

FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT
FY 2001
STATEMENT OF
ASSURANCE



DEPARTMENT OF THE NAVY



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
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INFORMATION MEMO

December 18, 2001, 9:30 AM

FOR: SECRETARY OF DEFENSE

FROM: Susan Morrisey Livingstone, Under Secretary of the Navy

Susan Livingstone
January 4, 2002

SUBJECT: Department of the Navy Fiscal Year 2001 Statement of Assurance

- The Department of the Navy (DON) has evaluated its system of internal accounting and administrative controls in effect during Fiscal Year (FY) 2001. Based on that review, and in accordance with the Federal Managers' Financial Integrity Act (FMFIA), the DON believes it has the controls in place necessary to provide reasonable assurance that it can execute its mission effectively and that its critical assets are protected, with the exception of the material weaknesses identified in this report.
- The information that supports this determination of reasonable assurance was derived from management control reviews, audits, inspections, investigations, and other management studies. The determination is supported by feeder statements of assurance received from each Assistant Secretary of the Navy and DON principals.
- A more complete evaluation of the Management Control Program and FY 2001 accomplishments are at TAB (A).
- A listing and summaries of uncorrected and corrected material weaknesses are at TABs (B), (C), and (D) respectively.

Attachments:
As stated

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SUBJECT: FY 2001 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 (FY) ending September 30, 2001, was evaluated in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by Department of Defense (DoD) Directive 5010.38, "Management Control Program," dated August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996. The OMB guidelines were issued by the OMB Director, in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982" (FMFIA). Included is an evaluation of whether the system of internal accounting and administrative control of the DON is in compliance with standards prescribed by the Comptroller General.

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

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

The evaluation of management controls extends to every responsibility and activity undertaken by DON and is applicable to financial, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of management controls should not exceed the benefits expected to be derived and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding description.

The evaluation was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the DON in effect during the fiscal year that ended September 30, 2001, 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

Management Control Program Structure. The organization and structure of the DON and the actions taken daily to maintain a modern, quality naval force are the major factors that led the Secretary of the Navy (SECNAV) to have reasonable assurance that the system of management controls is operating as intended, with the exception of the material weaknesses reported. The DON Management Control (MC) Program is decentralized and encompasses 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 the MC Program, which 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 SECNAV with its own annual MC Certification Statement. These Certification Statements are used as the primary source documents for the Secretary's determination of whether reasonable assurance exists that the system of internal administrative controls is functioning within the DON.

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

- **Control Environment.** The DON has established its control environment to support its mission statement "to maintain, train, and equip combat-ready naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas." Integral to mission implementation and sustainability of the control environment are the published human capital policies, ethics, and operational procedures that are practiced and reinforced daily in training and in operations. Each of these fundamental elements is further reinforced by the shore commands and afloat forces, working to achieve their respective missions in support of the overall DON mission.
- **Risk Assessment.** The DON has placed greater emphasis on risk assessment during FY 2001. As part of a departmental effort to reengineer the MC Program, the DON conducted a Risk Management Pilot Program with the Naval Facilities Engineering Command. The objective of the Pilot was to assist the command in assessing areas of risk and the controls necessary to mitigate those risks.

In addition, to address the needs of all shore commands and afloat forces, the DON has developed a self-assessment survey tool, based on the principles and elements of a good MC Program, including the concepts of risk management detailed in the General Accounting Office Internal Control Management and Evaluation Tool. The objectives of the self assessment are to promote risk awareness and recognition of risk and to assist commands at all levels of the DON in evaluating their MC Programs.

- **Control Activities.** The DON has an extensive system of policies, procedures, and training activities that provide instructions for personnel, from the departmental level

to the lowest operating activities. DON shore commands and afloat forces have a variety of controls in place that reflect and enforce these policies and procedures, to include security checklists, segregation of duties, shipboard inspections, and organizational reviews. These controls are highly specific and reflect management's focus on the duties and activities related to accomplishing organizational missions.

- **Communication and Information.** Information is continuously communicated up and down the DON chain of command. Communication on priorities and departmental direction flow down through the organization through a variety of formats; strategic plans; policies and procedures doctrines; human capital strategies; and DoD directives, instructions, and memorandums. The process and the structure for reporting and preparing the Statement of Assurance contributes greatly to the upward communication of issues and weaknesses within the organization as the responsible activities and commands forward their identified material weaknesses for review, comment, and aggregation.

Additionally, targeted messages on MC Programs, Internal Controls, and Risk Management have been briefed at the Navy Working Capital Fund and American Society of Military Comptrollers conferences and at the DON Comptroller roundtable meetings throughout the year.

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

In addition, at year-end, the Auditor General (AUDGEN) evaluates the DON annual MC Statement of Assurance 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 another source of assurance to SECNAV that the systems of internal control are functioning properly, and, to the extent possible, have been appropriately evaluated.

Management Control Reporting. As described above, at year-end, the Assistant Secretaries of the Navy, CNO, CMC, Secretariat Staff Offices, and other major

commands provide MC Certification Statements to SECNAV regarding their assessment of the effectiveness of management controls within their organizations. These components base their certifications on evaluations they have conducted, as well as input provided by subordinate commands regarding management control accomplishments and deficiencies identified throughout the year. These accomplishments and deficiencies may have been identified through internal reviews or external audits, investigations, or inspections. Corrective actions and milestones for deficiencies identified are reported as well.

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

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

FY 2001 Statement. Based on the Certification Statements provided by the DON Secretariat Staff Offices, Echelon 1 components, and major commands, and the NAVAUDSVC/ASN(FM&C) evaluation process, four new weaknesses are being reported in FY 2001 ("Individual Ready Reserve," "Information Assurance," "Military Personnel Recruiting," and "*General and Flag Officer Quarters*"). Three weaknesses first reported in prior statements ("*DON Chief Financial Officers Act Financial Statements, Treasury Index 17,*" "*DON Revolving Funds Chief Financial Officers Financial Statement Accountability,*" and "*Unmatched Disbursements*") 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 corrections dates were also made for the remaining nine uncorrected weaknesses ("*Hazardous Material Management,*" "*Instructor Requirements and Student Input Planning,*" "*Computer-Based Training,*" "*Independent Logistics Assessment Process,*" "*Requirements Determination,*" "*Excess Material and Unrecorded Inventories,*" "*Asset Visibility of In-Transit Inventory,*" "*Enlisted Administrative Separations,*" and "*Cash Management and Contract Payments at Selected Navy Activities in Europe*"). The DON is committed to full disclosure of material weaknesses and resolution of the issues discovered. The status of planned corrective actions ("Planned Milestones") on all existing material weaknesses is also reported in this Statement. Finally, the Statement reports that, during FY 2001, the DON completed corrective actions on three material weaknesses identified during prior periods

(“Contract Services,” “Navy’s Military Personnel Records System Needs Replacement,” and “Navy Enlisted Classification Code Training”).

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:

- During FY 2001, the Naval Financial Management Career Center (NFMC) provided training in various financial management topics to DON employees and military members. The DON entry-level financial management courses were completed by 1,325 personnel, the Practical Comptrollership Course by 220 personnel, and the Enhanced Defense Financial Management Training by 441 personnel. Specific sections concerning fiscal law and Anti-deficiency Act violations were included in this training.
- In FY 2001, contracts were initiated to revise the content and provide web-based delivery of the courses Principles of Navy Budgeting and the Introduction to Navy Financial and Managerial Accounting. Instructional Media Design Plans were funded for fifteen potential financial management courses that could be delivered in a web based manner.
- The Department of the Navy Civilian Financial Management Career Program instruction, SECNAV Instruction 12400.5C, was signed and implemented. A draft revision of the same instruction was staffed with the major claimants, which recommends experience and educational standards for selection to senior financial management positions.

Accomplishments Specific to the DON Management Control Program

- The DON, through the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C)), proposed to improve the Statement of Assurance reporting process to identify business risks and the controls to manage and mitigate those risks, while identifying material deficiencies throughout the DON. The DON conducted a pilot program with the Naval Facilities Engineering Command (NAVFAC); NAVFAC was chosen because of its many private-sector-type processes. The objective was to provide value to the command and meet the requirements of the MC Program. The pilot program consisted of three phases: Risk Assessment, Risk Mitigation, and Risk Mitigation Evaluation. Several of the benefits identified from the Pilot Program were:
 - It was a valuable process to focus management attention and create dialogue.
 - It allowed focus on risk areas within the organization which are normally hard to address.

- It increased awareness of interdependencies and management systems.
- It expanded the scope of review to broader categories of risk beyond financial.

Results of the pilot program were positive for the command. Upon completion, the DON determined that the program might not be a solution across all commands, as it did not have the resources available to support such a progressive Navy-wide MC Program quickly; and that all commands were not at an advanced stage with their existing MC Program to be able to achieve many of the same benefits as achieved during the pilot program. After receiving additional information from the Naval Audit Service confirming that several commands appeared to have undocumented programs, the DON decided to pursue a “Back-to-Basics” approach with its MC Program instead of a more progressive business risk approach.

