
FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2012
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

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THE UNDER SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

September 6, 2012

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act

As the Under Secretary of the Navy, I recognize that the Department of the Navy (DON) managers are responsible for establishing and maintaining effective internal management controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Tab A provides specific information on how the DON conducted the assessment of Operational Internal Controls, in accordance with the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Controls. In addition, Tab A provides a summary of the significant accomplishments and actions taken to improve the DON's internal controls during the past year.

I am able to provide a qualified level of assurance that internal controls of the DON meet the objectives of FMFIA, with the exception of five unresolved material weaknesses described in Tab B. These weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of the date of this memorandum. With the exception of the enclosed material weaknesses, the internal controls were operating effectively.

The DON did not complete an assessment of the effectiveness of the Internal Controls over Financial Systems (ICOFS). Accordingly, the DON provides no assurance over ICOFS as of 30 June 2012. Tab C describes actions taken and planned.

The DON provides no assurance for the assessment conducted on the effectiveness of the DON's General Fund's internal controls over financial reporting for the following implementation areas: Reimbursable Work Orders-Grantor, Reimbursable Work Orders-Performer, Fund Balance With Treasury, Real Property, General Equipment, Military Equipment, and Operating Material and Supplies. The DON also conducted an assessment to determine the effectiveness of the Navy Working Capital Fund's internal controls over financial reporting for the Inventory Process. The results of the financial reporting internal control assessment and level of assurance from the Chair of the DON Senior Assessment Team (SAT) are included in Tab D.

My point of contact is Ms. Erica Gaddy. She may be reached at (202) 685-0791 or erica.gaddy@navy.mil.

A handwritten signature in black ink, appearing to read "R. Work", is positioned above the name "Robert O. Work".

Robert O. Work

Attachments:
As stated

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TAB A

The DON's mission is to maintain, train and equip combat-ready naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas. The DON is comprised of the following organizations:

- Executive offices in Washington D.C.
- Operating forces including the Marine Corps, the reserve components, and, in time of war, the U.S. Coast Guard
- Shore establishment

Guidelines for the Evaluation

The DON's senior management evaluated the systems of internal accounting and administrative control in effect during the FY as of the date of this memorandum, according to the guidance in OMB Circular No. A-123 Revised, Management's Responsibility for Internal Control, dated 21 December 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Included is our evaluation of whether the systems of internal accounting and administrative control for the DON are in compliance with standards prescribed by the Comptroller General.

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

- The 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 Command 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.

Concept of Reasonable Assurance

The evaluation of internal control extends to every responsibility and activity undertaken by the DON and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that: 1) the cost of internal controls should not exceed the benefits expected; and 2) the benefits include managing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in systems of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, or other factors. Finally, projection of any system evaluation to future periods is subject to risk that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

Evaluation

The DON evaluated the system of internal control 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 fiscal year (FY) 2012, as of the date of this memorandum, taken as a whole, complies with the requirement to provide qualified 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

Using the following process for conducting the evaluation, the DON evaluated its system of internal accounting and administrative control and maintains sufficient documentation to support its evaluation and level of assurance. Additionally, the DON maintains an audit trail of the evaluation process.

Internal Control over Non-Financial Operations

The following describes the DON's process for conducting the evaluation of Internal Control over Non-Financial Operations (ICONO), documenting the evaluation process, and supporting its evaluation and level of assurance.

The Secretary of the Navy (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 the overall administration of the Managers' Internal Control Program (MICP), which includes developing operational policies and procedures, coordinating reporting efforts, and performing oversight reviews. The DON MICP is the administrative vehicle for monitoring the Department's systems of internal control by evaluating and maintaining sufficient documentation to support its evaluation and level of assurance. The MICP is decentralized and encompasses both shore Commands and afloat forces.

Primary responsibility for program execution and reporting resides within a network of 19 Major Assessable Units (MAUs), which include the Assistant Secretaries of the Navy, the Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC), Secretariat Staff Offices and other entities that report directly to the SECNAV or UNSECNAV. The DON MAUs receive internal control certification statements from their subordinate units, and in turn submit certification statements to ASN (FM&C). The MAUs provide the UNSECNAV with their annual FMFIA Certification Statements. The signed certification statements are used as the primary source documents for the SECNAV's determination of reasonable assurance over the effectiveness of the Department's various systems of internal control.

To illustrate, the CNO, through the Vice Chief of Naval Operations (VCNO) and the Director of Navy Staff, Director of Management (DNS-3), is responsible for the overall administration of the MICP, which includes developing policies and procedures, coordinating reporting efforts, and providing MICP training. Primary responsibility for program execution and reporting resides within a network of 37 Assessable Units (AUs), comprised of Office of the Chief of Naval

Operations (OPNAV) Principal Officials, Systems Commands, and other Echelon (ECH) II Commands that report directly to the CNO. The AUs provide CNO with their annual certification statements. These certification statements are the primary source documents for the CNO's determination of reasonable assurance over the effectiveness of internal controls.

Complementing the self-reporting of control deficiencies, the DON's Auditor General, in collaboration with the Deputy Assistant Secretary of the Navy, Financial Operations (DASN (FO)), reviews audit reports from the Government Accountability Office (GAO), the Department of Defense (DoD) Inspector General and the Naval Audit Service (NAVAUDSVC). This review helps identify control deficiencies and utilizes a systematic methodology to determine materiality and potential for inclusion in the SOA. The high degree of collaboration and communication between the DASN (FO) MICP administrators and the NAVAUDSVC has resulted in a consistent and comprehensive perspective on the DON's internal control posture.

For both self-reported material weaknesses and those stemming from audit reviews, the DASN (FO) MICP administrators work with the MAUs to develop, document and monitor corrective actions and milestones in accordance with Department of Defense Instruction (DoDI) 5010.40 and other applicable guidance. The FY 2012 DON control deficiencies are mapped to corresponding DoD weaknesses (See Tab B).

In addition to the operational assessments described above, the DON MIC program includes a separate assessment of Internal Control over Financial Reporting (ICOFR) and Internal Control over Financial Systems (ICOFS) discussed separately.

DON maintains an audit trail of the evaluation process through the DON SOA online tool. MAU MIC Program Coordinators are required to submit their annual certification statements via the DON SOA Tool. The Tool: 1) provides a historical archive of past and present reporting, 2) allows Commands to self-report weaknesses and accomplishments, 3) aids in documenting corrective actions, setting milestones and tracking progress and 4) serves as a means of communication, allowing units / users to communicate up and down their respective chains of command.

The DON mitigates deficiencies identified in internal control through corrective actions taken by the MAUs. Annually, the ASN (FM&C) distributes a memorandum requiring all MAU heads that reported material weaknesses and reportable conditions to implement related corrective actions. The Senior Accountable Official (SAO) leads efforts for developing, resourcing, and facilitating the necessary corrective action and provides a Quarterly Statement of Assurance Implementation Status Report to the UNSECNAV.

The accomplishments detailed below, closure of audit report recommendations, and self-reporting of deficiencies are indicators that internal controls are in place and effective throughout the DON.

As an example of the improvements accomplished within the subordinate process, during the twelve month period ending 30 June 2012, Office of the Judge Advocate General (OJAG), corrected 5 of the 7 previously identified reportable conditions reported. Deficiencies were

identified in the areas of Material Accountability, Government Purchase Card Program, Government Travel Card Program, Safety and Occupational Health Program, and Courts-martial Case Tracking and Management. Correcting these deficiencies was the result of a combination of factors including the following:

- Increasing the scope of the OJAG MICP, and improving the quality and quantity of assessments.
- Preparation for a Naval Inspector General (NAVIG) inspection of the headquarters of Naval Legal Service Command (combined headquarters staff with OJAG). NAVIG assessed each of the areas above as satisfactory (with the exception of Courts-martial Case Tracking and Management, which was not inspected).
- Significant and consistent engagement of senior leadership in the OJAG MICP coupled with monitoring of headquarters assessments and inspections conducted by the OJAG IG.

The DON MICP continues to expand—reaching managers and coordinators at all levels of the Department. In FY 2012, we were involved in significant MIC training and collaboration improvements. The “MIC Program Training for Coordinators” and “MIC Training for Managers” computer based training courses were updated and are available on the DON’s web-based Navy Knowledge Online (NKO) sharing portal. The “Coordinators” course satisfies minimum training requirements for newly appointed MICP Coordinators. To expand DON MICP training, a full day training course was initiated for all MIC Coordinators with joint participation of the CNO MICP Coordinator. The course provided personnel with invaluable MICP information on the basics of internal controls, their role in the federal government, functionalities of the DON SOA Tool, and reporting requirements of the annual SOA. The DON SOA tool was updated with several improved features and internal control improvements that ease process flow and minimize system errors. Major improvements in conjunction with the DON/Assistant for Administration (DON/AA) and the U.S. Marine Corps (USMC) Internal Controls Program are forthcoming to assist in synergizing the DON MICP with Continuous Process Improvement (CPI) methodologies and tools. These efforts are designed to improve the internal control review process, standardize and clarify MIC and CPI guidance. In addition, it will utilize CPI tools and processes to streamline MICP processes with data driven metrics for improvements and mitigation of internal control deficiencies.

Institutionalizing internal control is furthered through execution of the MICP, training, and performance standards throughout the DON. The U.S. Naval Special Warfare Command (COMNAVSPECWARCOM) MICP is an example where performance standards are continually being improved. This year’s goal was to improve standardization in the preparation and delivery of the SOA package. Templates and guidance giving standardized formats to submit signed SOAs, MICP Plans, letters of designation, and NKO MICP training certificates were promulgated to MICP coordinators force-wide. The submissions adhered to the guidance provided.

COMNAVSPECWARCOM’s MICP administrators, coordinators, and a number of managers completed NKO’s MICP training courses. During the month of March 2012, awareness of the importance of participating in MICP related training increased. Training was conducted by

COMNAVSPECWARCOM, giving a detailed overview of the requirements for the FY 2012 SOA submission. One-on-one training was provided for those who were unable to attend the formal session or who desired additional training/information. The MICP administrator attended a specialized MICP workshop conducted by the United States Special Operations Command (USSOCOM). USSOCOM also conducted Financial Improvement and Audit Readiness (FIAR) training, which included key stakeholders such as Financial Improvement Program (FIP) Analysts and the MICP Administrator. Other related quarterly and annual training included Responsible Use of Alcohol (Use Prevention & Control), Responsible Personal Behavior (Sexual Assault Prevention & Response (SAPR), Equal Opportunity & Sexual Harassment Grievance Procedures, Suicide Awareness & Prevention, Improving Personal Financial Management, Operational Stress Control, Hazing Policy & Prevention, Fraternalism Awareness & Prevention, Don't Ask Don't Tell Training, Safety, Information Assurance, Operations Security (OPSEC), Privacy and Personally Identifiable Information (PII) Awareness, Ethics, Anti-Terrorism Level I, Government Travel Charge Card, and Government Commercial Purchase Card.

Internal Control over Financial Reporting

As specified in DoD Instruction (DoDI) 5010.40, Managers' Internal Control Program (MICP) Procedures, the DON issues a separate statement of assurance for ICOFR. This document summarizes identified material internal control weaknesses relating to financial reporting processes and remediation plans. In FY 2012 eight material weaknesses were reported in Fund Balance with Treasury (FBWT), Reimbursable Work Orders-Grantor (RWO-G), Military Equipment, General Equipment, Real Property, Inventory, Operating Materials & Supplies, and Reimbursable Work Orders-Performer (RWO-P). The DON asserts that the material weaknesses identified for FY 2012 are supported by the detail included in the DON Integrated Plan of Action and Milestones (PoA&M). Also, through the DON FIAR discovery process, documentation efforts continue to prepare other General and Navy Working Capital Fund (WCF) ICOFR segments for future ICOFR reporting cycles, as the DON moves towards its objective of asserting audit readiness over all financial reporting segments. The DON's current focus is on achieving the DoD FIAR Budgetary Information and Mission Critical Asset Information priorities. For FY 2013 FMO plans to further clarify the nature of such material weaknesses as well as develop corrective actions plans with executable tasks to mitigate the material weaknesses.

