guidance from DoD on how to improve the accuracy and completeness of reporting (Government Property in Possession of Contractors.) (Currently, DON is working with USD(C) on the Implementing Strategy: PP&E: Government Property in the Hands of Contractors)* Strategy was amended by USD(C) memo of 6 August 1999, Amended DoD Implementation Strategy for Auditable Financial Statements. |

- 9/00 Validate the delinquent accounts receivable to determine the amount that remains to be collected.
- 9/00 Compare current non-financial feeder systems to CFO reporting requirements in “A Guide to Federal Requirements For Financial Management Systems” and develop approaches to meet requirements. *
- 9/00 Begin implementation of approaches and monitor progress over the Plan of Action and Milestones for each non-financial feeder initiative that has CFO impact.* Progress over the POA&M for each of the working groups is reported monthly to USD(C). The working groups are at various stages of implementing milestones and tasks. However, none of the working groups have completed all milestones.

Planned Milestones (Beyond FY 2000):

- | Date: | Milestone: |
|-------|--|
| 9/01 | Develop procedures to ensure the consistent application of standards for identifying, classifying, and reporting all General PP&E Real Property and National Defense PP&E deferred maintenance. |
| 9/01 | For Operating Materials and Supplies, clarify definitions, identify the types, conduct cost-benefit analyses for use in determining whether consumption method is cost beneficial, develop method to perform valuation, determine feeder systems, determine financial statement reporting requirements, and determine system change requirements. |
| 9/01 | Direct DON accountable activities to implement established operational procedures for reporting transactions affecting their investment in General PP&E Personal Property. DON currently is working with DRAFT operational procedures that should be issued during FY 2000. |
| 9/01 | Complete actions required in the DoD Implementing Strategies dealing with Liability issues that include environmental and disposal liabilities. * Several milestones in the DoD implementation Strategy on Liabilities have been delayed. Moved issues dealing with PP&E issues and Inventory issues to separate milestones. |
| 9/03 | Direct DON accountable activities to review, in conjunction with their property accounting activity, their property accounting records for General PP&E, Net classes 3 and 4 property and adjust records as needed. (Implementation Strategy: PP&E Existence and Completeness, USD(C) will issue a Statement of Work dealing with personal property.)* SOW |

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

9/03 Verification: Plans for the progress on most corrective actions will be addressed in status reports on open audit recommendations. Corrective actions are also reviewed through follow-up audits, inspections, completion of DoD Implementation Strategies, and quality assurance reviews.

Status of Participating Functional Office/Organization:

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

Point of Contact: Mr. Richard Gloss, ASN (FM&C), (202) 685-6719

* Added in FY 1998 reporting.

** Added in FY 1999 reporting.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1996

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

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 1997

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2000

Reason for Change in Date(s): Negotiated agreement between the United States Embassy and the Italian Ministry of Foreign Affairs to allow MBF operations on U.S. installations in Italy was signed November 3, 1998. Based on this agreement, the DoD is proceeding to establish Military Banking Facilities on U.S. installations in Italy.

Component/Appropriation/Account Number: Various

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|--|
| C | Establish a business process for Navy contract disbursing operations in Europe that complies with Federal and DOD disbursing requirements. |
| C | Establish standard contract disbursing operating procedures and an organization to implement the new business process. |
| C | Review the Management Control Program to ensure contract payment |

disbursing functions and cash management procedures are properly assessed and addressed.

- C Obtain guidance from the Under Secretary of Defense (Comptroller) on the proper cash procedures to be used.
- C Establish an agreement with the appropriate U.S. MBF to ship cash to appropriate credit unions.
- C Order additional safes and provide for building renovations to credit union offices to allow for safe possession of cash.
- C DOD disbursing officers receive authorization from the FY 1997 National Defense Authorization Bill to cash checks for credit unions operating in countries that do not allow U.S. MBFs.

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|--|
| 3/00 | Coordinate initial site visits to Navy locations in Italy by the Defense Finance and Accounting Service to assess MBF startup costs and discuss facility needs and logistical support with local DON commands. |
| 9/00 | Establish MBF operations as Navy facilities to support MBF operations become available. |
| 9/00 | Verification: Management reviews verify the effectiveness of all corrective actions. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|------------|
| | None |

Status of Participating Functional Office/Organization:

DFAS (X) Undetermined

Point of Contact: Mr. Gilbert Gardner, FMO, (202) 685-6727

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

Title and Description of Material Weakness: Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statements Accountability (OSD #93-021).