The purpose of the “Back-to-Basics” effort is to provide tools, strategies, communication venues, and processes to all commands to address weaknesses in their existing programs. The approach encompasses:

- greater emphasis on training;
 - assisting commands and activities in enhancing their MC Programs through best practices and self assessments; and
 - automating support activities to benefit command and activity operations and to meet the reporting requirements more efficiently and easily.
- The Office of Budget’s (FMB) physical spaces, including 30 servers and all computers, were destroyed by the incident at the Pentagon on September 11, 2001. Due to the Navy and Marine Corps Intranet (NMCI) contract, this organization was able to quickly regroup in temporary spaces located in the National Capital Region. This included rebuilding the servers at the Washington Navy Yard and deploying new computers in the temporary workspaces located in Crystal City, Virginia. The Information Strike Force had their location and reconstruction efforts completed by September 19, 2001.
 - During FY 2001, the DON continued working towards making its systems and processes compliant with the Federal Financial Management Requirements. In January 2001, the Under Secretary of Defense (Comptroller) (USD(C)) established the Financial and Feeder Systems Compliance Process for the Military Departments and Defense Agencies to follow in making their respective accounting, finance, and feeder systems compliant with Federal Financial Management Requirements. Under this initiative, the DON has been assigned the responsibility to ensure, in consultation with Defense Finance and Accounting Service (DFAS), that its systems are compliant.

Phase I of this compliance process is the Awareness Phase, which consists primarily of gathering information on the systems/modules and their functions, interfaces, and points of contact for DON-owned financial and feeder systems. In support of this phase, the DON issued a data call and gathered system information from the respective Management Commands, including interfaces with other systems, resource

requirements, and milestone data. This data call served as the DON's formal effort to comply with the Awareness Phase exit criteria required for the USD(C) compliance process and provided most of the input to comply with the FY 2001 Statutory Mandate of the Biennial Financial Management Improvement Plan (BFMIP).

Part two of the Awareness Phase requires the mapping of financial data from the financial and feeder systems to the General Fund and Working Capital Fund Audited Financial Statements. From the awareness data call, the DON has collected detailed information on both critical and non-critical financial and feeder systems as to how they interface with each other and with other DoD standard financial and feeder systems. With this information, the DON has initiated a comprehensive data mapping effort, initially focusing on the Working Capital Fund, that will tie these interfaces to the individual lines on the financial statements, including the dollar amounts transmitted. Through these activities, the DON continues to strive in improving its overall financial management, which will result in clean financial statements.

- The process for establishing and measuring progress towards problem disbursement reduction goals was significantly improved during FY 2001. The FMO developed an interactive approach to establishing problem disbursement reduction goals that empowered the Major Commands to set their own goals within established parameters. FMO requested the Major Commands to develop three-year reduction goals (for both net and absolute balances), beginning with the October 2000 balance and achieving their overall reduction targets by March 31, 2003. The process was successful and the Major Commands established aggressive goals that, when achieved, will reduce the DON problem disbursement balance to less than \$500 million by FY 2003.
- The DON continues to improve its Chief Financial Officers Act (CFO) data collection process. For FY 2001, the Data Collection Instrument (DCI) was moved to a web-based environment. This not only streamlines the distribution and transmittal process but also includes additional security and sign-off functionality. Through dynamic personalization, only those forms that are pertinent to each command are available, further increasing ease of use. The DCI was also expanded to incorporate consolidation functionality at the command level. The DCI continues to provide instructions, term definitions, and a detailed audit trail. The DON plans to pursue a seamless integration of data from the DCI to DFAS, perhaps via upload into the Defense Departmental Reporting System (DDRS).
- As part of the DON's effort to develop an analysis of the policy framework for reporting environmental and disposal liabilities, an environmental liabilities team was created to:
 - assess DON compliance with the DoD Financial Management Regulation (FMR); and
 - implement a methodology to standardize the reporting process.

In response to those objectives, all available guidance to identify the requirements for accurately measuring, estimating, and recognizing DON environmental liabilities was

reviewed. Functional and financial points of contact (POC's) throughout the DON were contacted to assist in:

- determining the availability of information required for measuring and reporting environmental liabilities;
- reviewing processes used in the FY 2000 financial statement reporting process; and,
- developing standard procedures for calculating and reporting environmental liabilities in the future.

From the information obtained, the DON summarized and outlined standard procedures for calculating both environmental and non-environmental liabilities as required by the DoD FMR for financial reporting. The DON also developed a worksheet for use by commands to calculate National Defense Property and Equipment (ND PP&E) environmental and non-environmental liabilities to facilitate the standardization of reporting liabilities in the FY 2001 Annual Financial Report.

- For General Property, Plant and Equipment (PP&E), the DON has substantially completed (99 percent) the conversion of its personal property information into the Defense Property Accountability System (DPAS), per the signed August 1, 1999, SECNAV Instruction on Accountability for Personal Property. The FMO continues to monitor personal property assets by building a model for sustaining quality financial and accountability information that supports the goals and objectives of both the DON and DoD. Continuing with PP&E, the DON was successful in devising a standard query methodology for the Navy Facility Assets Database (NFADB) (the DON's Real Property system maintained by NAVFAC), to support financial reporting and accountability. In addition, current plans are focused on the examination of Navy Working Capital Fund (NWCF) Real Property maintained in the NFADB and developing a methodology to reconcile the systems balance to the activity records.
- The DDRS is being implemented at the major claimant level for the NWCF financial statements for FY 2001. This expanded financial reporting will give the DON management commands increased visibility over total assets, liabilities, revenues, and program cost for their respective operating activities. As part of this strategy, DON management will be able to compare and analyze financial performance of the NWCF activity groups using common metrics such as Net Operating Results, Cash Reserves, Accounts Receivable Delinquencies, etc. Similarly, DoD financial leadership can compare these same metrics reported for each of the Defense Working Capital Funds as part of an overall financial performance and accountability strategy.
- DON has made progress in bringing attention to the problem of the significantly distorting effects of arbitrary adjustments made each year when compiling the NWCF consolidated financial statements. DFAS makes these adjustments to the activities groups' transaction-based trial balances in order to force agreement of their balances of accounts payables, accounts receivable, prepayments, advances, etc. with uncorroborated balances reported by other DoD and civilian agencies. DON considers

its effort to correct these distortions as essential to achieving any degree of reliability in the financial statements that potentially can serve as a basis for exercising internal and management control throughout the NWCF.

- DON and DFAS took action to better account for, collect, and manage NWCF Accounts Receivable. In September 1999, 19 percent (\$17.2 million of \$92.9 million) of the NWCF's total Accounts Receivable balance (federal and non-federal) were delinquent, i.e., more than 180 days old. DON's memorandum of June 8, 2000 to the NWCF Management Commands addressed the requirement for reconciling and validating Accounts Receivable and identifying potential uncollectible amounts. DFAS distributed a memorandum of October 9, 1997, Write-off of Aged Accounts Receivable for Contractor/Vendor Debt, addressing the requirement for follow-up actions necessary to collect delinquent Accounts Receivable. For delinquent accounts, DFAS must determine that all collection efforts have been exhausted. DFAS must forward the account to the appropriate Management Command, which must assure supporting documentation is complete and then forward a write-off request to ASN (FM&C). In addition, DON and DFAS recognized and disclosed in the FY 2000 financial statements that the NWCF is not complying with federal accounting standards by not establishing and maintaining an allowance for potentially uncollectible receivables. Institutionalizing an allowance process will help DON and DFAS management focus on regularly reviewing the age and collectibility of receivables.
- The NCIS continues comprehensive self-audits/review of the staffing, administrative costs, and operational efficiency of the agency. During this reporting period, the NCIS enhanced and significantly streamlined its operational plans which outline the agency focus and provide guidance for more efficient use of assets in response to requests for investigative assistance. Program managers continually review the operational procedures within the global NCIS office structure, ensuring compliance with the established plans and an overhauled command inspection program that provides the Director, NCIS, with an objective evaluation of the performance and efficiency of the offices and their leadership.
- The NCIS program for the enhanced management and use of Collection & Classification of Information (C&CI) Funds identified in the Fiscal Year 2000 Management Control Certification Statement has now been implemented in all NCIS Field Offices. An electronic version of the NCIS Administration Manual chapter on the use of C&CI Funds will be implemented and loaded during the current fiscal year.
- The NCIS Inspection Program was overhauled in Fiscal Year 2001 for adherence to, and compliance with, the Government Performance and Results Act (GPRA). The program is designed to provide the Director and the NCIS Executive Staff with an objective evaluation of the performance and efficiency of NCIS Field Offices and their Leadership teams as they execute operational plans designed to link the NCIS' strategic goals and objectives with the offices' day to day activities; to provide the Field Offices with recommendations to enhance their capabilities and execution of their assigned mission; and to recognize, commend, and share successful innovations with other Field Offices and Departments.