The DON made significant progress towards audit readiness as evidenced by the assertion of a particular business process or segment as being audit ready. As part of audit readiness efforts, the DON in FY 2011 was able to assert E-2D Advanced Hawkeye Major Defense Acquisition Program (MDAP) for FY 2008, FY 2009, and FY 2010. Through a collaborative effort between NAVAIR, Defense Finance and Accounting Services (DFAS) Cleveland, DFAS Columbus and the Office of Financial Management Operations (FMO), the DON submitted a finalized assertion package for the E-2D Advanced Hawkeye MDAP to Office of the Secretary of Defense (OSD) FIAR. In FY 2012, an Independent Public Accountant (IPA) team completed controls and substantive testing for MDAP. After four months of audit reviews based on the assertion efforts, E-2D MDAP examination received an unqualified opinion "clean bill of health", which

demonstrates that the DON responded in an effective and timely manner under the rigor of a real audit engagement.

The DON asserted General Fund (GF) Transportation of People (TOP) and Civilian Pay (CIVPAY) assessable units are audit ready as of 30 June 2012. The assessable units are those processes, procedures, transactions, and accounting events that have an important direct or indirect impact on the Statement of Budgetary Resources (SBR) financial statement: for TOP, related to Temporary Duty (TDY) travel processed in the Defense Travel System (DTS), and for CIVPAY, benefits for those personnel, and eventual separation of employment. Management has designed and implemented effective control activities that meet all key control objectives (KCO). For each internal control activity related to the KCOs, management can provide documentation demonstrating the effective operation of the controls. Management has sufficient, adequate supporting documentation that includes all key supporting documents for controls tested. The DON developed the assertion summary memo for the segments, which included DON's approach, scope, key decisions made and the rationale behind those decisions, key conclusions drawn and any outstanding work that needs to be performed.

The DON asserted MDAP, TOP, and CIVPAY to determine whether the DON demonstrated that the assessable units were auditable for the segments. The DON also evaluated the assertion packages against the FIAR Guidance, the DoD Financial Management Regulation (FMR), and the Federal Accounting Standards Advisory Board (FASAB) and GAO Financial Audit Manual (FAM) Standards.

The DON will maintain an audit ready state for segments and assessable units asserted, including routine and recurring testing and assessment to validate audit readiness. Financial Statement Compilation and Reporting (FSCR) is on schedule to be asserted by September 30 of FY 2012. Assertions for the SBR scheduled for FY 2013 include segments such as: RWO-P, RWO-G, Contract Vendor Pay (CVP), Military Standard Requisitioning and Issue Procedures (MILSTRIP), Military Pay (MILPAY), Fund Balance with Treasury (FBWT), and Transportation of Things (ToT) along with Military Permanent Change of Station (PCS).

The DON continues to make progress toward achieving Wave 3, Existence & Completeness (E&C) milestones. Specifically, the DoD Inspector General (DoDIG) gave the DON a "clean" opinion on its assertions for E&C, Rights and Obligations for Ships, Satellites, and Trident Missiles (19 January 2012) and Aircraft (31 May 2012). DON's Ships, Aircraft, Trident Missiles, and Satellites account for approximately \$172B or 87.4% of Military Equipment. The DON has also asserted Ordnance and forwarded Uninstalled Aircraft Engines (UAE), Navy Boats, and Marine Corps Garrison Mobile Equipment to the OSD FIAR office for a pre-assertion review. The DON is conducting follow-up Information Technology General Controls (ITGC) and Internal Controls testing for the Ordnance and UAE assessable units. The DON is also taking corrective actions on its Real Property assessable unit which the DON plans on asserting in March 2014. PoA&Ms are being created for the remainder of Military Equipment, General Equipment, Operating Materials and Supplies, and Inventory. The DON is also establishing a Property Governance Council (PGC) to provide high level guidance and oversight. Upon establishment of the council two distinct groups (Command Level Property and Accountable Property Officials) will be created to facilitate property reinforcement at the activity level and oversee day to day property management.

In FY 2012, a collaborative effort continued between the DFAS and the DON. A major focus of this combined effort centered on the DON's FIAR efforts that are in place to achieve Congressional and DoD mandates. As a service provider within the DoD environment, DFAS initiated audit readiness projects to support DON and other defense agencies, which included initiating and/or continuing efforts on multiple Statement on Standards for Attestation Engagements (SSAE) No. 16 - Reporting on Controls at a Service Organization (including CIVPAY, MILPAY, Contract Pay and Disbursing). The DON/DFAS collaboration also extended to joint audit readiness efforts on multiple business process segments, such as CIVPAY, MILPAY, CVP, MILSTRIPS, TOP, RWO, FSCR, and FBWT. To support the FIAR initiatives process documentation, control identification, project schedules, development of reconciliations, identification/implementation of system changes, and control testing were completed by each entity.

DFAS and DON also partnered on several other important efforts to improve data quality, integrity, and compliance with various requirements. These efforts included accounts payable post pay reviews, improving Electronic Commerce (EC) processes that resulted in an increase to the EC rate, the implementation of the Standard Financial Information Structure (SFIS) for Navy Enterprise Resource Planning (ERP) general ledger data and conversion of the Naval Sea Systems Command (NAVSEA) to Navy ERP for its WCP activities.

In FY 2012, the DON continued to standardize end-to-end business processes that have a financial impact. To achieve the greatest level of DON standardization the Business Process Standardization (BPS) program is identifying, evaluating, and minimizing variations of relevant business processes across Commands. In addition, BPS is intended to strengthen the internal control environment surrounding our business processes, which will assist the DON in its efforts to achieve audit readiness. Furthermore, DFAS joined the BPS program at workshops and provided feedback on documentation being developed by the DON in an effort to help document and improve auditability of key processes.

The DON continues to implement processes to reach a status of full compliance with OMB Circular A-123, Appendix A as it relates to overall Navy and Marine Corps audit readiness. We continue to work closely with participating Commands and other stakeholders such as DFAS to identify and evaluate the risks and internal controls surrounding our end-to-end business processes reported on our financial statements. As FIAR efforts are taking place largely within the DON Commands, training efforts associated with specific segments have been tailored to individual Commands. In doing so, attention is focused on certain "key" controls and the necessary corrective actions that will allow for overall achievement of the DON's assertion goals. In addition, FMO FIP continues its successful weekly "office hours," which is a block of time set aside to answer calls and queries about any element of the FIP execution plans whether at the enterprise, Command, segment or transaction level. DON FIP is a multi-year Department-wide effort to strengthen Navy-Marine Corps business processes and systems, transforming them so that they better serve worldwide operations. The program's goal is to produce financial information with greater accuracy, reliability, and accessibility.

In FY 2012, the FMO continued efforts to provide support to Navy and Marine Corps personnel instrumental in identifying risks, and executing, documenting and testing internal controls. On 22 and 23 February 2012, FMO hosted the FIAR Conference, which featured speakers from various Commands and communities throughout the DON. Approximately 200 DoD/DON personnel, including Major Command Comptrollers, DON FIP Major Command personnel, and representatives from other DOD branches, OSD personnel, and more, attended the annual program conference. The Conference focused on creating a renewed enthusiasm for the importance of audit readiness in the DON and a deeper understanding of the actions needed to accomplish our audit readiness goals. Presentations addressed relevant topics such as: business process standardization as a path to auditability and sustainment of an audit ready environment, in addition to FMO and segment updates. Participants on panels included individuals with financial audit experience from both the auditor and auditee perspective. Attendees were treated to a guest appearance by U.S. Naval Academy Football Coach Ken Niumatalolo, and inspiring and interactive discussion with DON leadership. The importance of the DON's FIAR/FIP activities (e.g., strengthening the field-level internal control environment) and priorities (e.g., assertion of audit readiness of the DON SBR) were emphasized by leadership endorsement during their respective presentations.

FMO is exploring options of creating a document repository to track and maintain artifacts provided during FIAR efforts. A centralized storage location will allow for the timely retrieval of policies, procedures, and systems documentation that the audit readiness team may request. The following parameters are being used to evaluate the preliminary determination of the document process library: 1) centralized locations 2) ease of use 3) accessibility, and 4) version controls.

FMO continues to communicate a consistent message across the DON that the sustainment of an audit ready environment is essential to the successful implementation of FIAR initiatives; therefore, creating the tone that audit readiness is not a "one time event". During the conference, FMO reiterated that sustainment implementation creates good business decisions, optimizes operations to enhance fiscal stewardship, produces reliable financial statements, and maintains an auditable financial environment, which in return results to a "clean" audit opinion. The DON's goal is to monitor sustainment of an auditable environment through the assessment of ICOFR and compliance with financial-related laws and regulations. To ensure that we obtain sustainability there must be a tone from the top (management/leadership) emphasizing the following: 1) everyone plays a vital role 2) enforce business practices that incorporate a compliant control environment 3) support of standardization, and 4) development of standard process documentation.

During the conference, FMO provided FIAR insight that there are variations with respect to document retention guidance. However, FMO advised reporting entities to apply the most stringent record retention required, which is a requirement of the FIAR guidance. For reference, the type of documentation required for each business segment was provided to conference attendees in a table format. The DON has provided a number of systems that have been identified as record retention repositories, which was also provided as a quick reference. The inclusion of this information will assist commands/activities in referencing the systems that can be used during an active audit environment.

In FY 2012, the DON led an effort in conjunction with the Naval Audit Service (NAVAUDSVC) to conduct limited evaluations of the DON's ability to document their business events and financial transactions. The evaluations include the testing of no more than 20 sample transactions reported on either the SBR or supporting the Existence and Completeness (E&C) of our mission critical assets. As of 15 March 2012, the NAVAUDSVC visited 22 sites in the National Capital Region (NCR) for the Navy's General Fund, in which 94% of transactions were readily documented and 65% of internal controls are in place and functioning reasonably. For the Navy's General Fund outside NCR, the NAVAUDSVC visited 22 sites in which 90% of transactions were readily available and 57% of internal controls are in place and functioning reasonably as of 22 June 2012. The NAVAUDSVC visited seven Navy Working Capital Fund (NWCF) sites where 83% of the transactions were readily available and 71% of internal controls are in place and functioning reasonably, audit still ongoing. The NAVAUDSVC will continue to perform targeted evaluations of the DON's ability to comply with internal controls underlying those events and transactions. This will be a recurring effort to assist Command's to achieve a sustainable audit ready environment.

The DON is in the process of creating a practical, symbiotic relationship defined by policy between the CPI and MIC program in order to better capture material internal control weaknesses and duplication within the department to support the SECNAV's annual statement of assurance. The DON MIC-CPI working group will help managers succeed by providing tools and templates to assist with analysis and by establishing checklists and examples to assist with understanding different processes and procedures to be taken. The goal is to increase effectiveness of processes by ensuring changes and improvements are data driven and metrics provide evidence of implementation and improvements; increase communication on best practices and lessons learned; and establish process for pushing replication. The working group will identify areas of opportunity for potential CPI projects leading to improved processes likely to have the greatest impact on the DON. The DON MIC-CPI working group is scheduled to host two green belt training courses 2012 September for MIC Coordinators and personnel who are interested in improving the internal control process to achieve their organization's mission.