Industrial Activities-The Property, Plant and Equipment account, including accumulated depreciation, contained errors (e.g., fixed assets recorded in the financial statements could not be located; fixed assets were not removed from the financial statements after disposal or transfer; and assets were mis-classified).¹ Inventories Not Held for Sale were inaccurate; physical inventories were not conducted, or, when conducted, were incomplete;¹ unused material was not returned to the appropriate inventory account or recorded on financial records; excess material was not disposed of in a timely fashion, and stock levels were not always reviewed for excesses.¹ Accruals were posted in the wrong year, were not adequately liquidated, and were improperly written off.¹ Financial statements' footnotes did not provide required disclosures. Other Non-Federal (Governmental) Liabilities included invalid Accrued Expenses - Other and Advances - Other, Non-Federal.³ Other Revenues and Financing Sources, and Depreciation and Amortization were misstated because financing source and corresponding depreciation expense from real property assets were not recognized.⁵ Work in Process was inaccurate because uncollectible cost overruns were not written off.⁵

Supply Activities-Financial inventory records for Inventory Held for Sale were inaccurate because the closing inventory balance included negative (credit) inventory balances. Perpetual inventory records for material at wholesale Navy stock points were not accurate. Supply and financial records for material differed and required quarterly reconciliations were not performed. Material-in-Transit (MIT)¹ and progress payments account balances were not accurate. Unmatched Stock-in-Transit (SIT) balances were not accurate,² and SIT financial and inventory records differed.¹ The Fund Balance with Treasury inappropriately included estimates for collections for non-reporting activities, estimates that were inaccurate and duplicate reporting of collections, resulting in potential Antideficiency Act violations. The Accounts Receivable, Net, Federal account was misstated because sales were based on estimates when actual data was not submitted. Advances and Prepayments, Non-Federal account balance was not accurate.⁴ Other Federal (Intra-governmental) Liabilities account balance was not accurate due to systemic processing problems. Accounts Payable, Non-Federal account was inaccurate because definitized price contract modifications were not maintained, contract review procedures were inadequate, non-electronic reporters' receipts were not recorded and receipt errors were not corrected.⁴ Accrued Payroll and Benefits account was inaccurate.

Industrial Activities and Supply Activities-The Accounts Payable, Federal accounts were not liquidated because of erroneous and untimely recording of payment information; insufficient or non-existent supporting documentation; late posting of receipt of goods and services; and price

or quantity variances.³ The Accounts Receivable, Net, Federal⁵ and Accounts Receivable, Net, Non-Federal⁶ accounts were inaccurate because transactions were not posted correctly, receivables were not reported and amounts reported were not owed. The Accounts Payable, Non-Federal account was inaccurate because of inadequate records and untimely processing.⁵ The Accrued Payroll and Benefits account was inaccurate because of premature clearing of accrued amounts, failure to make adjustments at fiscal year end and insufficient management oversight.⁵ The financial statements did not include all eliminating entries for Accounts Receivable and Unearned Revenue.

These material weaknesses cannot be resolved only by corrective actions within the Department of the Navy (DON), but require involvement from other sources. Correction of systemic problems in supply activities' MIT and progress payment account balances and other accounts such as Accounts Receivable, Net, Federal; Accounts Receivable, Net, Non-Federal; Advances and Prepayments, Non-Federal; Operating Materials and Supplies, Net; Accounts Payable, Federal; Accounts Payable, Non-Federal; Accrued Payroll and Benefits; Other Non-Federal (Governmental) Liabilities; and Other Revenues and Financing Sources and related Depreciation and Amortization, are contingent on outside sources.

Functional Category: Comptroller and Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2000

Reason for Change in Date(s): The identified weaknesses have not been corrected.

Component/Appropriation/Account Number: NWCF (97X4930)

Validation Process: All corrective action(s) are certified by responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review. Plans for, and progress on, corrective actions will be addressed in status reports on open audit recommendations. The Assistant Secretary of the Navy's (Research, Development and Acquisition) plans and progress on assigned corrective actions, when appropriate, will be reported via the Annual FMFIA assurance statement.

Results Indicators: Correction of material weaknesses identified during audits of CFO financial statements will be shown when the statements receive an unqualified audit opinion.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. 074-S-92, "Marine Corps Industrial Fund Financial Statements (FY 1991)," June 30, 1992
- NAVAUDSVC Report No. 075-S-92, "Financial Audit of the FY 1991 Navy Industrial Fund(17X4912) Property, Plant, and Equipment Account," June 30, 1992
- NAVAUDSVC Report No. 076-N-92, "Financial Audit of the Department of the Navy Stock Fund-FY 1991," June 30, 1992
- NAVAUDSVC Report No. 053-H-93, "FY 1992 Consolidating Financial Statements of the Department of the Navy DBOF," June 30, 1993
- NAVAUDSVC Report No. 053-H-94, "FY 1993 Consolidating Financial Statements of the Department of the Navy DBOF," June 29, 1994
- NAVAUDSVC Report No. 044-95, "FY 1994 Consolidating Financial Statements of the Department of the Navy DBOF," May 30, 1995
- NAVAUDSVC Report No. 035-96, "FY 1995 Consolidating Financial Statements of the Department of the Navy DBOF," May 31, 1996
- NAVAUDSVC Report No. 040-97, "FY 1996 Consolidating Financial Statements of the Department of the Navy DBOF," June 16, 1997
- DODIG Report No. 97-178, "Internal Controls and Compliance With Laws and Regulations for the DBOF Consolidated Financial Statements for FY 1996," June 26, 1997
- NAVAUDSVC Report No. 024-98, "FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund," February 27, 1998
- NAVAUDSVC Report No. 049-98, "FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund: Reportable Conditions," September 28, 1998
- GAO/AIMD Report No. 98-56, "CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies," March 16, 1998
- DODIG Report No. 98-106, "Inspector General, DOD Oversight of the NAVAUDSVC Audit of the NWCF Financial Statements for FYs 1997 and 1996," April 7, 1998
- DODIG Report No. 99-005, "Compilation of the NWCF FY 1997 Financial Statements at the Defense Finance and Accounting Service Cleveland Center," October 5, 1998 *