The newly revamped NCIS Inspection Program continues to function as the most integral part of its overall system of internal controls. The comprehensive coverage of administrative and operational programs applied during the Self-Inspection Program, on-site Inspection Visits, and Field Office Oversight Visits provides a strong degree of assurance that the vulnerability of all command resources to waste, fraud, abuse, or mismanagement is significantly less than provided under existing DoD and DON management control directives.

Inspections conducted by NCIS headquarters inspectors and assessments made under the NCIS Self-Inspection Program by Field Office leadership teams provide opportunity to ensure compliance with DoD, DON, and NCIS policies and regulations; conformity with the NCIS Strategic Plan; and adherence to the Guiding Principles of NCIS—Integrity, Dignity, Independence, Quality, Focus, Risk Management, and Teamwork.

- Several recent actions taken have resulted in accomplishments for the Navy Travel Card Program:
 - The Comptroller of the Navy sent nearly 14,000 letters to Navy and Marine Corps travel card accountholders who were 60+ days delinquent, encouraging them to resolve their accounts. The Comptroller also wrote to all major Navy and Marine Corps commands requesting that appropriate management attention be given to further reduce individually billed account delinquencies.
 - In conjunction with Bank of America, the DON held Agency Program Coordinator (APC) symposiums in the Norfolk and San Diego areas. The symposiums provided a general overview of the regulations and policies governing the program, as well as information on tools available for APCs to effectively manage the travel card. Senior DON staff fielded questions from APCs during each of the symposiums.
 - The DON took a significant action by moving the Navy Component Program Manager function and day-to-day management of the program from the ASN(FM&C) to the DON eBusiness Operations Office (eBUSOPSOFF). The DON formed the eBUSOPSOFF to be an enabler for implementing electronic business solutions. The office now provides operational oversight of the DON's various electronic-based transaction systems, such as the travel card program, and provides senior leadership attention to maintain the effectiveness and efficiency of the program.
 - The Navy implemented centrally billed accounts (CBAs) to procure essentially all commercial transportation. Such action prevents large-dollar items from being charged to individually billed accounts, thereby reducing potential delinquencies. The Navy had carried significant past due balances with Bank of America, due to delayed payments caused by failure to meet Grassley prevalidation requirements. The Navy redesigned the account management structure and made Navy Commands responsible for verifying accounting data before the invoice suspended. This improved the timeliness and accuracy of payments to Bank of America and reduced problem disbursements. The DON has significantly reduced

CBA delinquencies, resulting in the lowest delinquency-to-spend ratio of all the DoD Components.

Accomplishments During FY 2001 Stemming from Management Control Program Activities

- NAVINSGEN opened 38 procurement fraud hotline cases and closed 195 cases.
- NAVINSGEN opened 834 hotline cases and closed 1,021 cases. Out of the cases closed, a savings of \$52,097.57 was recognized.
- NAVINSGEN opened 50 Senior Official cases and closed 49 cases. Of the cases closed, 13 were substantiated.
- The Marine Corps Inspector General's Office conducted an additional 47 Inspections and Readiness Reviews, 11 investigation/assistance cases, and 211 hotline complaints/allegations.
- The Marine Corps discovery process for Fiscal Year 2001 included reviewing the results of 9,112 Internal Control Evaluations performed throughout the Marine Corps. Management used the results of 7,139 Internal Control Reviews (ICRs) and 1,973 Alternate Internal Control Reviews (AICRs) to evaluate internal controls within the Marine Corps.
- The Nonappropriated Fund Audit Service conducted 45 audits of Marine Corps nonappropriated fund activities that included review of internal controls of these activities.
- The Field Supply and Maintenance Analysis Offices Teams performed and issued 85 studies, which included reviews of the procedures, and controls over supply-related operations Marine Corps-wide.
- The Marine Corps Administrative Analysis Teams performed and issued 165 reports, which included reviews of the procedures and controls over Military Pay and Allowances. Each Base, Station, Depot, Operating Force Command, and Headquarters Staff agency summarized the results of internal control evaluations and provided a total of 38 individual activity compliance statements to this Headquarters.

Significant Issues

Several issues emerged during FY 2001 audits and reviews that, while notable, are not deemed department-wide "material weaknesses," and are not reported as such. The issues are nonetheless significant, and are briefly discussed here:

- NAVAUDSVC is conducting an audit of the DON's Implementation of the FMFIA and has identified several issues within the formal MC Program pertaining to selected organizations' insufficient implementation of specific FMFIA objectives, primarily in documentation and monitoring of the various elements of the Program. Although the audit has not yet been finalized, the DON acknowledges that it needs to improve its MC Program documentation and monitoring efforts. The DON has developed a web-

based self-assessment tool to provide commands with feedback on strengths and weaknesses of their MC Programs. In addition, the DON is developing a web-based tool for tracking and reporting material weaknesses and conducting the year-end certification required for the Statement of Assurance. The DON also plans to develop instructor-led and web-based MC training. During FY 2002, the DON will review its MC Program instruction and, if appropriate, revise it to clarify Program requirements. The DON fully believes that its management controls are in place and that it has reasonable assurance it can execute its mission effectively; however, in light of the NAVAUDSVC audit, the DON will address this issue during FY 2002.

(NAVAUDSVC Audit N2001-NFA300-059, "FY 2001 Implementation of the Federal Managers Financial Integrity Act (FMFIA)")

- The Marine Corps Logistics Campaign Plan's (MCLCP) overall goal is to provide improved logistics support to Marine Corps operating forces through 2006. Two audit reports reviewed Goals 1 & 4 of the plan. Goal 1 is to enhance logistics support for operations. NAVAUDSVC evaluated the implementation of Goal 1 and found that tasks were not always executed or were not executed in a manner consistent with the intent of the task. In addition, attainment of critical capabilities necessary to transform logistics support for operation was at risk. The Marine Corps concurred with the recommendations to establish a performance plan to manage the implementation and execution of the MCLCP, to develop a risk mitigation strategy, and provide management control.

Goal 4 is to implement best practices in material management. The Marine Corps did not develop a strategy to manage the risks associated with its plans to achieve the strategic goals and objectives of Goal 4. Additionally, the Marine Corps materiel life cycle management organization and structure conflicted with DoD, DON, and internal Marine Corps policy and guidance. The Marine Corps concurred with the recommendations to ensure materiel life cycle management is in compliance with pertinent guidance and directives and to complete a risk mitigation strategy.

(NAVAUDSVC N2001-0042, "Marine Corps Logistics Campaign Plan to Enhance Logistics Support for Operations," August 10, 2001, and NAVAUDSVC N2001-0043, "Marine Corps Logistics Campaign Plan to Implement Best Practices (Innovation)," August 10, 2001)

- The DON has identified several potential issues with the General Services Administration Smartcard Program, specifically related to the Commercial Purchase Card Program and the Government Travel Card Program. Two DON commands identified issues with the Commercial Purchase Card Program.
 - A Marine Corps internal control review identified a material internal control weakness that controls over the use of the Marine Corps' Government Wide Commercial Purchase Card (GCPC) need to be improved to reduce payment delinquencies and misuse. The Marine Corps is currently working on publishing and implementing internal controls identified by a working group that should reduce small purchase card delinquencies. *(Marine Corps Internal Control Review)*

- Naval Audit Service performed a control self-assessment of the use of the Commercial Purchase Card Program. It was found that the Purchase Card Program controls do not provide for effective use of the purchase card and do not allow for proper accounting of goods and services purchased. This occurred because the Naval Audit Service did not require that cardholders: (1) complete and retain all documentation for each transaction; (2) maintain a purchase log; (3) perform adequate reconciliation of the purchase card statement; and (4) safeguard the security of purchase cards and account information. Recommendations were made to issue purchase card policies and procedures and to establish Purchase Card Program accounting and budgeting desk procedures to include roles and responsibilities for all assigned personnel. (*Naval Audit Service Control Self-Assessment*)

In addition, GAO reported that purchase cardholders at the Space and Naval Warfare Systems Command, San Diego, and Navy Public Works, San Diego, essentially have the authority to make their own purchase decisions in an environment that lacked basic controls over receipt of government property, certification of monthly statements, and accountability over sensitive property items. These weak internal controls resulted in lost, stolen, missing, or misused government property, potentially abusive use of purchase cards, and payment of unauthorized and potentially fraudulent charges. (*GAO Testimony No. GAO-01-995T, Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse,* July 30, 2001)

There appears to be the potential for systemic management control deficiencies related to the Purchase Card Program. However, because audits are ongoing in this area and corrective actions have not been identified and agreed to, and because the breadth of the potential problem is not yet clear, the DON will revisit this issue as a potential material weakness in FY 2002.