The Marine Corps continued improving the documentation of specified business processes to assist auditors and stakeholders understand their financial processes. Although process documentation continues, the revised descriptions were used to identify key controls to test. The Marine Corps ICOFR program aimed to support DON FIAR objectives by targeting specific evaluations that strengthen the integrated objectives of the DON SBR. For FY 2012, the Marine Corps reported material weaknesses in Military Equipment, Real Property, Missing Receipt and Acceptance Supporting Documentation for Intra-governmental Transactions, Timely Recording of Obligations, and Information Systems. Efforts are underway to address these material weaknesses via a formulized corrective action milestones pending additional analyses and concurrence by the Marine Corps SAT.

The Marine Corps continued improving the documentation of specified business processes to assist stakeholders and auditors obtain an understanding of financial processes used by the Marine Corps. Documentation of the processes continues and revised descriptions are used to

identify controls and key controls to test. The Marine Corps' ICOFR program is aimed to support DON FIAR objectives by targeting specific evaluations that strengthen the integrated objectives of the DON SBR. For FY 2012, the Marine Corps conducted a limited review of the effectiveness of internal control for four financial management systems: Global Combat Support System - Marine Corps (GCSS-MC), Marine Corps Permanent Duty Travel (MCPDT), Purchase Request Builder (PR Builder), and Marine Corps Total Force System (MCTFS). The Marine Corps also developed risk and internal control assessments impacting Financial Reporting, Reimbursable Orders, Procurement of Material and Services, Miscellaneous Payments, Transportation, and Travel.

Internal Control over Acquisition

As required by OMB Circular A-123, the DON assessed Internal Control over Acquisition Functions using the OMB Guidelines for Assessing the Acquisition Function and OSD Acquisition, Technology and Logistics (AT&L) Guidance. This effort focused on determining whether any (new) deficiencies or material weaknesses exist within DON and associated corrective action plans.

The DoD and OMB templates were used as the primary guides for assessing the effectiveness of internal controls over acquisition functions. DON's implementation of controls established in DoDI 5000.02 Operation of the Defense Acquisition System were evaluated in comparison to elements of OMB Circular A-123 cornerstones (organizational alignment and leadership, policies and processes, human capital, and information management and stewardship).

SECNAV Instruction (SECNAVINST) 5000.2E, Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System, of 1 September 2011 serves as the fundamental internal control policy for implementation and compliance with statutory and regulatory requirements of DoDI 5000.02. SECNAVINST 5000.2E applies to all acquisition programs, Abbreviated Acquisition Programs, non-acquisition programs, and Rapid Deployment Capability programs.

The DON Gate Review process established 26 February 2008 via SECNAVNOTE 5000, subsequently incorporated into the SECNAVINST 5000.2E, is the primary mechanism for program insight and governance of Acquisition Category (ACAT) I and selected ACAT II programs. The Gate Review process ensures alignment between service-generated capability requirements and acquisition, as well as improving senior leadership decision-making through better understanding of risks and costs throughout a program's entire life cycle. Overall program health is assessed at each Gate Review and addressed in the resulting decision document upon completion of the review.

The DON uses a tool called "Probability of Program Success" as the key metric for assessing overall program health including program requirements; resources; planning and execution; and external influencers. Program health is assessed at all Gate Reviews and is based on weighted criteria depending on the phase of the program.

Current Program Decision Meetings as set forth in SECNAVINST 5420.188F, ASN Research, Development and Acquisition (RD&A), provide the forum for the Component Acquisition Executive to review program cost, schedule and performance in preparation for a key acquisition decision. These forums may be integrated with the updated Gate Review process.

SECNAVINST 5400.15C of 13 SEP 2007, Department of the Navy, Research, Development and Acquisition, and Associated Life-Cycle Management Responsibilities, documents duties and responsibilities of ASN RD&A, Program Executive Officers (PEOs), Direct Reporting Program Managers (DRPMs), CNO, CMC, and Systems Commands (SYSCOMs). Duties addressed in this policy focus on research and development, acquisition and associated life cycle management and logistics responsibilities. This guidance also emphasizes the necessity for careful management and close oversight by the DON leaders to properly account for resources and to deliver quality products.

The Navy Marine Corps Acquisition Regulation Supplement (NMCARS) establishes uniform DON policies and procedures implementing and supplementing the Federal Acquisition Regulation (FAR) and the Defense FAR Supplement (DFARS). The NMCARS is prepared, issued, and maintained pursuant to the authority of SECNAVINST 5400.15 and applies to all DON activities in the same manner and to the same extent as specified in FAR 1.104 and DFARS 201.104.

National Defense Authorization Act for FY 2012 Section 901 includes revisions to the defense business systems requirements for investment review and certification before funds can be expended. Section 901 establishes a single Investment Review Board (IRB) chaired by the Deputy Chief Management Officer (DCMO) and significantly expands the scope of systems requiring certification to include any defense business system with a total cost in excess of \$1M over the period of the current future-years defense program, regardless of type of funding or whether any development or modernization is planned.

The ASN (RD&A) Dashboard system is a live database that provides SECNAV, ASN (RD&A), OPNAV, Headquarters Marine Corps (HQMC), SYSCOMs, PEOs, DRPMs, and the Program Managers (PMs) a tool to manage the various ACAT programs with consistent data throughout the Chain-of-Command. PMs must complete Dashboard updates for ACAT I, II, and III programs on a quarterly basis. Dashboard requires general information regarding program milestones and status; and detailed information addressing program assessment, budget information, and metrics information.

The DON uses the Earned Value Management System (EVMS) as a metric to measure contractor performance. Earned Value is an element of program health assessed during the Gate 6 review following the PM's Integrated Baseline Review (IBR) with the contractor. IBR objectives include: assess the Performance Measurement Baseline (PMB) adequacy including identification of risks; achieve a mutual understanding of the PMB and its relationship to EVMS, ensure tasks are planned and objectively measurable relative to technical progress, attain agreement on a plan of action to evaluate any identified risks, and quantify the identified risks and incorporate an updated Estimate At Completion (EAC).

Indicators of practices and activities that facilitate good acquisition outcomes include, but are not limited to: review by the Naval Capabilities Board (NCB), Resources & Requirements Review Board (R3B), and Configuration Steering Boards (CSBs); requirement for Independent Cost Estimates (ICEs); requirement for program Independent Operational Test and Evaluation (OT&E); and the use of Integrated Product Teams (IPTs).

The NCB/R3B recommends validation of all war fighting requirements, including Key Performance Parameters (KPPs) and Key System Attributes (KSAs). The R3B is the Navy's forum for reviewing and making decisions on Navy requirements and resource issues. The R3B acts as the focal point for decision-making regarding DON requirements; the validation of non-acquisition related, emergent, and Joint requirements; the synchronization of Planning, Programming, Budgeting, and Execution (PPBE) milestones; and resolution of cross-enterprise or cross-sponsor issues.

The DON has implemented DoD's requirement for annual CSBs by integrating this function into the Gate Review process. ASN (RD&A), as the Service Acquisition Executive (SAE), chairs the Gate 6 CSB. CSBs consist of broad membership including representation by the Acquisition, Requirements, and Resourcing communities. Gate 6 CSBs review all requirements changes and any significant technical configuration changes which have the potential to result in cost and schedule impacts to programs.

The Naval Center for Cost Analysis (NCCA) prepares life cycle ICEs for those programs delegated to the DON SAE as Milestone Decision Authority (MDA). NCCA also conducts component cost analyses for joint programs lead by DON. NCCA chairs a DON Cost Assessment review of program office and independent life cycle cost estimates and component cost analyses to support major milestone decisions for designated programs. Formal presentations of estimates are made to the Director, NCCA. Differences in estimates are noted, explained, and documented in a memorandum from NCCA to ASN (RD&A).

The Commander, Operational Test and Evaluation Force (COMOPTEVFOR) and Director, Marine Corps Operational Test and Evaluation (OT&E) Activity are responsible for independent OT&E of assigned DON programs that require OT&E. COMOPTEVFOR plans, conducts, evaluates, and reports the OT&E of designated programs; monitors smaller category programs; evaluates initial tactics for systems that undergo OT&E; and makes fleet release or introduction recommendations to CNO for all programs and those configuration changes selected for OT&E.

IPTs are an integral part of the defense acquisition process used to maintain continuous and effective communications, and to execute programs. IPTs may address issues regarding requirements/capabilities needs, acquisition strategy and execution, financial management, milestone and decision review preparation, etc. MDAs and PMs are responsible for making decisions and leading execution of their programs through IPTs. IPTs typically include representation from acquisition functional areas including program management, cost estimating, budget and financial management, contracting, engineering, test and evaluation logistics, software development, production/quality control, safety, etc. DON effectively balances the use of IPTs with the requirement, via SECNAVINST 5000.2E, for PEOs, SYSCOMs, DRPMs, and

PMs to ensure separation of functions so the authority to conduct oversight, source selection, and contract negotiations/award does not reside in one person.

Gap 1 - Some programs continue to execute over cost and behind schedule.

Corrective Action - Various efforts and policy/process updates are underway in DON to improve Acquisition program performance and outcomes: implementation of the new OSD (AT&L) requirement for Service Cost Positions; updates to the DON Gate Review process with increased focus on Total Ownership Cost; and focus on prototyping and competition to identify, mitigate, manage and/or retire risks earlier in a program's acquisition life cycle.

Significant MICP Accomplishments Achieved During FY 2012

The MICP is important to achieving and maintaining proper stewardship of Federal resources and to ensure the Department's programs operate efficiently and effectively to achieve desired objectives. The SECNAV identified the following mission critical objectives for FY 2012 and beyond:

1. Care of Our People
2. Maintain Warfighter Readiness in an Era of Reduced Budgets
3. Lead the Nation in Sustainable Energy
4. Promote Acquisition Excellence and Integrity
5. Dominate in Unmanned Systems
6. Drive Innovative Enterprise Transformation

The following are the most significant MICP accomplishments representing improvements in accounting and administrative control mitigating risk to the DON's ability to achieve the above objectives. These accomplishments are representative of the DON's effort to address deficiencies identified through improved compliance, oversight, and efficiency and effectiveness of control.

1. Care of Our People

Office of the Assistant Secretary, Research, Development and Acquisition [ASN (RD&A)] Reporting Category: Information Technology

Enterprise Information Systems designed, engineered, and deployed Medical Readiness Reporting System (MRRS) Software Maintenance Update (MRRS Release 1.8.3) that improved Pre- and Post-Deployment Health Assessment Tracking. MRRS is a web-based mission-critical tracking system used by Navy, Marine Corps, and Coast Guard headquarters staffs and leadership to obtain a real-time view of force medical readiness and immunization. MRRS provides full visibility on the medical status of deploying forces. Release 1.8.3 adds improved tracking capability on Post-Deployment Health Assessment (PDHA) and Post-Deployment Health Reassessment (PDHRA) status by enabling entry of deployment start and end dates and deployment event. PDHAs are due 30 days prior to and 30 days after deployment end date. The release incorporated an enhanced deployment status report (DD-2796) to include PDHA Due and Overdue Status. MRRS automatically e-mails members when their PDHRA is due or overdue.

The MRRS 1.8.3 release provided the following benefits:

- Mental Health Assessment screen linked to deployment start and end dates enables mental health assessment information to be entered and stored
- Data entry fields showing the date and source (civilian or military doctor) of a member's Physical Health Assessment (PHA) to improve tracking ability and ensure a member has a PHA performed by a military doctor at least once every three years
- Reserve-specific capability enables entry, tracking, and reporting of Medical Hold and Medical Evaluation Incapacitation entries.

Commandant of the Marine Corps (CMC)

Reporting Category: Support Services

Hearing injuries have been on the rise as evidenced by data from the Navy/Marine Corps Public Health Command and claims by Marine veterans for compensation from the Department of Veterans Affairs. After several programmatic gaps were identified during a NAVAUDSVC review of the hearing conservation program, positive steps have been taken to ensure early detection of hearing loss among Marines and Sailors.