- NAVAUDSVC Report No. 027-99, "FY 1998 Consolidated Financial Statements of the Department of the Navy Working Capital Fund," February 22, 1999 *
- NAVAUDSVC Report No. 048-99, "FY 1998 Department of the Navy Principal Statements and Working Capital Fund Consolidated Financial Statements Eliminating Entries," July 22, 1999 *

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Supply activities perform required quarterly supply and financial record reconciliations to ensure supply and financial record accuracy. |
| C | Supply activities perform periodic reconciliations between master stock item record and master data file to maintain accurate inventory balances. |
| C | Supply activities adjust MIT and progress payments for discrepancies identified by the auditors, and reflect adjustments and corrections in the FY 1993 financial statements. |
| C | Supply activity management command monitor inventory accounting and billing operation (PX06) software implementation to ensure timely correction of deficiencies that cause imbalances between supply and financial records. Provide disclosure in financial statement of actual implementation date. |
| C | Supply and industrial activities ensure full financial statement footnotes disclosure in accordance with DOD guidance and as agreed upon in responses to audit reports to make financial statements more meaningful. |
| C | Industrial activities conduct wall-to-wall inventory whenever accuracy is found to be less than 65 percent during inventories, and provide results of review in FY 1994 financial statements and footnotes. |
| C | Supply activities adjust SIT for invalid transactions reported by auditors and make adjustments to FY 1993 financial statements. |
| C | Industrial activities return unused material to appropriate inventory accounts and makes adjustments to financial statements prior to base closure. |

- C Supply activities revise procedures for performing contract reviews to require standard documented contract selection criteria and require the activity to maintain documentation of selection criteria, contracts selected for review and results of review.
- C Supply activities correct receipt errors identified during the audit.
- C Supply activities use Defense Business Management System to report year-end accrued annual leave.
- C Supply activities stop estimating collections, disbursements, and sales for non-reporting activities.
- C Management command determine if a request for a preliminary review of potential Anti-deficiency Act violations is needed.
- C Supply activities management command correct the systems' interface and process problems to prevent overstatements from occurring in processing of Other Federal (Intragovernmental) Liabilities.
- C Supply activities capture in the Accounts Payable, Non-Federal account the value of material accepted at contractor plants but not yet received.
- C Supply activities monitor and report on actions taken to develop and implement PXO2 and PXO4 to ensure corrections of systemic problems that cause invalid MIT and progress payments balances.
- C Industrial activity management commands validate accrual deficiencies identified by auditors, and make adjustments to statements based on errors detected.
- C Supply activities have all definitizing contract modifications sent to accounting personnel.
- C Have an accounting firm prepare and coordinate procedures and accounting systems changes to implement the policy to discontinue use of Allowance for Losses.
- C DON issues guidance to industrial activities for implementation upon receipt of the accounting firm's interim guidance to identify and accumulate eliminating entry information for Accounts Receivable and Unearned Revenue.

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 9/00 | Industrial activities will (1) complete a plan to validate current balances of Operating Material and Supplies, Net (MIT) account and Property, Plant, and Equipment, Net account including depreciation, (2) ensure compliance with applicable guidance to correct the deficiencies reported by audits, and (3) document the plan in their FY 2000 Annual FMFIA Statement of Assurance. An accounting firm will prepare and coordinate procedures and accounting systems changes to implement recognition of losses when disposing of assets. ¹ |
| 9/00 | Industrial activities will complete a plan to use statistical sampling techniques for inventory of Operating Material and Supplies, will conduct inventory in accordance with applicable instructions, determine when complete inventories are needed, and document the plan. ¹ |
| 9/00 | Industrial activities will complete a plan to determine the value of excess inventory and document the plan. An accounting firm is to prepare and coordinate procedures and accounting systems changes to implement the policy for revaluing excess inventory to net realizable value. ¹ |
| 9/00 | Industrial activities will complete a plan to validate the balances of Accrued Expenses - Other and Advances - Other, Non-Federal accounts to ensure that documentation is maintained to support those accounts and determine the extent of invalid accruals, and document the plan in their FY 2000 Annual FMFIA Statement of Assurance. An accounting firm is to prepare and coordinate procedures and accounting systems changes to allow for recording federal and non-federal liabilities. ³ |
| 9/00 | Supply and industrial activities will complete a plan to periodically validate the balance of Accounts Payable, Federal to assure that only valid liabilities are recorded and reported, and document the plan in their FY 2000 Annual FMFIA Statement of Assurance. An accounting firm is to take corrective action to strengthen the account balance reconciliation process. ³ |
| 9/00 | Supply activities management command will take action to develop and implement an Advanced Traceability and Control, Ready for Issue>Returns Redistribution Order Accountability and Control System to correct the differences between the SIT financial and inventory records. ¹ |