Also notable are the following issues and actions taken regarding the DON government travel card program:

- Delinquencies continue to be the main issue for the individually billed account (IBA) program, not only within the DON, but also for DoD as well. The concern regarding DoD's IBA travel card delinquencies prompted Congressional hearings earlier this year. In addition, the credit card contractor, Bank of America, has expressed concerns over delinquencies and has questioned the continued viability of providing this service to the government.
- During FY 2001, the Navy took a significant action by consolidating the travel card Component Program Manager function and the day-to-day management of the program to the DON eBusiness Operations Office. The office now provides operational oversight of the Navy's various electronic-based transaction systems and provides senior leadership attention to maintain the effectiveness and efficiency of the program.

NAVAUDSVC is currently conducting a review of the Navy's IBA travel card program. In particular, the review will focus on accounts that have reached "charge off" status and a detailed investigation of the related circumstances. In addition, GAO

is developing plans to review the travel card program, although specific details have yet to be developed.

- The DON currently owes the Department of Treasury Judgment Fund \$135.2 million (as of September 30, 2001). In FY 2000, DON reported owing \$186.9 million (as of September 30, 2000) to the Judgment Fund. Title 31, United States Code, section 1304 and Title 41, United States Code, section 612 provide that monetary judgments under the Contracts Disputes Act of 1978, as amended, that are awarded by the Armed Services Board of Contract Appeals (ASBCA) or the Court of Federal Claims are paid by the Department of Treasury from the Permanent Judgment Appropriation (Judgment Funds): Claims for Contract Disputes (Treasury Symbol 20X1743). After such payment, the DoD Components are required to reimburse the Department of Treasury's Judgment Fund. Some problems associated with reimbursement to the Judgment Fund include the following:
 - activities responsible for reimbursing the Judgment Fund do not have the funds; and
 - contracting and legal personnel who complete the initial paperwork with the Department of Treasury to use the Judgment Fund do not include comptroller or resource management personnel in the process to ensure that funds are available or budgeted for in subsequent fiscal years.

Items to be Revisited in FY 2002. The DON noted three management control issues in FY 2001 that, while significant and otherwise meriting being included in this Statement, do not yet meet the criteria established by OMB and DoD for being considered a "material weakness" (i.e., an acknowledged problem, agreed upon corrective measures, a formally adopted timetable for accomplishing the corrections, and a mechanism to verify that the problem has indeed been corrected). The first two issues, the MC Program and the Commercial Purchase Card Program, are discussed above. The third issue, related to the fleet hospitals, is noted in two audit reports. One of the reports still has seven out of nine recommendations open. The other has not been published and the recommended corrective measures or established alternatives have not been finalized. Actions on these audits will be monitored during FY 2002 and will be reconsidered for inclusion in the FY 2002 FMFIA Statement of Assurance. The reports are:

- DoDIG Report No. D-2000-191, "Inventory Management of Navy Fleet Hospitals by the Fleet Hospital Support Office, Cheatham Annex, Virginia," September 22, 2000.
- DoDIG Draft Project No. D1999-D000LF-0031.001, "Audit of Deployable Medical Systems-Navy Fleet Hospital Program Requirements."

DoD-wide Systemic Weaknesses

(Awaiting OUSD(C) Notification of Systemic Weaknesses)

Point of Contact

The DON point of contact for the Management Control Program and issues dealing with material weaknesses reported in the FY 2001 FMFIA Statement of Assurance is Mr. Gilbert Gardner, FMO. Mr. Gardner can be reached at (202) 685-6727, DSN 325-6727, or by facsimile at (202) 685-6761, or by email at gardner.gilbert@fmo.navy.mil.

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING THE PERIOD
FY 2001

<u>Title</u>	<u>Targeted Correction Date</u>	<u>Page #</u>
<i>Force Readiness</i>		
Individual Ready Reserve (IRR) Member Screening	FY 2002	B-2-1
<i>Information Technology</i>		
Information Assurance	FY 2004	B-2-3
<i>Personnel and/or Organization Management</i>		
Military Personnel Recruiting	FY 2003	B-2-7
<i>Comptroller and/or Resource Management</i>		
General/Flag Officer Quarters (GFOQ)	FY 2002	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>Major Systems Acquisition</i>				
Hazardous Material Management	FY 2000	FY 2003	FY 2006	B-2-13
<i>Force Readiness</i>				
Instructor Requirements and Student Input Planning	FY 1999	FY 2005	FY 2005	B-2-15
Computer-Based Training	FY 1997	FY 2002	FY 2002	B-2-18
<i>Supply Operations</i>				
Independent Logistics Assessment (ILA) Process	FY 2000	FY 2001	FY 2002	B-2-20
Requirements Determination	FY 1993	FY 2001	FY 2004	B-2-22
Excess Material and Unrecorded Inventories	FY 1993	FY 2002	FY 2002	B-2-25
<i>Property Management</i>				
Asset Visibility of In-Transit Inventory	FY 1999	FY 2001	FY 2002	B-2-28
<i>Personnel and/or Organization Management</i>				
Enlisted Administrative Separations	FY 2000	FY 2002	FY 2002	B-2-31

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>				
Department of the Navy Chief Financial Officers (CFO) Act Financial Statements, Index 17	FY 1997	FY 2003	TBD	B-2-33
Cash Management and Contract Payments at Selected Navy Activities in Europe	FY 1996	FY 2002	FY 2003	B-2-38
Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statement Accountability	FY 1993	FY 2002	TBD	B-2-40
Unmatched Disbursements	FY 1993	FY 2003	FY 2003	B-2-43

CORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING ALL PERIODS

<u>Title</u>	<u>Year First Reported</u>	<u>Page #</u>
<i>Contract Administration</i>		
Contract Services	FY 2000	B-3-1
Information Technology		
Navy's Military Personnel Records System (MPRS) Needs Replacement	FY 1994	B-3-3
<i>Personnel and/or Organizational Management</i>		
Navy Enlisted Classification (NEC) Code Training	FY 1993	B-3-6

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING THE PERIOD
FY 2001

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

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2002

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

Current Target Date: N/A

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

Component/Appropriation/Account Number: N/A

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date: Milestone:

C Maintain records by name of IRR members who do not respond to annual screening questionnaires and perform effective follow-up procedures for these individuals.

Planned Milestones (FY 2002):

Date:	Milestone:
3/02	Modify screening questionnaires to include adverse consequences IRR members may face if they do not respond to annual screenings mailed to them.
9/02	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2001

Title and Description of Material Weakness: Information Assurance. The Department of the Navy Chief Information Officer (DON CIO) is responsible for Information Assurance (IA) within the Department. DON CIO has focused its efforts on IA policy, strategy, and tools. The new IA policy will require all members of the Department to undergo annual user training, with a concentration on Internet security risks and practices. The Department will continue to test the effectiveness of its IA policies and guidance through regular audits incorporating Government Information Security Reform Act (GISRA) requirements, vulnerability assessments, online surveys, and red teaming. The policy instruction, SECNAVINST 5239.3B, is in final chop for publishing and implementation, but is not yet promulgated.

There are approximately 1000 mission critical and mission essential IT systems in the DON IT Registry. A sampling of these systems taken for the DoD FY 2001 GISRA Report indicated that only 18 percent of these systems have been certified and accredited in accordance with DoD Instruction 5200.40, "DoD Information Technology Security Certification and Accreditation Process" (DITSCAP). The cost to complete DITSCAP is estimated at \$250,000 per system, and can run as high as \$1 Million – an expense not currently included in budget requests for the Navy and the Marine Corps.

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

Functional Category: Information Technology

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2004

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

Current Target Date: N/A

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

Component/Appropriation/Account Number:

<u>Title</u>	<u>Appropriations(s)</u>	<u>FY2001</u> <u>(\$000s)</u>	<u>FY2002</u> <u>(\$000s)</u>	<u>FY2003</u> <u>(\$000s)</u>	<u>FY2004</u> <u>(\$000s)</u>	<u>Total</u>
See below	See below	\$197,943	\$208,224	\$142,280	\$176,380	\$724,827

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

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

Results Indicators:

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

Source(s) Identifying Weakness:

- DoDIG Report No. D-2001-016, "Security Controls Over Contractor Support For Year 2000 Renovation," December 12, 2000
- DoDIG Report D-2001-182, "Information Assurance Challenges – A Summary of Results Reported April 1, 2000, through August 22, 2001," September 19, 2001
- DoDIG Report No. D-2001-184, "FY 2001 DOD Information Security Status for Government Information Security Reform," September 19, 2001
- DoDIG Report No. 1999-069, "Summary of Audit Results--DoD Information Assurance Challenges," January 22, 1999
- GAO Final Report, GAO/AIMD-99-107, "DoD Information Security: Serious Weaknesses Continue to Place Defense Operations at Risk"

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	Updated SECNAV Instruction 5239.3, "Information Assurance Policy," and distributed for review and chop.
C	Submitted DON CIO FY 2001 GISRA Report to OSD(C3I).
C	DON CIO and Services put IA into practice in the Navy/Marine Corps Intranet (NMCI). NMCI positively contributes to enhanced IA throughout the DON in several ways. NMCI incorporates a boundary layer approach, limiting access points to external networks. This enterprise-wide uniformity is facilitating the use of common security tools such as firewalls, providing enhanced network monitoring/intrusion detection. Finally, NMCI is providing DON access to the DoD Public Key Infrastructure (PKI) via the new smart card-based Common Access Card (CAC).