Publication of MARADMIN 010-12 (Hearing Conservation and Readiness) fundamentally improves how Marines and Sailors receive automatic testing and follow-on care when significant threshold shifts in hearing acuity are detected. As of January 2012, all military personnel assigned to the Marine Corps are to receive annual DD2216 audiograms, which will be entered into the parent Command's hearing conservation program. The hearing readiness status of each individual Marine or Sailor will be tracked in the MRRS. Improved training and more vigilant surveillance of hearing exams is intended to yield fewer instances of hearing loss and reduced hearing loss severity.

Commander, Navy Installations Command (CNIC)

Reporting Category: Comptroller and Resource Management

When the earthquake and tsunami struck Japan in March 2011, there was a desperate need to evacuate CNIC employees and families quickly from the affected area to a safe haven. At that time, South East Region used South East Region Travel Orders (SERTO) to produce evacuation orders, but there were many user interface problems and software redundancies. A new Travel Order Processing Application (TOPA) system was implemented to rapidly create orders and efficiently evacuate. TOPA utilizes G2 to collaborate and house orders and documents in order to accurately collect, distribute, and account for all evacuees.

TOPA provides a centralized travel order creation, documentation and delivery process allowing expedited retrieval of employee information for civilians, military, and their dependents from the Total Workforce Management System (TWMS). The previous system SERTO required each category of order to be produced separately, which in turn required countless hours of processing orders; therefore, resulting in evacuation delays and stressful inconveniences to the perspective traveler. TOPA has the ability to create more than 5,000 travel orders in less than 20 minutes from start to finish, which allows Command representatives to access and print orders for an entire unit or units within minutes.

Commandant of the Marine Corps (CMC)

Reporting Category: Security

The Marine Corps Operations Security (OPSEC) Program requires the total force to conduct annual training on the OPSEC process. Working in conjunction with the Navy OPSEC Support Team (NOST) and the Training and Education Command (TECOM), "Uncle Sam's OPSEC" training was activated on MarineNet in August 2011 standardizing OPSEC training across the

total force. Through April 2012 there have been 90,908 total MarineNet enrollments with 79,111 completions.

The interactive course provides Marines, civilian Marines, and contractors with a comprehensive fundamental knowledge of the OPSEC process and how it can be implemented in their daily lives to reduce the various indicators that could highlight potential vulnerabilities. Activating “Uncle Sam’s OPSEC” on MarineNet has increased accessibility enabling forward deployed Marines to obtain this important training.

By using the NOST developed course the Marine Corps incurred no development costs resulting in significant cost avoidance. The computer based training, based upon a 45 minute instructor-led class of 100 students, resulted in 3.2 man-years saved in less than four months. Additionally, the MCTFS-reporting capability provides accurate training accountability across the total force, saving units and Commands an average of 18 man-days in annual reporting time.

Bureau of Medicine and Surgery (BUMED)

Reporting Category: Support Services and Information Technology

The Naval Health Clinic (NHC) Quantico embarked on a pilot advanced billing system. As a result NHC Quantico’s advanced billing system allows for a fully automated billing and collection process, thus improving the efficiency and effectiveness of operations. For the implementation of the system NHC Quantico was recognized by ASN (FM&C) with an award. Significant process efficiencies NHC Quantico recognized from implementing their new billing system included:

- Electronic billing increased by 45% within eight months, reducing process variation and increasing the speed of payment and consequent revenues that can be used to meet patient care needs.
- The billing capacity increased by approximately 20% by using the system’s features to locate, verify, bill, and collect from over 200 newly found insurance policies. This increased capacity netted a 10:1 return on investment.
- From FY 2010 to FY 2011, the denial rate from the third party insurance carriers decreased by 7.5%; and the aging of receivables also decreased with the reimbursement timeline shortened from 172 to 93 days. These efficiencies resulted from the development of a reporting capability that increased visibility into the denial of patient bills by insurance companies. This improved process allowed the UBO to identify and correct internal billing issues and work with third party insurance carriers.
- The successful development and implementation of a Net Realizable Value (NRV) Tool for the new billing system was achieved in less than six months, on schedule, and with a 98% accuracy rate. The NRV tool, the first in the DoD that is contained within a billing system, will improve accounts receivable reporting in support of financial audit readiness. Through oversight of a replacement billing system, Navy Medicine recognizes that these advanced systems will improve UBO billing and collection processes across

the enterprise. A more automated system allows processes to be streamlined and standardized and reduces and/or eliminates process deviation from established controls. Standardization also closes control gaps in the UBO and federal receivables assessable units. This type of system also provides more robust data analysis capabilities. Improved data analysis leads to more accurate and usable metrics to track processing and financial performance. Subsequently, improved metrics allow management to make more informed business decisions. Better data also improves the reliability of federal receivables transactions and increases assurance over the financial statements. Ultimately, this type of automated system for UBO billing and collection drives efficiency, improves operational and financial internal controls, and better supports audit readiness.

Chief of Naval Operations (CNO)

Reporting Category: Personnel and/or Organization Management

Supervisors of Naval Operations for Manpower, Personnel, Training and Education employees are comprised of military and civilian. The Civilian Human Resources Office received an increase in complaints and frustration on behalf of supervisors and employees who were striving to navigate through a changing landscape. To facilitate supervisors in leading through these changes, the Command implemented a Basic Supervisory Training course that required all supervisors of civilians to attend. The five day off site course included instruction, activity, and open dialogue to promote learning and meaningful discussion on how to address challenges in supervising. Each supervisor was provided a binder of resources, policies, and examples to assist in their daily management of civilian personnel. As a result of this training, there was a noticeable change of how supervisors handled daily office operations (identification of work schedules, design of clear position descriptions, increased involvement in performance management planning, and employee recognition) which directly contributes to the efficiency of the Command's mission. The training was adopted by CNO and is being offered through other divisions.

2. Maintain Warfighter Readiness in an Era of Reduced Budgets

Commandant of the Marine Corps (CMC)

Reporting Category: Force Readiness

Fiscal out-years will see a reduced DoD baseline budget and a significant reduction in or elimination of supplemental funding, prompting rigorous mission needs analysis, risk-based decision making, cost controls, and capability development prioritization. Despite constrained resources in manpower and funding, CMC is working diligently to advance mission essential protection requirements in specific areas such as antiterrorism; Marine Corps Critical Infrastructure Program; Continuity of Operations; Chemical, Biological, Radiological, Nuclear, and High Yield Explosive Preparedness; Law Enforcement; Combating Terrorism; Force Protection; and Installation Emergency Management among various others, to provide Commanders with disaster resilience in the face of all hazards and threats.

In conjunction with other Branches within the Security Division, the Mission Assurance Branch led the development of a consolidated Mission Assurance/All Hazards Risk Assessment and Inspection Program that fully integrates all aspects of mission assurance, providing the Commander with results that can be used to support an integrated risk management decision process and reduce redundancy of effort across mission assurance disciplines. The Mission Assurance Assessment (MAA) Program assists in answering the challenges we now face: how do we enhance mission assurance processes and protection enablers, while informing enterprise-wide risk-based assessment, decision making, and resource allocation, and providing useful tools and information sharing platforms to our force? Ultimately, how do we appropriately organize, staff, and integrate protection functions and establish “Protect the Force” mission essential tasks that are tied to support of the war-fighter in the Marine Corps?

The MAA does this by conducting an all hazard risk assessment of critical assets and their supporting infrastructure, to determine the “risk of loss” to these assets, providing remediation and mitigation recommendations to reduce risk, and providing staff assistance as appropriate to install program managers. The focus of effort is to integrate all elements of mission assurance into a consolidated assessment reducing the number and type of assessments; identify systemic gaps; standardize installation’s MAAs and finally, to provide an all hazards risk assessment to assist the Commander in making risk based decisions in order to maximize protection efforts made by appropriately allocating scarce resources.

Cost reduction is achieved by maximizing the Commanders’ ability to enhance operational readiness by identifying:

- Programmatic seams and gaps that can have an adverse effect to mission support and installation protection
- Previously unknown dependencies upon assets that may impact mission execution
- Priority areas for contingency planning, incident response, crisis and consequence management and effective resource allocation.

Commandant of the Marine Corps (CMC)
Reporting Category: Property Management

Landing Forces Operational Reserve Material (LFORM) is a package of contingency supplies pre-positioned on amphibious warfare ships consisting of Class III (bulk and packaged Petroleum, Oils and Lubricants (POL)). The packaged POL includes engine lube, hydraulic fluid, brake fluid, grease, automotive and artillery and anti-freeze. The POL is embarked in support of contingency operations and used by landing forces during emergency situations. Periodic inspections found that over time the petroleum products will expire or start to breakdown the plastic containers in which they are stored.

The standard procedure for handling leaking or expired oil was disposed through Hazardous Material (HazMat) pick-up. This process would remove the leaking or expired product, but at high cost. By draining the individual quarts into a storage tank, Marine Forces Command (MARFORCOM) eliminated the need for HazMat disposal, improved the oil recovery process, and reduced cost. The 300 gallon tank is pumped out in less than 30 minutes by Naval Facilities

Engineering Command (NAVFAC) oil recovery and the recovered oil is reused. The expired non-leaking petroleum products are sent to Defense Re-utilization Marketing Office (DRMO) for DoD reuse or sale to the public through DRMO government sales.

Key advantages of our new oil recovery process are the cost reduction of 98% for disposal of leaking petroleum product, cost avoidance for disposing of expired non-leaking POLs, reuse of product, and return from sales to the public.

U.S. Naval Forces Central Command (NAVCENT)

Reporting Category: Personnel and Organization Management

NAVCENT has established a comprehensive Command Indoctrination Program for the directorates and special programs internal to NAVCENT as well as the missions of the U.S. Navy and Coalition Forces in the Area of Responsibility (AOR). The program is conducted over six days and provides new personnel with a variety of information consisting of “Welcome Aboard” from Senior leadership, career counseling support and leadership training, Command organization department briefs, AOR boundaries and responsibilities, NAVCENT lines of operation, and information on administration support. Through an IG inspection, the program received a good review and was recognized as a “best practice.”

Naval Sea Systems Command (NAVSEA)

Reporting Category: Property Management

NAVSEA’s Southwest Regional Maintenance Center (SWRMC) successfully performed the first waterborne shaft milling on a nuclear powered aircraft carrier. On 22 July 2011, SWRMC Divers, including the Navy’s Waterborne Nondestructive Test Dive Team began mission critical repairs onboard USS Carl Vinson CVN 70. SWRMC Divers in conjunction with NAVSEA engineers and contractor divers were directly responsible for the mobilization, testing, and set up of two unique dive barges, air systems, and 22,000 pounds of highly complex underwater tools and ancillary equipment. The hard work and determination of this diverse dive team enabled the repair of USS Carl Vinson’s CVN 70 severely corroded number two shaft. The repairs resulted to a cost saving of \$2.5 million in limited fleet repair funds and returned the national defense asset to full operational capacity. The successful endeavor will serve as a best practice for NAVSEA’s underwater milling procedures. SWRMC’s talented team is next to none and consistently returns quality products that benefit the entire US Navy.

Naval Air Systems Command (NAVAIR)

Reporting Category: Information Technology

NAVAIR’s Defense Messaging System (DMS) Center of Excellence (COE) was established in order to retain governance over Naval/Defense messaging within NAVAIR and develop best business practices to leverage economies of scale and reduce cost across the Command. Accordingly, all outgoing message traffic is funneled through the DMS COE to verify the accuracy of message formatting and to retain copies for historical records. Under the Navy’s previous-generation DMS and Navy Regional Enterprise Messaging System services, this message routing required manual handling of each message to ensure appropriate routing. With

the implementation of the Navy Interface for Command Email (NICE), the Navy added an additional capability allowing for the automated injection of messages to DMS through Simple Mail Transfer Protocol, basically email. As a result, the DMS COE altered internal business processes to allow the submission of messages by NAVAIR authorized message releasers who have the ability to enforce governance over messaging, while avoiding the touch time (reduces the amount of time a human has to touch the message, reducing the latency (delay) of a message from its sender to its recipient) associated with manual processing of messages. As before, messages are drafted in the standard Naval message drafting tool, Command Message Processor. Releasers then submit messages via email to the DMS COE, and through a unique configuration of the Defense Message Dissemination System (DMDS) (software used for message routing), the message is automatically checked for format and submitted to the NICE gateway for release.