- 9/00 Supply activities will identify a material weakness to include Advances and Prepayments, Non-Federal in their FY 2000 Annual FMFIA Statement of Assurance, along with a plan for corrective action.⁵ Supply and industrial activities will identify in their FY 2000 Annual FMFIA Statement of Assurance: (1) a material weakness to include the Accounts Receivable, Net, Federal⁵ and Accounts Receivable, Net, Non-Federal⁶ accounts, and include a plan to ensure transactions are documented and represent amounts due; (2) a material weakness to include the Accounts Payable, Non-Federal account, and include a plan to ensure the account is periodically reviewed to ensure that supporting documentation is maintained, and to ensure that liabilities are recorded in the correct accounting period;⁵ (3) a material weakness to include Accrued Payroll and Benefits in their FY 2000 Annual FMFIA Statement of Assurance, along with a plan for corrective action;⁵ and (4) a material weakness to include Other Federal (Intragovernmental) Liabilities.⁶ Industrial activities are to identify a material weakness in their FY 2000 Annual FMFIA Statement of Assurance regarding Work in Process, along with a plan for corrective action, to ensure uncollectible cost overruns are written off.⁵ An accounting firm will take corrective action to strengthen the account balance reconciliation process for the Fund Balance with Treasury;⁶ Accounts Receivable, Net, Federal;⁵ Accounts Receivable, Net, Non-Federal;⁶ Accounts Payable, Non-Federal;⁵ Work in Process;⁶ and Operating Materials and Supplies, Net;⁶ accounts.
- 9/00 Industrial activities will report financing source and corresponding depreciation expense from real property assets in Other Revenues and Financing Sources and Depreciation and Amortization. An accounting firm will prepare and coordinate procedures and accounting systems changes.⁵
- 9/00 Verification: Plans for and progress on most corrective actions will be addressed in status reports on open audit recommendations. In addition, some corrective actions will be reported via the Annual FMFIA Statement of Assurance. Corrective actions are also reviewed through follow-up audits, inspections, and quality assurance reviews.

Planned Milestones (Beyond FY 2000):

| | |
|-------|------------|
| Date: | Milestone: |
| | None |

Status of Participating Office/Organization:

| | |
|----------|--------------|
| DFAS (X) | Undetermined |
|----------|--------------|

Point of Contact: Mr. Richard Gloss, ASN (FM&C), (202) 685-6719

* *Source added in FY 1999*

Footnotes:

¹ Material weakness first reported in FY 1993. Corrective actions continue.

² Material weakness first reported in FY 1993.

³ Material weakness first reported in FY 1994. Corrective actions continue.

⁴ Material weakness first reported in FY 1995. Corrective actions continue.

⁵ Material weakness first reported in FY 1996. Corrective actions continue.

⁶ Material weakness first reported in FY 1998. Corrective actions continue.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

Title and Description of Material Weakness: Unmatched Disbursements (OSD #93-022). Unmatched disbursements existed in the Department of the Navy's (DON) accounting system because:

- (1) funding organizations did not always obligate funds promptly;
- (2) controls were not adequate to ensure prompt detection and correction of disbursing office errors;
- (3) accounting data accuracy was not maintained; and
- (4) unmatched disbursements were not promptly resolved.

One system, which accounted for \$57 billion (57 percent of the DON's overall budget), contained \$12.3 billion in unmatched disbursements, as of February 19, 1992.

Now called "Problem Disbursements," the issue has been expanded to include negative unliquidated obligations and in-transit disbursements. The DON's efforts to reduce, if not eliminate, the causes of problem disbursements include working with the Defense Finance and Accounting Service (DFAS) to develop changes in automated accounting systems to match payments (proposed) to obligations before payment, reduce the amount of manual data entry, and improve the level of automation in the payment process.

Under Defense Management Report Decision (DMRD) 910, DFAS assumed responsibility for all accounting and finance operations throughout the Department of Defense (DOD). Accordingly, DFAS shares a major part of the responsibility for correcting this issue. Nonetheless, DFAS responsibilities are not identified in this DON report.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2000

Reason for Change in Date(s): Coordination with DFAS to obtain a balance acceptable for Chief Financial Officer (CFO) compliance will take longer than originally planned.