Planned Milestones (FY 2002):

Date:	Milestone:
9/02	Submit DON FY 2002 GISRA Report to OSD(C3I).
9/02	Incorporate comments and recommendations into SECNAV Instruction 5239.3B and issue revised instruction.
9/02	Issue DON GISRA Action Plan, in coordination with Navy and Marine Corps, and institute program to implement the plan.
9/02	Services assess the potential risks to the security baseline requirements for Y2K renovated systems for which risk assessments are lacking.

Planned Milestones (Beyond FY 2002):

Date	Milestone:
9/03	Services complete issuance of CAC with PKI certificates to all DON personnel.
9/03	Services require PKI to digitally sign e-mail and provide access to secure web sites.

- 9/03 Services accredit mission critical Y2K renovated systems in accordance with DITSCAP.
- 9/04 Services accredit mission essential Y2K renovated systems in accordance DITSCAP.
- Continuing Services accredit or reaccredit DON mission critical and mission essential systems and applications in accordance with DITSCAP.
- 9/04 Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Status of Participating Functional Office/Organization:

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

Point of Contact: Mr. Carl Day, DON CIO, (703) 602-6921, day.carl@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2001

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

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2003

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

Current Target Date: N/A

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

Component/Appropriation/Account Number: N/A

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

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

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. N2001-0003, "Naval Reserve Recruiting Functions," October 30, 2000

- NAVAUDSVC Report No. N2001-0007, "Increasing Navy's Likelihood of Achieving Fiscal Year 2001 Recruiting Goals," December 18, 2000
- Bureau of Naval Personnel (BUPERS) Inspection of the Navy Recruiting Command

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	Provide CNRF a documented list, by rate, of reserve billet reservation not attainable.
C	Reduce overall FY 2001 active recruiting goals to achieve desired end strength, while balancing fleet readiness requirements with RTC capacity constraints and the availability of recruits to ship to RTC.
C	Periodically review training capacity at the RTC to ensure active recruiting objectives will not be negatively affected by a lack of summer capacity.

Planned Milestones (FY 2002):

Date:	Milestone:
09/02	Ensure a monthly Quality Assurance Feedback Report is provided by PSD RTC to Navy Recruiting Command (Code 011), Military Entrance Processing Command (MEPCOM), and CNO (N132E).
09/02	Ensure Recruiting Districts are provided quality assurance feedback reports for supervisor on-the-job training of recruiters, classifiers, and processing personnel; and that Navy Recruiting Orientation Unit is provided the feedback for schoolhouse training to recruiters, classifiers, and recruiter management.
09/02	Establish a working group (or use the current Selection and Classification Working Group) that includes representatives from Navy Recruiting Command (Codes 001 and 30), MEPCOM, PSD RTC, and other pertinent offices to codify active recruiting process procedures and authority of involved offices so recruiter and classifier errors in applications/contracts can be corrected or waived in a timely and effective manner.

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
03/03	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: Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY 2001

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

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 2001

Original Targeted Correction Date: FY 2002

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

Current Target Date: N/A

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

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

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	Charter the Family Housing Funding Management Review Group review Family Housing budget policy, preparation, and execution, as well as, key stages in the project approval process, to determine if Family Housing management issues including violations of the Antideficiency Act (ADA) were caused by systemic problems or because internal controls were not followed.
C	Initiate actions to investigate potential statutory, regulatory or administrative violations for selected GFOQs.
C	Perform a comprehensive review of operations and maintenance costs for all GFOQs for FY 2000 and for selected GFOQs for FYs 1998 and 1999, to ensure that costs were incurred as authorized, classified correctly, completely captured, recorded accurately, and sufficiently documented.
C	Ensure that GFOQ costs have been corrected for FYs 1998 and 1999, and congressional reporting of GFOQ costs are updated to reflect accounting error corrections.
C	Require periodic evaluations of the effectiveness of GFOQ housing management controls to ensure compliance with applicable laws and regulations.
C	Require all Navy housing offices to submit detailed GFOQ cost reports on a quarterly bases. Review costs for accuracy and compliance with budget limitations.
C	Initiate a complete review of all grounds maintenance costs to ensure that costs are charged to the GFOQ occupant unless a waiver has been granted and comply with current Navy guidance on grounds maintenance.

Planned Milestones (FY 2002):

Date:	Milestone:
3/02	Complete Chief of Naval Operations (CNO) (N-46) comprehensive review of all Flag and General Officer quarters (F&GOQs) grounds maintenance waiver requests.

- 3/02 Naval Facilities Engineering Command issue guidance to all Navy housing offices providing revised detailed GFOQ cost report formats for the quarterly execution reports. Will allow more detailed review of costs for accuracy and compliance with budget limitations.
- 3/02 Complete a functional assessment of Family Housing management to propose alternative methods of managing FH,N funds. The scope of work for the functional assessment includes all personnel involved in the Family Housing program including positions located within the Naval Facilities Engineering Command, Major Claimants, Regions and the Engineering Field Divisions
- 9/02 Issue Family Housing Funding Management Review Group report on Family Housing budget policy, preparation, and execution and management issues.
- 9/02 Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones Beyond FY 2002:

Date: Milestone:
None

Status of Participating Functional Office/Organization:

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

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

Ms. Suzanne Gonzales, CNO, 703-601-1632

CAPT Thomas Liedke, Commander, Naval Facilities Engineering
Command, 202-685-9333

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

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2000

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

Functional Category: Major Systems Acquisition

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: FY 2003

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

Current Target Date: FY 2006

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

Component/Appropriation/Account Number: Various, i.e., SCN (1611)

Budget information could not be determined.

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
	None

Planned Milestones (FY 2002):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
9/05	Prepare a Nimitz-Class Nuclear Aircraft Carrier Program environmental management plan that addresses the strategy for meeting environmental safety, and health requirements; identifies demilitarization and disposal requirements; establishes program environmental responsibilities; and identifies a methodology to track progress for the remainder of the program's life cycle to include ship alterations and overhauls.
3/06	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Status of Participating Functional Office/Organization: N/A

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

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1999

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

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2005

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

Current Target Date: FY 2005

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

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

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

Validation Process: All corrective milestones for Chief of Naval Operations (CNO) (N13) action(s) are certified by the Bureau of Naval Personnel (BUPERS) Inspector General's office upon completion and reviewed through on-site verification review.

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	Designate an accountable official to validate and approve changes to training requirements and student input plans.
C	Develop, document, and implement standard procedures for determining (a) formal training requirements and (b) student input plans.

Planned Milestones (FY 2002):

Date:	Milestone:
3/02	Verification: A Bureau of Naval Personnel Inspector General on-site review will be accomplished to validate the implementation of the corrective actions for the above milestones on (1) designating an accountable official and (2) implementing standard procedures for training requirements.

Planned Milestones (Beyond FY 2002):

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

Status of Participating Functional Office/Organization: N/A

Point of Contact:

Mr. Barry Rayman, CNO, (202) 685-6507,
rayman.barry@hq.navy.mil
Mr. Joseph Condry, CMC, (703) 614-4500,
condryrj@hqmc.usmc.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1997

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

Functional Category: Force Readiness

Pace of Corrective Action:

Year Identified: FY 1997

Original Targeted Correction Date: FY 1999

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

Current Target Date: FY 2002

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

Component/Appropriation/Account Number: OMN (171804)

No funds associated to complete milestones.

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	Establish a method to identify, document, track and reprogram projected benefits.
C	Establish thresholds for documentation requirements for CBT development.

Planned Milestones (FY 2002):

Date:	Milestone:
9/02	Publish CBT development regulatory requirements.
9/02	Clarify governing policy for development of courseware using advanced training technology.
9/02	Verification: On-site verifications, subsequent audits, inspections, quality assurance reviews, and management control reviews verify to ensure appropriate use of CBT.