Implemented an unclassified DMDS Proxy server used to provide automated message submission to the Defense Messaging System. This process significantly reduced labor resources and improves cycle times for services rendered. The services that are impacted by this change are message releasing and archiving. In this instance cycle time refers to the total time elapsed between a message entering the DMS COE and leaving to be released at the NICE gateway. Prior to automation, messages entering the DMS COE at peak times could take several hours before being processed due to the manual intervention now required to check message formatting, correct addressing, and create archive copies of the message. Properly formatted messages are now checked for accuracy, released to NICE, and stored in the archive within seconds of arriving in the DMS COE inbox. Five hundred plus hours of touch-time reduced through this effort, resulting in a reduction of two work years, at a cost avoidance of \$150,000 annually. The DMS COE provides 24 hour, 7 days a week services and a significant portion of that time had been spent idly waiting for messages to manually process. By eliminating the 500 hours of actual work, we were able to eliminate the requirement for the stand-by resource all together.

3. Lead the Nation in Sustainable Energy

Commandant of the Marine Corps (CMC)

Reporting Category: Manufacturing, Maintenance and Repair

The A-40 Solvent Minimizer Project addressed the requirements of Executive Orders 13423 and 13514, which established future reduction targets for the purchase, use, and disposal of toxic/hazardous chemicals and materials. The Marine Corps Logistics Command (MARCORLOGCOM) Maintenance Management Center (MMC) promoted and supported the project in an effort to meet the new requirements while augmenting existing green initiatives.

The A-40 Solvent Minimizer is a solvent distillation and reclamation system that reduces the amount of solvent being discarded/disposed. The MARCORLOGCOM is able to reuse the solvent that is reclaimed and subsequently reduce the amount of solvent purchased.

While solvent use has been significantly reduced in recent years through technology, substitution, and process changes, this project fits MARCORLOGCOM's ISO objective for constant improvement and supports the Green Team's (Base Albany and tenant Commands)

environmental mission. Implementation of the A-40 Solvent Minimizer has allowed MARCORLOGCOM to meet/exceed new target levels established by the Executive Orders (13423 & 13514).

Through documented evaluation results, MARCORLOGCOM determined that the A-40 Solvent Minimizer System provides significant savings to the Marine Corps through reduced procurement and disposal costs significantly reducing handling costs. In addition to cost savings, it provides a significant reduction in the total amount of environmentally hazardous waste for disposal through the ability to capture and reuse old solvent.

Commandant of the Marine Corps (CMC)

Reporting Category: Manufacturing, Maintenance and Repair

Waste streams, the flow of waste material from generation to treatment to final disposition, from Production Plant Barstow (PPB) have been reduced or eliminated using the latest technologies available, such as piercing aerosol cans first to relieve pressure before they are crushed. The volatile organic compounds and hazardous air pollutants released are evacuated by a carbon base filtering system to ensure the atmosphere is not polluted when performing this operation. The cans are then considered empty by Environmental Protection Agency (EPA) regulations and are sold as scrap metal. A “can crushing” system is being used on oil filters and paint cans to completely remove their contents. The cans are then sold as scrap metal. Toxic and flammable solvent cleaning tanks are being replaced by bio-remediation cleaning tanks. This type of cleaning uses an aqueous based cleaning solution which actually digests oil and grease. The by-product is a small amount of carbon dioxide and water. The cleaning fluid is completely non-toxic and non-flammable. Waste Barrel savings are over \$9,000 annually; aerosol savings are estimated to be in excess of \$18,000 annually and 40 indoor Spill Response and Control kits were assembled internally for a one-time savings in excess of \$15,000.

The following improvements, costs reductions, and avoidances are the results of the Environmental Greening initiatives taken by PPB:

- Environmental inspection findings were reduced by 55.8%
- Process Generation Points discrepancies were reduced by 68.4%
- Removed eleven (11) paint storage lockers; equating to 50% reduction in total gallons of paint at issue point, Cost Work Center 749
- Diverted waste of four (4) tons of oil filters and six (6) tons of aerosol cans that can be sold for scrap metal (2,000 lbs per ton x 10 tons = 20,000 lbs estimated)
- Eliminated 200 gallons of harmful solvents with bio-remediation cleaning tanks (4 each at 50 gallons per tank = 200 gallons) in 2012. An additional 20 tanks will be procured over the next two (2) years at a projected rate of ten (10) per year (10 tanks x 50 gallons each = 500 gallons in both 2013 and 2014)

Space and Naval Warfare Systems Command (SPAWAR SYSCOM)
Reporting Category: Information Technology

At SPAWAR Headquarters all stand alone fax, printer, copier and scanner devices have been replaced with Multi-Functional Devices (MFDs) resulting in a \$2.8M cost savings across the five year Future Year Defense Plan (FYDP). This project was recognized by DON senior leadership at the annual Continuous Process Improvement (CPI) Symposium as the top project with replication potential. The DON currently does not have a Navy-wide program that centralizes the acquisition of printing services, nor does it have a printing policy that addresses the use of best printing practices, including duplex printing, economical monochrome printing, paperless meetings, and other standards that can reduce printing costs. The DON Chief Information Officer (CIO) recognized the potential and requested that SPAWAR conduct a Business Case Analysis (BCA) for implementation across the Navy. The BCA was completed in November 2011 with estimated savings of \$541M across the FYDP. Navy-wide NMCI, ONE-NET and Research Development Test and Evaluation (RDT&E) printing practices were evaluated and analyzed. The resulting estimate of cost avoidance through the implementation of an MFD and Strategic Printing Program is approximately \$199.6M per year; cost savings of 65% by the end of FY 2014 and 75% across the FYDP have been estimated. The DON CIO has drafted an Enterprise-wide MFD Policy and is in the process of finalizing a DON plan for the centralized acquisition of MFDs. In addition to cost savings, it is expected that the standardization of MFDs will provide a streamlined maintenance program and printer consumables and repairs will be included in the price of the MFD. Security will also be enhanced as a result of a MFD locked printing feature that allows end users to password protect documents. As a “green” initiative, a duplex printing feature on MFDs will reduce the amount of paper used DON-wide.

4. Promote Acquisition Excellence and Integrity

Commandant of the Marine Corps (CMC)
Reporting Category: Contract Administration

Program Managers identified the need for CPI/Lean Six Sigma efforts to address issues surrounding observed inefficiencies in the creation, processing and outcomes of key documents and procedures for Software Implementation and Acquisition Contract Pre-Award Processes. Implementation of improved Software Implementation and Acquisition Contract Pre-Award Processes resulted in a total savings of nearly \$23 million, as well as the following accomplishments while at the time improving efficiency and increasing quality:

- Streamlined data cleansing
- Developed plan for efficiently transitioning (cut-over) the Global Combat Support System – Marine Corps
- Redesigned training processes
- Established a framework for effective help desk management
- Performed root cause and solutions analysis to reduce weekly travel cost
- Identified and eliminated wasteful elements of business team review process
- Instituted effective and accountable review process

- Standardized the Request for Proposal creation process, routing, timeliness, and document clarity, comprehensiveness and consistency
- Standardized Statement of Work and Statement of Objectives creation process, eliminating ambiguous requirement content, and improving clarity
- Established clarity and accountability through disciplined approach to Contract Deliverable Requirements
- Integrated multiple team outputs to establish coherent RFP policy and end-to-end processes
- Eliminated redundancy, conflicting guidance and inconsistent application in the program team's use of the primary acquisition management document with focus on a comprehensive view of lifecycle product support strategies and user value

Assistant Secretary of the Navy (Energy, Installations and Environment) (ASN (EI&E))

Reporting Category: Procurement

ASN (EI&E) deployed uniform and consistent controls to monitor purchase and travel authorizations. The new standard purchase request process includes both preventive and detective controls. All cardholders now use the same supply requests forms and logs. Improvements in control, through monthly, quarterly, and annual audits of purchase and travel authorizations, are evidenced by reduction of cardholders' use of non-mandatory sources to less than 1%. Refined internal operating procedures encourage a better understanding of internal controls and compliance procedures when using the government purchase card to procure goods and services. As a result, during this year's DFAS desk-top audit the Command received the highest rating of acceptable, with no repeat findings and no deficiencies.

- Monthly and quarterly travel audits are conducted to verify travelers' compliance with the Joint Travel Regulation to exercise prudence in incurring Government-paid expenses when traveling.
- Detailed travel requests are screened to determine if travel is warranted and the mission cannot be satisfactorily accomplished less expensively by correspondence, teleconferencing, web-based communications, or other appropriate means.
- Program proficiency is maintained by requiring mandatory refresher training and yearly ethics training.

Deputy Assistant Secretary of the Navy (Budget) (DASN (FMB))

Reporting Category: Comptroller and Resource Management

Execution Documentation Subsystem (EDS) is the central repository for execution information within the Office of Budget. A key feature is that it is used to record DON appropriation controls and issue funding allocations to the Budget Submitting Offices (BSOs). Several EDS enhancements have implemented to strengthen internal controls and improve overall auditability:

- Enhanced EDS with a new 'Tilt' feature whereby appropriation controls must be entered prior to issuing increased authority (this was in response to the auditor's

- comments during the appropriations audit examination);
- Established a detailed procedure list for processing Funding Authorization Documents (FADs) to ensure all proper documentation is in place before funds are released to BSOs;
 - Deployed a new feature in EDS to show the status of budget execution on the FAD processing page which enables the analyst and reviewer to see funds availability (especially useful when funds are placed on withhold causing a BSO to deobligate – BSO can be notified in advance if withhold still necessary); and
 - Developed a new central document repository in EDS in which all FAD documentation is grouped together (i.e., Treasury warrant, OMB apportionment, OSD 440, etc.).

Deputy Assistant Secretary of the Navy (Budget) (DASN (FMB))

Reporting Category: Comptroller and Resource Management

The PB-54 Exhibit (Civilian Personnel Hiring Plan) reflects anticipated monthly gains, losses, and functional transfers of civilian End Strength (ES) and Full-Time Equivalents (FTEs) used as the baseline to track civilian personnel execution. The Mid-Year Review Template is completed by all BSOs to provide a snapshot of execution at the mid-point of the year, and to project end of year execution. Updates were required to provide additional detail by Type Hire (Direct Hire US, Direct Hire Foreign National, and Indirect Hire Foreign Nationals) and by direct and reimbursable ES, FTE, and (for the Mid-Year Template) dollars.

The PB-23 Exhibit is required at each point in the budget review cycle to display Acquisition and Technology Workforce ES, FTE, and dollars. An update was required to ensure acquisition data is consistent with PBIS for direct and reimbursable ES, FTE, and dollars. Additionally, separate identification of in-sourcing for the acquisition workforce is required.

Web-based tools have been designed with a variety of checks and balances to ensure data matches controls and is consistent with the Program Budget Information System for each of the three exhibits: PB-54, Mid-Year Review Template, and PB-23. Each of these modifications has improved management control over budgetary data and decreased the need for manual review at the FMB level to correct BSO errors.