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)

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 management commands and DFAS to review project progress.

Results Indicators: Disbursement progress reports to the PDASN(FM&C) will reflect a greatly diminished number of problem disbursements, both in quantity and dollar amount.

Source(s) Identifying Weakness:

- GAO/AFMD Report No. 93-21, “Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements,” June 1993
- DODIG Report No. 96-145, “Obligation Management of Navy Appropriations,” June 6, 1996
- NAVAUDSVC Report No. 021-97, “Navy Fleet and Field Level Unmatched Disbursements,” March 7, 1997
- GAO/AIMD Report No. 98-040, “Financial Management: Seven DOD Initiatives That Impact the Contract Payment Process,” July 30, 1998

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Establish a POA&M for reducing problem disbursements. |
| C | Form a process action team to review the process to determine the systemic causes of problem disbursements and make recommendations to correct identified problems. |
| C | Identify and obtain additional resource requirements from DON components to competently address the problem. |

- C Issue message to all funding and accounting offices emphasizing the importance of recording all obligations promptly and accurately, entering disbursements correctly, and using only authorized contract numbers and payment supporting documentation in order to correctly match disbursements.
- C Review and approve plans for operating organizations to correct process and system weaknesses and achieve the reductions.
- C Modify DON regulations and procedures to require that copies of necessary documentation be made available to and be used by the organizations responsible for resolving problem disbursements.
- C Advise DFAS of clearance priorities for reducing the backlog of problem disbursements, using age and type of transaction criteria developed during FY 1994.
- C Support DFAS in reducing the number of problem disbursements. Provide problem disbursements' clearance priorities to DON management commands with definitive guidance on their role in support of DFAS-Cleveland (DFAS-CL) and DFAS-Columbus (DFAS-CO). [During FY 1995 a liaison team was established by DFAS-CL at DFAS-CO to facilitate correction of problem disbursements. DON management commands formed resolution teams to deal with high dollar amount problem disbursements. A Problem Disbursement Project Office was established at the ASN(FM&C) level to coordinate efforts between the DON and DFAS.]
- C Establish a DON and DFAS-CL team to reduce the backlog of problem disbursements. [DON, DFAS, and the Department of Defense Inspector General agreed on how to handle (clear) \$5 billion of problem disbursements in closed accounts. These problem disbursements were cleared by the DON during FY 1995.]
- C Require all Navy organizations to establish and implement control procedures to ensure that obligations are recorded in official accounting systems the earliest of ten calendar days of incurring the obligations, or before the end of the accounting period.
- C Require DFAS to develop a report that will track the number of days between the date a contract is signed to the date the obligations is established in the accounting systems.

C Coordinate the establishment of automated supply system procedures to reject DON requisitions which cite an invalid DOD Activity Address code or an invalid DON fund code. DFAS-CL has implemented.

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|---|
| 9/00 | Obtain contractor support to assist in resolution of problem disbursements as a material weakness. |
| 9/00 | Verification: The amount of problem disbursements is at an acceptable level over a specified time period. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|------------|
| | None |

Status of Participating Functional Office/Organization:

DFAS (X) Assured

Point of Contact: Mr. Gilbert Gardner, FMO, (202) 685-6727

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1994

Title and Description of Material Weakness: Productivity Gain Sharing (PGS) (OSD #94-058). Execution of PGS programs in the Department of the Navy (DON) needs improvement. Weaknesses identified in the PGS program included: limited independent review and approval of final PGS award calculations to ensure adherence to approved financial constraints; insufficient guidance on productivity measurement requirements; and a lack of program effectiveness reviews to assess the programs on which the awards were based. (The DON suspended the PGS programs to allow time for the development of a comprehensive policy document which provides clear guidance and procedures for executing the program.)

Under Secretary of Defense (Comptroller) (USD(C)) policies impact the extent to which DON PGS policy and guidance need to be modified. Financial management policy issues referred to USD(C) included concern about the extent to which current Defense Business Operations Fund (DBOF) accounting methods and systems can support the detailed measurements and accounting data needed to support financial audits. Current USD(C) policies do not address accounting methods and systems for PGS programs at non-DBOF and unit cost activities. Any proposed revisions and guidance are subject to review by the Defense Partnership Council.

Functional Category: Other - Productivity Improvement

Pace of Corrective Action:

Year Identified: FY 1994

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2000

Reason For Change in Date(s): Delays in receipt of needed DOD guidance.

Component/Appropriation/Account Number: Various

Validation Process: All corrective action(s) will be 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: Appropriate guidance will enhance productivity measurement abilities, ensure proper PGS award calculations and an effective program.