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization:

DUSD(R) Assured

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2000

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

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: FY 2001

Targeted Correction Date in Last Year's Report: FY 2001

Current Target Date: FY 2002

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

Component/Appropriation/Account Number: Various

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date: Milestone:
None

Planned Milestones (FY 2002):

Date:	Milestone:
9/02	Revise Navy acquisition policy to clearly state: (a) whether or not performing independent assessments of logistics is a requirement, and is the basis for logistics certification; (b) the desired outcome of the ILA process; and (c) whether or not use of a CNO-validated assessment process (ILA implementation procedures) is required.
9/02	Revise ILA policy to: (a) clearly articulate the Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN (RD&A))-desired outcome of the ILA process; (b) clarify that the full scope of individual PEO or SYSCOM implementation procedures should include overall management of ILAs and all associated responsibilities; (c) clearly define submission of PEO and SYSCOM individual ILA implementation procedures to the Deputy Chief of Naval Operations (DCNO) (N432) for validation; and (d) provide guidelines for PEO or SYSCOM development and implementation of a more timely and effective supportability review and decision opportunity prior to initial operational capability (IOC).
9/02	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2002):

Date: Milestone:
None

Status of Participating Functional Office/Organization: N/A

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

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

Title and Description of Material Weakness: Requirements Determination (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 overstated, understated, not realistic, inadequately supported or invalid, resulting in unnecessary purchases and hindering fleet readiness due to a lack of material to meet requirements. In numerous cases, requirements at individual DON activities were reviewed, found overstated, and corrected.

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

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

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 2001

Current Target Date: FY 2004

Reason For Change in Date(s): Due to legacy systems funding constraints, there is no estimated completion date for Design Change Notices (DCN) functionality enhancements with the Interactive Computer-Aided Provisioning System (ICAPS). Legacy systems, including ICAPS, will be replaced by Navy's Enterprise Resource Planning efforts with an estimated completion date FY 2004.

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

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

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

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

Source(s) Identifying Weakness [for OSD Case #93-061 and #91-024]:
There were no new sources identified during FY 2001. See Appendix A for sources identified in prior years.

Major Milestones in Corrective Action [for OSD Case #93-061]:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	Establish a plan to ensure that a coordinated effort exists within the Marine Corps to guard against excess field inventory and to facilitate replacement of obsolete equipment.

Completed Milestones [for OSD Case #91-024] in FY 2001: (C=Completed)

Date:	Milestone:
	None

Planned Milestones (FY 2002) [for OSD Case #93-061]:

Date:	Milestone:
9/02	Revise Marine Corps Order (MCO) 3900.4D to require maintaining requirements documents for use as source documents for all programs. The Marine Corps is in the process of developing the Combat Development Tracking System database to store and catalog requirement documents for all programs.

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
3/04	Develop procedures and processes for DON program managers to notify the Inventory Control Points (ICPs) of all items affected by weapon system modification and to provide current and accurate information for the ICPs to use in forecasting changes in requirements for those items.

9/04 Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

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

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil
Mr. Joseph Condry, CMC, (703) 614-4500, condryrj@hqmc.usmc.mil

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 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. Many DON activities carried excess DBOF inventory and had unrecorded DBOF inventory. Inventories of materials were not recorded on official inventory records, and more shop store material was issued than needed.

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

OSD CASE #90-020: Material at Commercial Repair Facilities. The scope of this material weakness was expanded during 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)

No funds are being applied to correct this deficiency pertaining to OSD Case #93-062.

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

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

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

- Return on Investment =
$$\frac{\text{Material Reutilization}}{\text{Program Cost}}$$
- Number and Dollar Value of Fleet Issues
- Number and Dollar Value of High Priority (NMCS/PMCS/CASREP) Issues

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

There were no new sources identified during FY 2001. See Appendix A for sources identified in prior years.

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

There were no new sources identified during FY 2001. See Appendix A for sources identified in prior years.

Major Milestones in Corrective Action:

Completed Milestones [for OSD CASE #93-062] in FY 2001: (C=Completed)

Date:	Milestone:
C	Revise Naval Aviation Supply Office Instruction 4440.88 that implements the Inventory Accuracy Officer Program to conform with Naval Supply Systems Command (NAVSUP) Instruction 4440.177 and specifically include direction to: 1) provide the Inventory Accuracy Officer with the authority to extend across directorate lines and encompass all aspects of the organization whose work affects the accuracy of inventory records and 2) require the weapons managers and contracting officers to notify the Inventory Accuracy Department of situations that will prevent the normal updating of the inventory records.

Completed Milestones [for OSD Case #90-020]: (C=Completed)

Date: Milestone:
None

Planned Milestones (FY 2002) [for OSD Case #93-062]:

Date:	Milestone:
3/02	Correct the inaccurate inventory balances and pursue prompt resolution of lost aviation material.
3/02	Expedite changes to improve the Property Accounting Department (PAD) system to ensure accurate inventory balances.
3/02	Establish policies and procedures governing the management, control and accounting for sponsor material.
9/02	Identify, inventory and report by category and ownership all sponsor material.
9/02	Make all sponsor owned material visible for use in accordance with prudent management practices.
9/02	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 2002) [for OSD Case #93-062]:

Date: Milestone:
None

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1999

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

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1999

Original Targeted Correction Date: FY 2001

Targeted Correction Date in Last Year's Report: FY 2001

Current Target Date: FY 2002

Reason For Change in Date(s): Originally, the reengineered process had an initial operational capability date of November 2000. Due to testing failures, and subsequent redesign effort, implementation of the reengineered system was delayed to, and achieved on, May 2001. As a result, Release 2 functionality of the reengineered process was rescheduled from implementation in March 2001 to December 2001.

Component/Appropriation/Account Number: 97X4930.NCIA

<u>Title</u>	<u>Appn(s)</u>	<u>FY2001</u> <u>(\$000s)</u>	<u>FY2002</u> <u>(\$000s)</u>	<u>FY2003</u> <u>(\$000s)</u>	<u>FY2004</u> <u>(\$000s)</u>	<u>Cost-To-</u> <u>Complete</u>	<u>Total</u>
NWCF	97X4930.NC1A						
	BUCON 464.74	\$1730.3	-	-	-	-	\$1730.3
	Non-SLA 464.74	250.0	-	-	-	-	250.0
	SLA	953.6	-	-	-	-	953.6
		<u>\$2933.9</u>					
NWCF	97X4930.NC1A						
	BUCON 464.40	-	\$490.0	-	-	-	\$490.0
	NCPP 464.40 (SLA)	-	1900.0	-	-	-	1900.0
	NCPP 464.78 (SLA)	-	529.6	-	-	-	529.6
			<u>\$2919.6</u>				
Total							\$5853.5

NWCF=Navy Working Capital Fund

Note: No formal budget estimates have been developed for FY 2003 or FY 2004 at this time. We anticipate system development will be largely completed by the end of FY 2002 and that future years funding will be targeted to system maintenance and enhancement.

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	Modify DON's integrated accounting and logistics systems so that they routinely update both financial and inventory records when in-transit inventory items are received.

- C Establish routine reconciliation procedures for the supply and financial records to ensure oversight and control over in-transit inventory items.
- C Establish performance measures, milestones, and timetables to help monitor the progress being made to reduce the vulnerability of in-transit inventory to undetected loss or replacement.

Planned Milestones (FY 2002):

- | Date: | Milestone: |
|-------|--|
| 3/02 | Transition Automated Report of Discrepancy (AUTOROD) functionality into the Supply Discrepancy Reporting System. |
| 9/02 | Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification. |

Planned Milestones (Beyond FY2002):

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

Status of Participating Functional Office/Organization: N/A

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 2000

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

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: FY 2002

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

Current Target Date: FY 2002

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

Component/Appropriation/Account Number: MPN (1453)

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

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

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

Source(s) Identifying Weakness:

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

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	After taking actions to make the separation process more efficient, reemphasize to all activities the need to meet the Navy's goals for processing administrative separations.
C	Establish a monitoring program for enlisted administrative separations.

Planned Milestones (FY 2002):

Date:	Milestone:
3/02	Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
	None

Status of Participating Functional Office/Organization: PERS-3/PERS-8

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

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.

The major categories preventing the DoD and DON from obtaining a favorable audit opinion on its audited financial statements are: (1) Property, Plant, and Equipment (PP&E), (2) Inventory to include Operating Materials and Supplies, (3) Liabilities, (4) Fund Balance with the Treasury, and (5) Intragovernmental Eliminations.

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.

OUSD(C) is presently reevaluating its approach to meeting the requirements of the CFO Act. Although many of the milestones for this material weakness will be accomplished, there will likely be additional milestones once that approach is more definitive. As such, the Current Target Date for correction of this milestone is to be determined.

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 2003

Current Target Date: TBD

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

Component/Appropriation/Account Number: Treasury Index 17

The following budgeted resource requirements were submitted through the Financial Management Improvement Plan (FMIP) to bring DON's critical systems to a compliant state.

These figures are submitted for the correction of the DON CFO Act Financial Statements, Treasury Index 17 material weakness because the correction of this material weakness is dependent upon the compliancy of the DON critical systems.