Deputy Assistant Secretary of the Navy (Budget) (DASN (FMB))

Reporting Category: Comptroller and Resource Management

Given reduced budgets and the current economic climate, financial auditability is at the forefront of the Department's priorities. Unmatched Disbursements (UMDs) strike at the heart of our financial operations, internal controls and standard financial practices. Resolving UMDs when they are identified is critical to the DON attaining clean audit opinions and auditable financial statements. It has always been the Department's policy that all disbursements must be posted promptly and correctly. Financial Efficiency Index (FEI) was developed in 2005 to provide DON leadership insight into the total financial picture (i.e. obligations, outlays) of the Department to include current year, expiring year, and cancelling year accounts (over \$500B).

BSO performance is scored against the actual data supplied in the daily accounting files and obligation target.

FEI is periodically reviewed and amended to reflect the priorities of senior leadership. FEI was adjusted by incorporating a flat penalty for any over-aged UMD. FEI scores are now reduced by a flat penalty of “1%” for any UMD greater than 120 days. This change does not affect FEI goals previously promulgated, as the OSD goal for over-aged UMDs is zero.

Deputy Assistant Secretary of the Navy (Counsel) [DASN (FMC)]

Reporting Category: Personnel and Organization Management

The Office of Counsel ASN (FM&C) is responsible for collecting and reviewing Confidential Financial Disclosure Reports (OGE 450) and Public Financial Disclosure Reports (SF 278) for all covered positions within ASN (FM&C). The submission of public financial disclosure reports is required by the Ethics in Government Act, as supplemented and implemented by 5 CFR Pt. 2634 to ensure confidence in the integrity of the Federal Government by demonstrating that its employees are able to carry out their duties without compromising the public trust. Confidential financial disclosure reports for covered positions are required by 5 CFR Pt. 2634 as a complement to the public disclosure system to guarantee the efficient and honest operation of the government. The Office of Counsel’s efforts ensure the required reports are submitted and provide a systematic review of financial interests of current OASN (FM&C) personnel in order to identify and prevent conflicts of interest.

The timely collection and review of the financial disclosure reports from personnel occupying all covered positions within OASN (FM&C) ensured compliance with the applicable financial disclosure requirements. More importantly, the administration of the financial disclosure reporting has informed applicable personnel of OASN (FM&C) of any potential conflicts created by their financial holdings, thereby reducing the risk of any actual conflicts of interest in the course of business. The Office of Counsel ASN (FM&C) made several enhancements to the collection and review process:

- Collected OGE 450 disclosure reports from 50 occupied covered positions within OASN (FM&C), conducted initial reviews within the timeframes set by the regulations, and prepared letters of caution informing employees of any potential conflicts of interest;
- Collected SF 278 reports from each of the 12 covered positions within OASN (FM&C) and performed the initial review of those 278s; and
- Collected and performed initial review of 1 SF 278 termination report

Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FMO))

Reporting Category: Financial Statement Reporting

The DON is faced with managing property by multiple organizations within various systems. The DON has good cognizance of its major weapon systems, but there is a material weakness in accounting for less visible assessable units of property.

In FY 2012, the DON received clean audit opinions for the Existence, Completeness, Rights and Obligations of Ships, Satellites, Trident Missiles, and Aircraft. The DON is progressing toward assertion of Ordnance, Uninstalled Aircraft Engines, Navy Boats, and Real Property. These efforts and results prove that the DON has proper cognizance over its property. The PGC, chaired by DON/AA with FMO as the deputy chair, defines a property accountability governance hierarchy to enhance property accountability and auditability throughout the Navy. The DON held its inaugural PGC meeting on 16 August 2012. During this meeting, the PGC discussed the purpose, scope, background, and roles/ responsibilities as prescribed in SECNAVINST 4400, which institutes the council. In addition, OASN(FM&C) FMO provided an overview of E&C in the Navy including the scope, strategy, timeline, and auditability requirements of upcoming property assertions.

Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FMO))

Reporting Category: Information Technology

The FMO Validation Team, working with DFAS and the NAVSUP Financial Validation Team, followed more than six months of mock validation efforts, and reviewed variances between the legacy records and corresponding Navy ERP records. Using data from the mock conversions, the FMO Validation Team identified and explained variances prior to the final validation and again for final validation. This process has been used for all succeeding NAVSUP conversions.

This accomplishment focuses on two of NAVSUP's conversions: 1) the third Material Group conversion in Phase I of NAVSUP's plan, amounting to approximately 40% of NAVSUP's wholesale data from Philadelphia, Mechanicsburg, and Norfolk; and 2) the first Regional Go Live conversion in Phase II of NAVSUP's plan, which converts data for Pearl Harbor and Norfolk. The record count for this data totaled 391,125 for Material Group Three and 143,461 for Regional Go Live One. The SAP Business Warehouse (BW) tool, created by FMO, is the main validation tool used by the FMO Validation Team. It uses a customized query designed for the validation efforts. The query was created in the Business Explorer (BEx) Analyzer and uses Microsoft Excel as the foundation for the report. The tool has three key data components: Navy ERP balance, legacy balance, and the delta (difference between Navy ERP balance and legacy balance). Many variables are available to create a customized report, which displays these three key components.

Throughout the NAVSUP conversions, the FMO Validation Team used a Metrics Dashboard to report progress on the independent validation. This dashboard consisted of a graphical breakout of NAVSUP's total number of records, the number accounted for, the number unaccounted for, and any issues encountered during the validation.

The FMO Validation Team reviewed every record value and documented results with a Pass rating when: 1) the values in the legacy system and Navy ERP initially matched, 2) differences were explained through verifiable rationale by the NAVSUP's Financial Validation Team, or 3) the difference was deemed immaterial. A Fail rating documented record values for which the record values between the legacy system and Navy ERP did not match and were unexplained. In most cases, these records were corrected either during Catch Up or after Full Operational Tempo (FOT).

FMO's NAVSUP financial reconciliation team extracted records from legacy STARS and converted using the valuation methodology within Navy ERP. As a result the new value is assigned to a specific field from the legacy extract. Upon implementation FMO/DFAS reconciliation team compared the newly calculated "projected Navy ERP value" to the actual value on the Navy ERP extract. The independent validation effort for NAVSUP's Material Group Three Conversion resulted to a validation rate of 97.17% that the values in the legacy converted to Navy ERP accurately. Similarly, the independent validation for NAVSUP's Regional Go Live One Conversion, resulted to a validation rate of 91.17% that the values in legacy converted to Navy ERP accurately. The FMO Validation Team rates this each conversion as non-material with minor variances to be corrected after FOT.

Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FMO))

Reporting Category: Information Technology

A fast-track process was developed and approved for Engineering Change Proposal (ECPs) that affect audit readiness. The revised process involves an audit analysis step to determine if an ECP is critical to audit readiness. If the ECP is critical to audit readiness, the ECP proceeds to Navy ERP for implementation and bypasses Requirements Working Integrated Process Team (RWIPT) and Navy Enterprise Senior Integration Board (NESIB). This has potential to save up to nine months of time.

The audit analysis step involves a review of the ECP via collaboration of FMO-1 (Accounting and Finance Systems Division) and FMO-4 (Assurance and Risk Management Division). An Audit Readiness (AR) Form was developed and is now completed during audit analysis. Audit analysis of the ECP begins after the Working Group has approved it. This analysis occurs at the same time as the rough order of magnitude to avoid any delays. Signatures from the authorized representatives from FMO-1 and FMO-4 are required on the AR Form before an ECP can be fast-tracked. The AR form is attached to the ECP for audit purposes. The signatures serve as the final approval for the ECP to be fast-tracked and sent to Navy ERP to begin their implementation process.

Once the AR Form is signed, the ECP is input into the PoA&M under the segment determined during the audit analysis. FMO-4 maintains the Master PoA&M. This process allows the ECP to be visible and tracked at higher management levels. In addition, this process provides a priority for Navy ERP, since the PoA&M segment includes an assertion date defined in the PoA&M.

In summary, if the ECP meets the audit readiness criteria, RWIPT and NESIB approval is not required and the ECP proceeds directly to Navy ERP for implementation. If an ECP does not meet the audit readiness criteria, a justification is required. Then the ECP proceeds to the RWIPT and then NESIB for further approval. The benefits include up to nine months of time saved by ECP's ability to meet auditability requirements. The PoA&M provides visibility and prioritization of all Navy ERP scheduling.

Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FMO))

Reporting Category: Information Technology

FMO oversees the DON FM Automated Information Systems (AIS) portfolio. One of FMO's major challenges is to orchestrate the compliance of the DON Commands to various AIS requirements. These requirements include: 1) identification and completion of the Department of Defense Information Technology Portfolio Repository Department of the Navy (DITPR-DON), 2) delineation of FM AIS in the DON's Information Technology (IT) budget, and 3) ensuring that the FM IT systems have met Federal Information Security Management Act (FISMA) requirements.

FMO has developed a number of monthly metrics to monitor DON FM AIS compliance with DITPR-DON registration, Budget Delineation, and FISMA compliance. These metrics, with supporting charts, highlight Command status in achieving required compliance levels. These metrics assist the DON Commands focus on non-compliant systems and complete reporting requirements.

Space and Naval Warfare Systems Command (SPAWAR SYSCOM)

Reporting Category: Comptroller and Resource Management

Obligations were grossly overstated due to unrecorded de-obligation transactions which were identified through reconciliation analysis performed by SPAWAR. Previously there was no formal process in place to identify these issues due to the learning curve associated with converting to Navy ERP. SPAWAR also determined that Purchase Orders (POs) were not readily updated when PR changes were made; therefore, reimbursable obligations were overstated in some cases due to interface failures. Newly created reports ensured POs that failed to update through the interface were captured. During the reporting period SPAWAR implemented improvements in the internal controls over reimbursable funds by implementing a bi-weekly reconciliation of reimbursable funding documents. As of mid-year 296 line items were corrected for a total of \$5.14 million in overstated reimbursable obligations. In addition, validations were conducted on authorized funds sent to SPAWAR's Echelon III commands. The reconciliation process identified 703 funding documents requiring an amendment to recoup funding. Upon issuance of a 2193 form amendments for a total of \$8.7M will be deobligated. However, in each scenario the majority of the funds were expired; nevertheless, the new process will assist SPAWAR in reconciling reimbursable funding by: 1) improving the accuracy of financial statements 2) improve the process of timely identifying future uncorrected balance issues 3) ensure the accuracy of Financial Efficiency Index (FEI) score, and 4) improve the quality of the Tri-Annual review.

5. Dominate in Unmanned Systems

Not applicable

6. Drive Innovative Enterprise Transformation

Bureau of Naval Personnel/Navy Personnel Command (BUPERS-NPC)

Reporting Category: Personnel and Organizational Management

Navy's role in the implementation of Recommendation HSA-0135 [Consolidate Correctional Facilities into Joint Regional Correctional Facilities] of the 2005 Defense Base Closure and Realignment Commission (BRAC) was completed on-time (in advance of the 15 September 2011 deadline) and within budget. The Chief of Naval Personnel (BUPERS), Office of Corrections and Programs led the closure of three Navy post-trial correctional facilities, consolidation of an Army-Navy Northwest Joint Regional Correctional Facility complex, and construction of three major correctional facility projects totaling \$125M. The three newly constructed correctional facility projects transformed the Navy corrections system through realignment and consolidation, modernized the footprint, and improved jointness within the DoD corrections system. The effort is recognized as the most expansive retooling of the Navy's shore corrections system since 1999 and will impact DoD and Navy correctional systems for the next 40-50 years.

U.S. Fleet Forces Command (USFFC)

Reporting Category: Contract Administration

USFFC established a Contract Management Directorate in July 2010 to ensure strong internal controls and provide oversight on the initiation and management of service contracts within the USFFC AOR. Since initiation, the directorate has gathered data on all service contracts and conducted a zero based review to ensure proper contracting vehicles and procedures were used, identified opportunities for efficiencies within the process and across contracts and established a database to maintain current data of actions/funds fleet-wide for service contracts. The net result has been a cost avoidance/savings of \$69 million since 2010. To maintain the results and keep strong controls in place, USFFC established the Contract Requirement Review Board (CRRB) chaired by the Contract Management Director. The CRRB reviews all HQ service contract requests, prioritizes requests and determines bona fide need. The CRRB meets weekly during budget cycle, or as needed during the fiscal year.