Source(s) Identifying Weakness: NAVAUDSVC Report No. 007-S-94, "Productivity Gain Sharing," November 16, 1993

Major Milestones in Corrective Action: (C=Completed)

Completed Milestone:

| Date: | Milestone: |
|-------|--|
| C | Suspend the PGS program to allow time for the development of a comprehensive policy document which provides clear guidance and procedures for executing the program. |
| C | Require DON activities to follow DOD Accounting Manual guidance, and deduct extraordinary expenses from revenue in arriving at net operating results. |
| C | Require appropriate DON activities to disclose in financial statement footnotes that general and administrative expenses had been understated in the past. |

Planned Milestones (FY 2000):

| Date: | Milestone: |
|-------|--|
| 3/00 | Issue a revised DON PGS instruction, subject to constraints imposed by DOD and National Performance Review requirements and recommendations. [The draft of revisions to DODINST 5010.31G, "DOD Guide for the Design and Implementation of Gainsharing," was reviewed on 10 June 1996. NAVAUDSVC memorandum of 29 November 1995 agreed with the decision to suspend action until DOD actually published the new instruction.] |
| 9/00 | Verification: The PGS program will be reinstated, and subsequent quality assurance reviews will verify program effectiveness and accuracy of PGS award calculations. |

Planned Milestones (Beyond FY 2000):

| Date: | Milestone: |
|-------|------------|
| | None |

Status of Participating Functional Office/Organization:
USD(C) Undetermined

Point of Contact: LCDR Laura Leigh Venable, ASN(M&RA), (703) 693-0224

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING THE PERIOD
FY 1999

Title and Description of Material Weakness: Unaccompanied Enlisted Personnel Housing. The Department of the Navy activity overestimated the barracks requirements for unaccompanied permanent party enlisted personnel. Permanent party personnel were not accurately identified and the inventory of permanent party barracks spaces and private housing assets that were used to compute permanent party barracks requirements were not accurately validated, documented and reported.

Functional Category: Property Management

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 1999

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

Current Target Date: FY 1999 (Identified and corrected in FY 1999)

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

Component/Appropriation/Account Number: MCN (171205)

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 reviews, and management control evaluations.

Results Indicators: Proper identification of personnel requiring unaccompanied permanent party enlisted barracks spaces and inventory of permanent party barracks spaces will ensure that future barracks construction projects are planned to meet accurately identified and authorized requirements.

Source(s) Identifying Weakness:

- DODIG Report No. 99-018, "Unaccompanied Enlisted Personnel Housing Requirements For Naval Air Station North Island, California," October 21, 1998

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Identify all current and future base loading personnel data. |
| C | Validate the number of existing permanent party enlisted barracks spaces reported on the R-19 report. |
| C | Document the rationale for classifying barracks spaces as being inadequate. |

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1998

Title and Description of Material Weakness: Undefined Contractual Actions (OSD #98-005). Widespread noncompliance with statutory provisions still exists despite much attention by Congress, OSD and the Military Departments during the last 8 years. Audit results showed over obligations and excess profit conditions performing new construction and repair work. Funds were obligated to the estimated final price with issuing unpriced contract actions, and were awarding contractors excess profits when final pricing these contract actions.

Functional Category: Contract Administration

Pace of Corrective Action:

Year Identified: FY 1998

Original Targeted Correction Date: FY 2000

Targeted Correction Date in Last Year's Report: FY 2000

Current Target Date: FY 1999

Reason For Change in Date(s): Corrective actions have been completed and validated.

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: Development and implementation of additional guidance should ensure compliance with Federal Acquisition Regulations and contracting policies.

Source(s) Identifying Weakness:

- DODIG Report No. 97-204, "Undefined Contractual Actions," August 15, 1997
- NAVAUDSVC Report No. 038-98, "Administering Contracting Actions Without Final Prices at Supervisors of Shipbuilding, Conversion, and Repair," June 2, 1998

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|--|
| C | Guidance issued reminding contracting organizations of their responsibilities under provisions of DFARS. |
| C | Additional guidance will be developed by SUPSHIPS to ensure compliance with DFARS requirements. |
| C | Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify all actions are completed. |

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1996

Title and Description of Material Weakness: Navy Management of Missile Storage, Handling, and Inspections (OSD #96-045). The Department of Navy (DON) planned to construct explosive ordnance structures that it did not need. DOD Instruction 7040.4 specifies military construction (MILCON) funds are not to be used until full consideration is given to converting or altering existing structures to satisfy new requirements.

Functional Category: Property Management

Pace of Corrective Action:

Year Identified: FY 1996

Original Targeted Correction Date: FY 1997

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 1999

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

Component/Appropriation/Account Number: MCN (171205)

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 DON will put MILCON funds to better use for needed explosive ordnance structures, disposal of excess ordnance, increasing available space in ordnance structures, and consolidating the management of ordnance structures.