<u>Title</u>	<u>Appn(s)</u>	<u>FY2001</u> <u>(\$000s)</u>	<u>FY2002</u> <u>(\$000s)</u>	<u>FY2003</u> <u>(\$000s)</u>	<u>FY2004</u> <u>(\$000s)</u>	<u>Cost-To-</u> <u>Complete</u>	<u>Total</u>
	Various	\$258,000.0	\$324,000.0	\$180,000.0	\$118,000.0	\$252,000.0	\$1,132,000.0

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

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

Source(s) Identifying Weakness:

New sources identified in FY 2001 were:

- DoDIG Report No. D-2001-026, "Accuracy of the Government-Owned Contractor-Occupied Real Property in Military Departments' Real Property Databases," December 22, 2000
- NAVAUDSVC Report No. N2001-0011, "Department of the Navy Principal Statements for Fiscal Year 2000: Environmental Liabilities," February 6, 2001
- NAVAUDSVC Report No. N2001-0012, "Fiscal Year 2000 Department of the Navy General Fund Principal Statements," February 7, 2001
- NAVAUDSVC Report No. N2001-0016, "Department of the Navy Principal Statements for FY 2000: Inventory and Related Property, Net," February 27, 2001
- DoDIG Report No. D-2001-071, "Navy Financial Reporting of the Government-Owned Materials Held by Commercial Shipyard Contractors," March 2, 2001
- NAVAUDSVC Report No. N2001-0029, "Department of the Navy Principal Statements for Fiscal Year 2000: Feeder Systems and Interfaces," June 1, 2001
- DoDIG Report No. D-2001-172, "Data Supporting the Environmental Liability Reported on the FY 2000 Financial Statements," August 10, 2001

See Appendix A for sources identified in prior years.

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
C	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.
C	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.
C	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.

Planned Milestones (FY 2002):

Date:	Milestone:
9/02	Develop procedures and controls to ensure that reported amounts for Environmental Liabilities will be complete, accurate and adequately supported.
9/02	For Inventory and Related Property, ensure that controls are followed to improve reporting for Operating, Materials and Supplies.
9/02	Develop guidance with OSD for recording Internal Use Software by clearly defining the criteria and requirements to ensure the accuracy and completeness of financial reporting (Federal Accounting Standards Advisory Board (FASAB) Reporting Requirement).

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
9/03	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.

- 9/03 Request interim guidance from DoD on how to improve the accuracy and completeness of reporting (Government Property in Possession of Contractors.) Strategy was amended by Undersecretary of Defense (Comptroller) (USD(C)) memo of 6 August 1999, Amended DoD Implementation Strategy for Auditable Financial Statements.
- 9/03 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. (Deputy Secretary of Defense Memo of 19 May 00, established 30 Sep 03 as the date when feeder systems should be compliant. USD(C) memo of 20 July 00 provided a proposed Financial and Feeder Systems Compliance Process.)
- 9/03 Begin implementation of approaches and monitor progress over the plan of action and milestones (POA&Ms) 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.
- 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 (SOW) dealing with personal property.) SOW implemented. DON activities are reconciling personal property records as they implement Defense Property Accounting System (DPAS). Fielding of DPAS should be completed by FY 2003. TBD Verification: Plans for the progress on most corrective actions will be addressed in status reports on open audit recommendations. Corrective actions are also reviewed through follow-up audits, inspections, completion of DoD Implementation Strategies, and quality assurance reviews.

Status of Participating Functional Office/Organization:

Deputy Under Secretary of the Navy (I)	Assured
Assistant Secretary of the Navy, (Research, Development and Acquisition) (I)	Assured
Assistant Secretary of the Navy, (Installation and Environment) (I)	Assured
Chief of Naval Operations (Various Major Commands) (I)	Assured

Under Secretary of Defense
(Acquisition & Technology) (X)

Assured

Defense Finance Accounting Service (X)

Assured

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

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIODS
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 2002

Current Target Date: FY 2003

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. However, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) had some additional concerns and authorized expansion into Italy provided that their conditions were satisfied. The Overseas Military Banking Program (OMBP) Office is in the process of evaluating technical proposals for banks to provide the services to the Department. The implementation of a MBF in Italy is also contingent upon the awarding of the new OMBP contract. The new OMBP contract was awarded but was protested and the protest has been sustained. Defense Finance and Accounting Service (DFAS) is anticipating awarding the OMBP contract sometime during FY 2002. The DFAS will fund this effort with the earnings from this program so there will be no Navy funding required.

Component/Appropriation/Account Number: Various.

DFAS will be funding this effort through the use of earnings from the program. DFAS has provided an estimate of \$2.3 million for start-up and renovation costs. If the DON were to fund this effort, its portion would be \$345,000.

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

Results Indicators: Coherent business processes and adequate management controls over the contract payment function and cash management, once established, will protect DON resources.

Short-term and long-term corrective actions will ensure that credit unions at selected DON activities will adequately provide the needed cash services.

Source(s) Identifying Weakness: There were no new sources identified during FY 2001. See Appendix A for sources identified in prior years.

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
	None

Planned Milestones (FY 2002):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
9/03	Establish MBF operations at Navy facilities to support MBF operations as they become available.
9/03	Verification: Management reviews verify the effectiveness of all corrective actions.

Status of Participating Functional Office/Organization:

DFIS (X) Assured

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

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIODS
FY 1993

Title and Description of Material Weakness: Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statements Accountability (OSD #93-021). Navy Working Capital Fund (NWCF) activities did not adequately manage, accurately account for, or properly report (1) fund balance with Treasury; (2) property, plant, and equipment (PP&E), including related revenue and depreciation; (3) inventory and related materials; (4) accounts receivable; (5) accounts payable, as well as other associated (contra) accounts, such as accrued payroll and benefits. The audit disclosed numerous weaknesses relating to recording of these assets and liabilities, verifying the existence of and continued need for assets, reconciling records, and timely disposing of excess assets, including writing the related write off. Financial statements' footnotes did not provide always the required disclosures relating to these accounts, and eliminating entries were not always handled properly.

By an Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C)) memo 5200 FMO of June 8, 2000, the responsibility for addressing NWCF audit recommendations was shifted from the OASN(FM&C) to the individual activities responsible for their correction. However, these material weaknesses cannot be resolved by corrective actions within the Department of the Navy (DON) alone, but corrective actions and coordination will be required by other DoD entities.

OUSD(C) is presently reevaluating its approach to meeting the requirements of the CFO Act. Although many of the milestones for this material weakness will be accomplished, there will likely be additional milestones once that approach is more definitive. As such, the Current Target Date for correction of this milestone is to be determined.

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 2002

Current Target Date: TBD

Reason for Change in Date(s): Completion of weakness requires correction of actions at several industrial/supply activities, which is taking longer than anticipated. The resolution of these material weaknesses require involvement from sources outside the DON, where corrective actions have not yet been completed.

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

The following budgeted resource requirements were submitted through the Financial Management Improvement Plan (FMIP) to bring DON's critical systems to a compliant state.

These figures are submitted for the correction of the DON Revolving Funds CFO Act Financial Statements Accountability material weakness because the correction of this material weakness is dependent upon the compliancy of the DON critical systems.

<u>Title</u>	<u>Appn(s)</u>	<u>FY2001</u> <u>(\$000s)</u>	<u>FY2002</u> <u>(\$000s)</u>	<u>FY2003</u> <u>(\$000s)</u>	<u>FY2004</u> <u>(\$000s)</u>	<u>Cost-To-</u> <u>Complete</u>	<u>Total</u>
	Various	\$258,000.0	\$324,000.0	\$180,000.0	\$118,000.0	\$252,000.0	\$1,132,000.0

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.

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:

New sources identified in FY 2001 were:

- NAVAUDSVC Report No. N2001-0013, "Fiscal Year 2000 Department of the Navy Working Capital Fund Principal Statements," February 7, 2001
- NAVAUDSVC Report No. N2001-0015, "Department of the Navy Working Capital Fund Accounts Receivable, Federal and Non-Federal for Fiscal Year 1999," February 26, 2001
- DoDIG Report No. D-2001-139, "Compiling and Reporting FY 2000 Navy Working Capital Fund Intragovernmental Transactions," June 18, 2001
- DoDIG Report No. D-2001-160, "Accounting for Economy Act Orders by the Working Capital Fund Organizations," July 18, 2001

See Appendix A for sources identified in prior years.

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date:	Milestone:
	None

Planned Milestones (FY 2002):

Date:	Milestone:
3/02	Implement guidance provided in a Defense Finance and Accounting Service Cleveland (DFAS-CL) memorandum addressing the recommendation on getting accurate buyer/seller data for eliminating entries (intragovernmental transactions) 3/02 Develop guidance that will define the procedures and set a timeline for commands to follow to close the financial books for activities that have been previously operationally closed.
3/02	Identify all remaining financial record balances and the actions needed to close these balances. Concurrent with our resolution of the existing closure issues, plan to develop a comprehensive set of procedures and timelines to follow to close the financial records for activities identified for future base closures.
9/02	NWCF will work in the Accounts Receivable areas to address reconciliation issues with subsidiary ledgers, inconsistent application of accounting practices (i.e. Federal-Nonfederal classification, unsupported balances, inadequate audit trails etc.), and review delinquent balances to prevent and detect errors. TBD Verification: Validation of the implementation of the corrective milestones will be accomplished by an on-site verification.