Additionally, the Contract Management Director's actions to improve communications and knowledge ensured a strong control environment existed. Completed control actions include:

- Published policy for the Contract Requirement Review Board (CRRB)
- Provided acquisition guidance to Fleet and staff personnel
- Standardized procurement document templates
- Augmented Fleet IG ECH III inspection
- Assisted Fleet IG with acquisition Hot Line investigations

The following additional control actions are in progress:

- Established policy and procedures for the acquisition process
- Trained HQ and subordinate staffs on contractor/government relationships
- Established cadre of trained Contracting Officer Representative (COR)s at USFFC HQ

**Space and Naval Warfare Systems Command (SPAWAR)
Reporting Category: Contract Administration**

Improving administrative control, SPAWAR System Command (SSC) Pacific established and implemented a comprehensive Contracting Officer's Representative (COR) Program, and issued various instructions to ensure consistent execution. SSC Pacific's Contract Information Bulletin (CIB) 12-001, Mandatory Implementation of New SSC Pacific COR Guidance, Implemented the Requirements of SSCPACINST 4240.1 (Draft), COR, on all new Contracts and Orders issued by an SSC Pacific Warranted Contracting Officer.

SSCPACINST 4240.1 (Draft) sets forth the guidelines for SSC Pacific contracting officers to designate qualified and trained CORs in writing to monitor contractor support services in accordance with documented surveillance plans or Quality Assurance (QA) Surveillance Plans throughout the performance period of contracts or task orders. The COR must possess the requisite "technical qualifications" in addition to meeting all of the COR qualifications. SSC Pacific's past approach of appointing a COR who in turn relies on "input from technical personnel" as their means for performing contract surveillance and oversight is no longer allowable. SSCPACINST 4240.1 (Draft) further requires CORs to comply with the responsibilities and limitations as delegated by SSC Pacific contracting officers inclusive of establishing and maintaining separate COR files for each contract and task order assigned. CIB 12-004, Quality Assurance Review of Contracting Officer's Representative Files, advised that commencing February 2012, quality assurance reviews will be accomplished by the Contracts Policy Branch on COR contract and order files to assess the completeness and quality of files, and to ensure oversight of contractor performance is occurring in accordance with the COR designation letter. Reviews may also include a discussion with the COR regarding the COR's understanding of duties, responsibilities and limitations. SSC Pacific Internal Policy Memorandum (IPM) 12-004aCON, same subject, details the policies and procedures related to conducting QA reviews of COR files, as well as QA worksheets. COR program implementation will require and facilitate SSC Pacific CORs to fully carry out their role as the "eyes and ears of the contracting officer." A COR Competency Development Model (CDM) was developed and details COR qualifications and training requirements. Under the new guidance, CORs must not only meet COR qualification and training requirements, they must also possess the technical knowledge, skill, and ability to monitor the contractor's performance; and be physically engaged in monitoring performance. COR review of invoices is mandated. Lastly, a formal internal assessment process has been established and implemented to ensure CORs are correctly performing their responsibilities.

Bureau of Naval Personnel/Navy Personnel Command (BUPERS-NPC)
Reporting Category: Contract Administration

The Nuclear Regulatory Commission (NRC) Contract Review Board Charter was established to ensure adequate contract oversight. The Board ensures all NRC requirements are vetted at the NRC Headquarters level to facilitate coordination across functional areas, minimize duplication of contracting efforts, validate enterprise requirements and ensure requested contract action falls within regulations and other governing policies concerning appropriated funds. The Board will also prioritize valid contracts and develop execution plans for submission to the Chief of Staff (CoS) for approval.

The Contract Review Board's focus is to standardize the contract review process; provide enterprise-wide visibility; ensure compliance with acquisition and financial regulations; ensure requirements are properly aligned with funding resources; improve contract management and accountability of the CORs and PMs.

Naval Supply Systems Command (NAVSUP)
Reporting Category: Other

NAVSUP focused its CPI efforts on reducing total ownership costs by standardizing and streamlining business processes, shedding unnecessary functions, and optimizing IT systems. One of our successes was consolidating the household goods (HHG) backroom functions performed across the country. With renewed emphasis on business standardization and reducing costs, a single vision was developed and the team was put in place to develop a single process for HHG. Initial development of a standard staffing model based on throughput set one of the baselines to run the HHG business. Also developed were standard forms, posters, and a website for the dissemination of information. To maintain the integrity of the documentation, a Document Control Board was established to review documents and incorporate changes twice a year. The end result of this multi-discipline/multi-process effort was that the 11 personal property shipping offices were consolidated into two Navy regions with staffing plans tied to workload, an IT system that reduced labor hours, and a virtual call center. All of these efforts resulted in \$1.1 million in cost savings/avoidance. NAVSUP, as a Navy Working Capital Fund (revolving fund) activity recovers its cost of material (inventory sold) and operations through sales to the fleet. Three of these costs - Material Obsolescence, Carcass Losses, and Net/Standard Deviation - were reviewed using CPI tools and methodologies. As a result, NAVSUP found \$40 million in annual cost avoidance that will enable the enterprise to meet budget challenges and mitigate the need to increase prices to the fleet. In addition, the DON has created a separate work stream for Household Goods (HHG) / Permanent Change of Station (PCS) and is on target to assert for audit readiness in the 4th qtr FY 2013.

Naval Air Systems Command (NAVAIR)
Reporting Category: Security

The NAVAIR Security Department locally developed and implemented an enterprise-wide standard process/tool set for metrics collection, analysis and compliance assessment of the workforce Personnel Security Program (PERSEC) health. The tool-set substantially streamlined

and automated various PERSEC business processes in addition to capturing and tracking PERSEC Key Performance Indicators (KPI) metrics. The IT-based tool-set has been implemented nationally at all NAVAIR Commands/Business Units to manage Personnel Security. Increased ECH II oversight drove increased emphasis on PERSEC Compliance across the NAVAIR enterprise. Equipped with detailed metrics and significantly enhanced business processes, NAVAIR HQ non-compliance fell from 11% to under 1%. Non-compliance for all NAVAIR RDT&E facilities fell from 16% to under 2%.

Enhanced internal controls and increased ECH II oversight resulted in cutting the percentage of Personnel Security Investigations (PSIs) submitted as high cost Single Scope Background Investigation (SSBIs) in half. The 50% reduction in SSBIs (from 42% to 20%), reduced DON expenditures for PSIs by \$1.3 million this year and will total over \$5 million over the 5-year FYDP.

The NAVAUDSVC recommended CNO follow-thru with Navy-wide deployment. The Head of the DON Information and Personnel Security, CNO (N09N2), invited NAVAIR to brief the security innovation at the 2012 DON Security Conference. Based on interest expressed at the 2012 conference, NAVAIR will collaborate with CNO (N09N2) to deploy the application Navy-wide.

Space and Naval Warfare Systems Command (SPAWAR) Reporting Category: Personnel and Organization Management

SPAWAR established a formal, Command-wide Intelligence Oversight (IO) Program in accordance with Executive Order 12333 to ensure that the organization can conduct its intelligence and counterintelligence missions while protecting the statutory and constitutional rights of U.S. citizens.

The establishment of SPAWAR's IO Program was accomplished in collaboration with the National Security Agency (NSA) Office of General Counsel (OGC), NSA Oversight & Compliance, Navy OGC, and the Fleet Cyber Command/Commander 10th Fleet to determine requirements for successful implementation. The IO Program impacts any program or project that handles intelligence information or data. The Program consists of a formalized process to: 1) request and handle intelligence data and products, 2) designate personnel to establish roles and responsibilities, and 3) submit quarterly reports to satisfy congressional reporting requirements.

The oversight and monitoring activities include, but are not limited to:

- Designation of project/program specific IO Coordinators assigned to monitor project/program personnel performance of intelligence related activities to verify that no violations of regulations occur
- Training all personnel with access to intelligence data/information on the proper handling of such data/information. Training increases awareness and understanding of the activities that intelligence organizations and personnel may, and may not, perform to accomplish their mission lawfully and in accordance with DoD policy.

Command-wide, SPAWAR has not experienced any intelligence related violations since the IO Program was formally established at the end of FY 2011. In addition, SPAWAR's IO Program was recognized by the Office of the Assistant to the Secretary of Defense for Intelligence Oversight (OASD (IO)) as the standard setter for intelligence oversight for the Navy Intelligence RDT&E community.

Navy Reserve Force (NAVRESFORCOM)

Reporting Category: Comptroller and Resource Management

The COMNAVRESFOR Comptroller (N8) and IT directorate (N6) team won the ASN (FM&C) ECH II Financial Management Process Improvement award this year for their comprehensive efforts on implementing the new Navy Reserve Data Warehouse (NRDW 2.0), process improvements to Drill Management, Fuel and Travel tracking along with our new portal environment. For the first time, the NRDW will be connected to sources of financial management data, such as DFAS; thereby bridging financial reporting and management from the current legacy systems to the Navy ERP extension now scheduled for implementation in FY 2017. The combination of improved data warehouse and portal environments allows the Navy Reserve Comptroller to analyze, report, and collaborate across all ECHs for near real-time financial management and situational awareness to Chief of Navy Reserve (OCNR), SECNAV, ASN (FM&C), and CNO. This will position NAVRESFORCOM for making better business decisions within the Force and with our FIP/FIAR effort within Navy.

Bureau of Medicine and Surgery (BUMED)

Reporting Category: Support Services and Information Technology

Through Financial Improvement Program (FIP) efforts, Navy Medicine has deployed 15 Standard Operating Procedures (SOPs) throughout the enterprise. The SOPs target multiple functional areas, such as resource management, material management, facilities management, and pharmacy management. The purpose of the SOPs is to standardize processes, strengthen operational and financial internal controls, and drive out process variance. These SOPs are the roadmaps for Navy Medicine Commands to achieve transactional excellence, strengthened internal controls, and audit readiness.

While the first SOPs were issued in 2009, survey results indicated 61% of personnel surveyed across Navy Medicine only used SOPs at least once per month. Command level testing and MICP AU questionnaire results further indicated SOPs were not fully and consistently followed across the enterprise.

Navy Medicine analyzed the SOP implementation process and identified the following challenges which needed to be overcome to achieve cultural acceptance and full implementation of the SOPs across the enterprise: a global workforce made traditional classroom training impractical; frequent rotations and deployments of military staff meant training had to be accessible anytime, anywhere; varied Command sizes and structures made it difficult to easily segment audiences and users for effective group training; varied experience levels, perspectives, and learning styles, across finance and logistics disciplines, created the need for multi-pronged messaging and delivery strategies.

Failure to overcome these challenges and fully implement the SOPs across the enterprise could result in process inconsistencies, internal control gaps and breakdowns, operational inefficiencies, and audit readiness road blocks.

To overcome the SOP acceptance and implementation challenges, Navy Medicine developed and executed a two-pronged plan focused on improving training and communication processes:

1. To improve the SOP training process and reach a greater number of personnel, Navy Medicine supplemented traditional classroom training with interactive, collaborative online training solutions. Navy Medicine designed a web-based training platform, which supports local time zones, to schedule classes, to invite specific trainees by function or job title, and to conduct interactive training sessions online. Participants can take polls to tailor course content to user needs, download course materials, and connect with other SOP users via chat and discussion boards. The web-based training approach is more efficient and reaches a greater number of SOP users versus classroom training. Making these SOP training sessions mandatory for specific groups of end-users supports cultural acceptance and full implementation of SOPs.
2. To supplement the improved training processes and to strengthen communication, Navy Medicine organized a robust communication and change management effort. The central message of this effort reinforced SOP acceptance and consistent use across the enterprise. Navy Medicine leadership focused on the “tone from the top” to disseminate their messages. For example, the Surgeon General issued a memo, emphasizing the importance of internal controls to establish and maintain effective and efficient business processes and stating his requirements and expectations for use of the SOPs. Additionally, the Navy Medicine Comptroller deployed a personal video message, emphasizing the importance of SOP use and training. Both of these efforts improved the overall control environment of Navy Medicine.