Source(s) Identifying Weakness: DODIG Report No. 96-025, "Navy Management of Missile Storage, Handling, and Inspections," November 27, 1995

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Establish a policy requiring the timely disposition of excess ordnance. |
| C | Cancel \$56.0 million of constructions projects, including 11 of the 15 planned explosive ordnance storage structures. |
| C | Establish a specific DON activity as the worldwide manager of shore-based ordnance, and validate requirements for all future ordnance construction projects. |
| C | Revise procedures in DON Instruction for reporting use of ordnance structures to include clarification for reporting small arms ammunition space. |
| C | Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify elimination of unneeded and unjustified missile storage facilities. |

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1997

Title and Description of Material Weakness: Management and Use of Navy Cellular Telephones (OSD #97-009). The management control system governing the acquisition, accountability, and use of cellular phones is not adequate to prevent or promptly detect unauthorized use. As a result, at least 16 percent of cellular telephone calls are unofficial or questionable. Activities are left to their own discretion regarding the level of control and accountability procedures. Cellular phone usage is increasing and accountability procedures and guidelines are needed.

Functional Category: Communications, Intelligence and Security

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 1999

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

Component/Appropriation/Account Number: OMN (171804)

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: Accountability procedures and guidelines will ensure that DON personnel are provided information on the proper use of cellular telephones. Cellular telephones will be used for conducting official business only.

Source(s) Identifying Weakness: NAVAUDSVC Report 041-97, "Management and Use of Navy Cellular Telephones," June 9, 1997

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

| Date: | Milestone: |
|-------|---|
| C | Include the area of cellular phones in the Management Control Program. |
| C | Develop and issue specific guidelines and procedures relating to the acquisition, accountability, and use of cellular phones. |
| C | Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify elimination of unofficial use of cellular telephones. |

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1997

Title and Description of Material Weakness: Telecommunications Services (OSD #97-010). The future cost of base telecommunications maintenance requirements for several Consolidated Area Telephone System (CATS) offices was not adequately assessed. Market surveys or economic analyses were not performed in compliance with DOD policy to consider cost-effective alternatives that could satisfy maintenance requirements for CATS equipment. Cost and lease versus purchase analyses were not being performed. An overall telecommunications configuration plan was not developed, and vendor charges for equipment and services could not be validated.

Some activities have not established a baseline of requirements for existing telecommunications equipment, established projected user requirements, developed a configuration management plan, projected maintenance cost, or reviewed or approved life cycle management documentation. Validated inventories of telecommunications assets obtained under CATS contracts were not maintained. Unnecessary expenditures could result from equipment, services, or facilities obtained in excess of user needs.

Several large geographical areas lacked single telecommunications focal points for commands and activities in that area, leading to fragmented management of telecommunications and the lack of an overall telecommunication plan. As a result, the effective, efficient, and economical acquisition and use of telecommunications equipment and services could not be ensured.

The responsibility for developing, maintaining and modernizing the Navy base communications infrastructure is divided between two organizations. Command responsibilities, policies, and procedures to ensure effective, coordinated management of Navy telecommunications infrastructure results in lack of cooperation and confusion over responsibilities.

Functional Category: Communications, Intelligence, and Security

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 1999

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 1999

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: Proper accountability for equipment, services and facilities will result, and lead to more efficient and effective telecommunications services being provided to large geographic areas featuring a number of commands and activities.

Source(s) Identifying Weakness:

- DODIG Report 96-013, "Consolidated Area Telephone System-San Francisco Area," October 23, 1995
- DODIG Report 96-077, "Consolidated Area Telephone System-San Diego Area," February 29, 1996
- DODIG Report 96-091, "Acquisition of Telecommunications Equipment and Services by the Naval Computer and Telecommunications Station, San Diego," March 29, 1996
- DODIG Report 97-094, "Consolidation of Naval Activities Providing Telephone Service-Atlantic Region," February 14, 1997
- DODIG Report 97-119, "Consolidation of Naval Activities Providing Telephone Services in the Pacific Region," April 4, 1997
- NAVAUDSVC Report 028-97, "Management of Naval Telecommunications Services in the Norfolk, VA Area," April 14, 1997
- DODIG Report 97-154, "Functional Transfer of Navy Base Communications Offices," June 11, 1997

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones:

Date:

Milestone:

C

Perform a market survey and economic analysis of the alternatives for maintaining CATS equipment, and select the most economically and technically feasible maintenance service.

- C Conduct a physical inventory of telecommunications equipment, services and facilities for the CATS.
- C Perform a review and revalidation of the CATS user requirements and discontinue those services that are not valid.
- C Request a procurement authority sufficient to administer the CATS II contract or identify the contract administration office assigned to perform standard and assigned contract administration functions.
- C Review and approve life cycle management documentation and verify the development of valid user requirements and established accurate estimated of maintenance costs for the CATS.
- C Issue “lesson learned” information to regional offices and base communications offices for their use in avoiding similar problems in other locations.
- C Develop a projection of maintenance costs for telecommunications equipment that could be incurred under a validated telecommunications configuration management plan.
- C Designate one central project officer in the Norfolk area with the authority to effectively plan, manage, and execute a base telecommunications plan and organization.
- C Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify all actions are completed.