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
	None

Status of Participating Office/Organization:

DFAS (X) Assured

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

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY 1993

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

Some causes of PDs include:

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

PDs result in:

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

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

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

Current Target Date: FY 2003

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

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

<u>Title</u>	<u>Appn(s)</u>	<u>FY2001</u> <u>(\$000s)</u>	<u>FY2002</u> <u>(\$000s)</u>	<u>FY2003</u> <u>(\$000s)</u>	<u>FY2004</u> <u>(\$000s)</u>	<u>Cost-To-</u> <u>Complete</u>	<u>Total</u>
Problem Disbursements	1804	\$5,000.0	\$4,000.0	\$3,000.0	\$3,000.0	\$2,000.0	\$17,000.0

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

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

Annual DON Problem Disbursement Reduction Goals (in millions):

	Oct 2000	FY 2001	FY 2002	FY 2003
Net	\$1,711	\$808	\$560	\$408
Absolute	\$2,048	\$1,009	\$694	\$496

As of September 2001, the net balance for PDs was \$386 million, and the absolute balance was \$511 million; these represents, respectively, a 77 percent and 75 percent reduction from October 2000.

Source(s) Identifying Weakness:

A new source identified in FY 2001 was:

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

See Appendix A for sources identified in prior years.

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

- | | |
|-------|--|
| Date: | Milestone: |
| C | Develop yearly reduction goals for Major Commands. |
| C | Develop yearly reduction goals through FY 2003 for Major Commands. |

Planned Milestones (FY 2002):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2002):

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

Status of Participating Functional Office/Organization:

DFAS (X) Assured

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

MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 2000

Title and Description of Material Weakness: Contract Services. Procurement and administration controls were inadequate on contracts for services. Controls did not ensure that tasks were properly planned to allow for requirements to be adequately determined and important documentation was lacking in contract files. In addition, controls were not adequate to ensure that surveillance was performed on contracts. Deficiencies leave the Government vulnerable to excessive costs and inadequate contractor performance. Cost-type contracts placed a higher risk on the Government.

Functional Category: Contract Administration

Pace of Corrective Action:

Year Identified: FY 2000

Original Targeted Correction Date: FY 2001

Targeted Correction Date in Last Year's Report: FY 2001

Current Target Date: FY 2001

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

Component/Appropriation/Account Number: Various

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

Results Indicators: Overall contract costs would reduce significantly through lower labor rates and travel costs, and the level of contractor performance would improve.

Source(s) Identifying Weakness:

- DoDIG Report No. D-2000-100, "Contracts for Professional, Administrative, and Management Support Services," March 10, 2000

Major Milestones in Corrective Action:

Completed Milestones in FY 2001: (C=Completed)

Date: Milestone:

C With concurrence of DoDIG, ASN(RD&A) Acquisition Business Management (ABM) issued an August 15, 2000 memorandum addressing “Award and Administration of Contracts for Professional Administrative and Management Support Services.” The memorandum encouraged Program Executive Offices (PEOs), Direct Reporting Program Managers (DRPMs), and Systems Commands (SYSCOMs) to look at procurement history and to fix-price follow-on requirements. The DoDIG accepted the memorandum as fulfilling the request for resolution.

Planned Milestones (FY 2002):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
	None

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MATERIAL WEAKNESS CORRECTED THIS PERIOD
IDENTIFIED DURING PRIOR PERIOD
FY 1994

Title and Description of Material Weakness: Navy's Military Personnel Records System (MPRS) Needs Replacement (OSD #94-011). Overall, many users of the MPRS 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 2001

Current Target Date: FY 2001

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

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:

Completed Milestones: (C=Completed)

- | 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 | Continue DPRIS/EMPRS user/staff training. |
| C | Complete microfiche to digital backfile conversion. |
| C | Complete DPRIS/EMPRS acceptance testing and have system fully operational. |
| C | Complete LCM milestone III documentation. Plan system decision paper III briefing. |
| C | Verification: All corrective actions will be certified by the responsible component(s) through command inspections, audits, and quality assurance reviews. |

Planned Milestones (FY 2002):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2002):

Date:	Milestone:
	None

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

MATERIAL WEAKNESS CORRECTED THIS PERIOD
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 2001

Current Target Date: FY 2001

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

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:

Completed Milestones: (C=Completed)

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.
C	Revise guidance to require Quota Control Authority approval for all assignments to NEC-producing courses. CNO will issue new OPNAVINST 1500.47A early in 2001, which will be the governing authority.
C	Verification: Conduct/utilize a management control review or alternative management control review to certify the effectiveness of all corrective actions.

Planned Milestones (FY 2002):

Date:	Milestone:
	None

Planned Milestones (Beyond FY 2002):

Date: Milestone:

None

Point of Contact: Mr. Barry Rayman, CNO, (202) 685-6507, rayman.barry@hq.navy.mil

APPENDIX A: Prior Period Sources Identifying Weaknesses*

Requirements Determination (B-2-22)

- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- DoDIG Report No. 95-057, "Spare and Repair Parts Affected By Design and Engineering Changes," December 16, 1994
- NAVAUDSVC Report No. 018-95, "Budgeting for AN/ARC-210 Radio and Global Positioning System Programs," January 18, 1995
- NAVAUDSVC Report No. 037-95, "Budget Estimates for Consolidated Automated Support Systems and Test Program Sets," April 14, 1995
- NAVAUDSVC Report No. 049-95, "T-45 Training System Program," June 22, 1995
- NAVAUDSVC Report No. 069-95, "Modifications for the H-46 Helicopter," September 21, 1995
- NAVAUDSVC Report No. 002-97, "C-2A(R) Aircraft Program," October 4, 1996
- NAVAUDSVC Report No. 066-99, "Marine Corps Management of Night Vision Programs," September 24, 1999

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

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

Excess Material and Unrecorded Inventories (B-2-24)

- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- GAO/AIMD Report No. 96-94, “Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings,” August 16, 1996
- COMNAVSEASYS COM FY 1996 Management Review
- NAVAUDSVC Report No. 016-97, “Inventory Management of Coordinated Shorebased Allowance List Material,” January 31, 1997
- GAO/NSIAD Report No. 97-71, “Defense Logistics: Much of the Inventory Exceeds Current Needs,” February 28, 1997
- NAVAUDSVC Report No. 027-97, “Management, Control, and Accounting Procedures for Sponsor Material at Naval Sea Systems Command Warfare Centers,” April 11, 1997
- DoDIG Report No. 97-183, “Uncatalogued Material at Research, Development, Test and Evaluation Installations,” June 30, 1997
- NAVAUDSVC Report No. 037-98, “Management of Sponsor Material at Naval Air Systems Command Warfare Centers,” June 2, 1998
- NAVAUDSVC Report No. 050-98, “Interim Supply Support Program,” September 25, 1998
- NAVAUDSVC Report No. 014-99, “Management of Government Furnished Aviation Material,” December 10, 1998
- NAVAUDSVC Report No. 022-99, “Material Returns Program for Ships Parts,” January 15, 1999
- NAVAUDSVC Report No. 059-99, “AEGIS Common Equipment (ACE) Program,” September 7, 1999
- NAVAUDSVC Report No. 001-2000, “Management of Advanced Equipment Repair Program and Trident Planned Equipment Replacement Program,” October 12, 1999
- NAVAUDSVC Report No. N2000-0007, “Recording Onhand Quantities of Aviation Depot Level Repairable Inventories at Commercial Contractor Repair Facilities,” October 29, 1999

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

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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

Department of the Navy (DON) Chief Financial Officers (CFO) Act Financial Statements, Treasury Index 17 (B-2-32)

- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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
- NAVAUDSVC Report No. N2000-0018, "Department of the Navy Principal Statements for Fiscal Year 1999," February 10, 2000
- DoDIG Report No. D-2000-091, "Internal Controls and Compliance with Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 1999," February 25, 2000

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

Cash Management and Contract Payments at Selected Navy Activities in Europe (B-2-37)

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

Department of the Navy Revolving Fund Chief Financial Officers (CFO) Financial Statements Accountability (B-2-39)

- 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

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

APPENDIX A: Prior Period Sources Identifying Weaknesses*

- 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
- NAVAUDSVC Report No. N2000-0019, “Fiscal Year 1999 Consolidated Financial Statements of the Department of the Navy Working Capital Fund,” February 14, 2000
- DoDIG Report No. D-2000-091, “Internal Controls and Compliance with Laws and Regulations for DoD Agency-Wide Financial Statements for FY 1999,” February 25, 2000
- DoDIG Report No. D-2000-140, “Compilation of the FY 1999 Department of the Navy Working Capital Fund Financial Statements,” June 7, 2000

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

Unmatched Disbursements (B-2-42)

- 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

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