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIODS
FY 1992

Title and Description of Material Weakness: Naval Selected Reserve Force Mobilization Requirements (OSD #92-054). Department of the Navy (DON) field activities and manpower claimants did not always use effective procedures or policy guidance to develop and justify selected reserve (SELRES) manpower requirements. Field activities did not always review their mobilization requirements annually. Resource sponsors did not always consider those active duty personnel that are filling peacetime-only billets as a source for filling ship and squadron mobilization requirements. Finally, 20 of the 22 manpower claimants interviewed did not include the function of determining SELRES manpower requirements as an assessable unit under the DON Management Control Program.

An independent validation of mobilization requirements was not performed and, as a result, SELRES mobilization requirements were overstated.

Naval Reserve full-time support billets had not been civilianized to the maximum extent possible, requiring the unnecessary use of costlier military assets. DOD and DON guidelines state that civilians shall be used unless military incumbents are required to successfully perform the duties involved.

Personnel supporting the Naval Air Reserve function were not being used in an effective and efficient manner. More Full-Time Support (FTS) personnel than needed were maintained to perform peacetime missions. SELRES personnel assigned to augment mobile facilities during mobilization were not needed as their duties could be performed by Active Duty personnel.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 2000

Current Target Date: FY 1999

Reason for Change in Date(s): Corrective actions are completed and validated.

Component/Appropriation/Account Number: RPN (171405)

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: Valid mobilization manpower requirements will ensure, and result in DON activities having an enhanced ability to accomplish mission and functions during a mobilization. Adequate SELRES manpower authorizations result in appropriate RPN programming and funding.

Source(s) Identifying Weakness:

- NAVAUDSVC Report 049-S-91, "Naval Surface Reserve Force Personnel and Training Readiness," June 25, 1991
- NAVAUDSVC Report 069-S-92, "Naval Selected Reserve Force Mobilization Requirements," June 30, 1992
- DODIG Report 92-116, "Naval Reserve Reinforcing and Sustaining Units," June 30, 1992
- DODIG Report 96-173, "Requirements for Naval Reserve Component Units Not Assigned to Support Regional Contingencies," June 21, 1996
- NAVAUDSVC Report 013-97, "Military Essentiality of Naval Surface Reserve Force Full-Time Support Billets," January 13, 1997
- NAVAUDSVC Report 023-97, "Organization and Staffing of Selected Naval Air Reserve Functions," March 17, 1997

Major Milestones in Corrective Action: (C=Completed)

Completed Milestone:

| Date: | Milestone: |
|-------|--|
| C | Ensure that SELRES manpower requirements is reported as an assessable unit. |
| C | Revalidate the responsible functional sponsor for each functional category. Revalidate all Navy Manpower Mobilization System (NAMMOS) functional categories for applicability under the new planning guidance. Revise the NAMMOS users manual. |

- C Issue revised guidance on Navy total force manpower policies and procedures.
- C Provide guidance to manpower claimants on the procedures to be used to conduct a zero-based review of all mobilization manpower requirements.
- C Write and issue a Secretary of the Navy Instruction on Naval reserve policy.
- C Perform functional category reviews/update the Concept of Operations for each functional category based on the new planning guidance.
- C Add the determination/validation/ programming procedures for mobilization manpower requirements to the PERS-51 Total Force Manpower Management course.
- C Revalidate all mobilization manpower requirements, and submit necessary manpower change requests.
- C Identify any cost savings/increases resulting from the revalidation/identification of alternate resourcing of SELRES requirements that results from the new guidance. [Since 1992, the DON has eliminated a substantial number of sea-based SELRES requirements, and a small number of shore-based requirements. End-strength was reduced from 127,269 in FY 1991 to 81,118 for FY 1996.]
- C Establish guidelines for major claimants to require that independent personnel properly trained in the manpower functional area validate mobilization requirements. Guidance should specify that the independent manpower teams will report to the senior official of the major claimant being validated.
- C Justify mobilization requirements for Reserve Unit 106.
- C Review all zero-based documentation to ensure the correct productivity adjustment factor has been used, and make any necessary changes to mobilization manpower requirements.
- C Establish a requirement for annual reviews of manpower claimants' mobilization requirements to ensure that they follow the policies and procedures in Chief of Naval Operations (CNO) Instruction 1000.16H, "Manual of Navy Total Force Manpower Policies and Procedures," March 25, 1994.

- C Include the requirement to screen civilian employees as a specific step in the assessment of mobilization workload in CNO Instruction 1000.16H.
- C Reduce Mobile Maintenance Facility mobilization SELRES personnel support, and reprogram billets.
- C Initiate action to convert Naval Reserve FTS billets to civilian status, including appropriate funding transfers.
- C Discontinue using military essentiality codes to justify military positions, unless positions are required to upgrade incumbents' combat essential military skills.
- C Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

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