Navy Medicine leadership supported their increased focus on improving processes and internal controls through SOPs by implementing specific change management actions to assess SOP usage across the enterprise. For example, a flag-level quarterly review was instituted at the enterprise level to determine SOP effectiveness and training needs. All comptroller and logistics personnel were also directed to conduct a monthly review for SOP training needs. Additionally, in their quarterly and annual MICP certification statements, management was required to certify to the extent and effectiveness of SOP implementation within their AOR. These actions are targeted at assessing the control activities throughout the Navy Medicine enterprise to determine if SOPs are appropriately implemented; and if they are not, what corrective actions need to be taken to improve processes and internal controls.

SOP distribution, communication, and feedback processes were also strengthened to further support the increased focus on SOP acceptance and implementation. Navy Medicine developed an SOP webpage to enhance the SOP distribution and communication processes. This webpage includes downloads, training calendars, discussion boards, course materials, and job aids. Additionally, supervisors and new staff are provided with toolkits, emphasizing the importance of SOPs. To better analyze SOP training, distribution, and communication efforts, Navy Medicine initiated a couple of feedback processes. One process included a centralized feedback mechanism for users to submit questions and feedback on SOPs and SOP Training. Survey

results indicate 62% of users have “intermediate” or “advanced” knowledge of how to submit SOP feedback, and the FIP office receives between 6 to 8 SOP change requests per month. Navy Medicine also instituted an annual survey to measure end user awareness and use of SOPs and to capture communication and training preferences. This data supports SOP Development Lifecycle and SOP Training efforts.

The SOP Outreach Program represents the final element of Navy Medicine’s communication and change management effort. This Program engages senior leadership to resolve known issues or points of resistance in the enterprise and sustain SOP implementation efforts. With senior leadership support and involvement, this Program further strengthens the internal control environment.

These comprehensive training and communications efforts will increase SOP acceptance and implementation across the Navy Medicine enterprise. Increased SOP implementation drives process standardization, internal control improvements, and operational efficiencies. Ultimately, the innovative SOP training, communications, and change management efforts will improve the overall quality, consistency, and auditability of Navy Medicine’s financial processes.

Naval Audit Service (NAVAUDSVC)

Reporting Category: Personnel and Organizational Management

Quality control reviews are one aspect of the NAVAUDSVC internal quality control system through which we monitor the effectiveness of policies and procedures. NAVAUDSVC performed two internal quality control reviews related to audit supervision and hard copy audit working paper documentation to determine if the organization was adhering to Generally Accepted Government Auditing Standards (GAGAS). Secretary of the Navy Instruction 7510.7F, Department of the Navy Internal Audit, requires NAVAUDSVC to perform audits in accordance with GAGAS. When auditors perform their work in compliance with GAGAS, their reports can lead to improved Government management, better decision making and oversight, effective and efficient operations, and accountability for resources and results. During the reviews, the quality control teams tested internal controls in these areas. Although minor deficiencies were noted, and subsequently corrected, the quality control teams concluded that the NAVAUDSVC complied with GAGAS related to audit supervision and standards related to hard copy audit working paper documentation.

In addition, Air Force Audit Agency (AFAA) conducted a peer review of the NAVAUDSVC (FY 2011 External Quality Control Peer Review of Naval Audit Service; Audit Report F-2011-6005-FA1200, dated 22 August 2011). The objective of the peer review was to determine whether the NAVAUDSVC internal quality control system provided reasonable assurance NAVAUDSVC auditors followed established policies, procedures, and applicable auditing standards. AFAA included in the scope of their peer review a review of six performance audits and one quality assurance review report. Overall, AFAA concluded that the internal quality control system was operating effectively to provide reasonable assurance that audit personnel followed established policies, procedures, and applicable auditing standards. AFAA issued a peer review rating of pass for the review period ended 30 September 2010. Such an opinion is the highest level of assurance an audit organization can achieve.

Deputy Assistant Secretary of the Navy (Budget) (DASN (FMB))

Reporting Category: Comptroller and Resource Management

Web-Based Appeal Database (WeBAD) is a repository for House and Senate Appropriations budget marks and provides a tracking system for DON impact statements and appeals to those budget marks.

WeBAD was launched to automate the following activities: impact statement/appeal inputs; coordination among BSOs, Resource Sponsors (RS), Assistant Secretary of the Navy (ASNs), and FMB analysts; and tracking and preparation of final inputs to OSD. WeBAD provides better version control of documents as they are being coordinated and finalized, transparency so that all users can see what information is in the system, and a way to display items submitted to OSD. End-users who gained working knowledge of the system provided suggestions for improvements and enhancements, which were: ability to include attachments to impact statements, additional preloaded report formats which can be exported to Excel spreadsheets, and ability to add prior-year rescissions to the current year budget cycle.

Deputy Assistant Secretary of the Navy (Budget) (DASN (FMB))

Reporting Category: Comptroller and Resource Management

Aircraft Procurement, Navy, Other Procurement, Navy, Weapons Procurement, Navy and Procurement, Marine Corps appropriations were required to be automated as a result of OUSD(C)'s continuing initiative to automate procurement exhibits. These procurement appropriations were known to be more complex and standardization was required amongst the Services. Extensive analysis and coding needed to be performed in order to meet the deadline of the FY 2013 President's Budget.

The complexity of how data for the appropriations noted above interacted between the exhibits was challenging. Coordination with OUSD(C) software developers and FMBs developers was extensive. OUSD(C) made design changes that FMB would then incorporate into Procurement Budget Justifications Documents (PDOCS) where feasible. On a few instances FMB did not concur with OUSD's design changes, but through collaborative efforts FMB compromised on a number of modifications. Once the BSOs started using the system, time was split between development of the basic data collection and training and support of the system. Worksheet reports were produced for users to help them understand how the detail numbers were being computed to compare against controls. In the end the data was collected and used for the FY 2013 President's Budget. OUSD(C) plans to review their standardized structure and formatting for possible changes for the FY 2014 President's Budget.

Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FMO))

Reporting Category: Information Technology

OASN (FM&C), FMO and DFAS require validation of all legacy systems General Ledger (GL) ending balances against Navy ERP GL beginning balances. This action stems from a key Financial Management Regulation (FMR) requirement that states ending balances for one

reporting period will be perpetuated as the beginning balances for the subsequent reporting period and shall be carried forward without change (DoD FMR Volume 6A, Chapter 2, Section 020202, B.6). When converting data from a legacy environment to Navy ERP, the validation of those balances is an important tool for auditability and audit readiness. After the Naval Air Systems Command (NAVAIR) initially implemented SAP in 2002, both FMO and DFAS instituted this validation effort as part of the overall compliance methodology for the deployment of Navy ERP across all Commands.

NAVSEA's Working Capital Fund (WCF) sites began mock conversion activities in the fall of 2010. During this time, and throughout Go Live, the FMO Validation Team worked with DFAS and the NAVSEA WCF Financial Validation Team to compare the Defense Industrial Financial Management System (DIFMS) GL balances against the Navy ERP GL balances, and to perform Treasury Tie Point analysis.

The final independent validation followed approximately eight months (January 2011 to August 2011) of mock validation efforts in which the FMO Validation Team worked with DFAS and the NAVSEA WCF Financial Validation Team to review GL variances between the legacy system (DIFMS) and Navy ERP. Using data from two full mock data conversions (Mock 3 and Cutover Practice), the FMO Validation Team started the process of identifying and reconciling variances prior to the final validation. Once the Go Live data was available, the FMO Validation Team entered comments on previously identified variances, identified new variances, and then placed all variances into the appropriate bucket with explanations. This accomplishment focuses on the conversion of NAVSEA's ten WCF sites: Atlantic Undersea Test and Evaluation Center and Newport; Corona; Crane; Dahlgren; Explosive Ordnance Disposal (EOD) Tech; Indian Head; Keyport; Panama City; Philadelphia and Carderock; and Port Hueneme. The independent validation consisted of reviewing twelve trial balances at ten sites and two headquarters locations. The 12 trial balances consisted of 1,132 GL accounts.

The SAP BW tool, created by FMO, is the main validation tool used by the FMO Validation Team. It uses a customized query designed for the validation efforts. The query was created in the BEx Analyzer and uses Microsoft Excel as the foundation for the report. The tool has three key data components: Navy ERP balance, legacy balance, and delta (difference between Navy ERP balance and legacy balance). Many variables are available to create a customized report, which displays these three key components. Throughout the NAVSEA WCF conversion, the FMO Validation Team used a Metrics Dashboard to report progress on the independent validation. This dashboard uses a graphical breakout of each NAVSEA WCF site's total number of GL accounts, the number of accounts initially balanced, and the number of accounts currently In Review for each site. The FMO Validation Team reviewed every GL account balance and documented results via a Pass rating when: 1) the GL balances between the legacy system and Navy ERP initially matched, 2) when differences were explained through verifiable rationale by NAVSEA's Financial Validation Team, or 3) when the difference was deemed immaterial. In accordance with NAVAUDSVC guidance, the FMO/DFAS materiality threshold is 1% of the appropriation's Total Obligation Authority (TOA), obtained with the assistance of the OASN (FM&C) Office of Budget (FMB). Any unexplained or unverified variance that fell below 1% of the TOA was deemed immaterial. A fail rating documents GL accounts for which the legacy system and Navy ERP balances did not match and were unexplained.

During the validation process, DFAS and FMO discovered two different conversion related issues that required Journal Voucher (JV) corrections: 1) the mapping of the Funds with Treasury Collections and Disbursements accounts was reversed; and 2) budgetary account balances were adjusted using Inception to Date balances instead of Year to Date balances. Both sets of JVs will be posted during FY 2012.

Treasury Tie Point analysis was performed for the first time during the NAVSEA WCF conversion. Treasury Tie Point variances were caused by Period 13 adjustments or Navy ERP posting logic. At the conclusion of the independent validation for NAVSEA's WCF conversion, the FMO Validation Team was able to validate that 99.82%, or 1,130 GL accounts, of the values in legacy converted to Navy ERP accurately. Only 0.18%, or two GL accounts, failed. Overall, the FMO Validation Team rates this conversion as passed, with minor variances to correct after FOT.

Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FMO))
Reporting Category: Information Technology

The ASN (FM&C)/FMO performed a Financial Management (FM) Compliance Assessment of the Navy ERP 6.0 Technical Upgrade Release along with the DFAS Navy ERP team in the Navy ERP Lab in Annapolis, Maryland, as well as Cleveland, Ohio. FMO worked with DFAS to map the applicable requirements to Business Process Procedures within the specific test cases/scripts supplied by Navy ERP and the four SYSCOMs (NAVAIR, NAVSUP, SPAWAR & NAVSEA) that would demonstrate system compliance with each requirement. The FM Compliance Assessment commenced in November 2011 and ended in May 2012.

The Team selected 230 DFAS Blue Book requirements from ten chapters: General Ledger, Financial Statement Reporting, Property Plant and Equipment, Inventory Operating Materials and Supplies, Revenue, Funds Control, Accounts Payable, Audit Trails and System Controls, Foreign Military Sales, and Working Capital Fund. The requirements were mapped successfully to over 90% of the test cases/scripts supplied by Navy ERP and the four SYSCOMs that participated in critical business process testing. Screen prints of testing output were collected and analyzed to determine Navy ERP's compliance with the applicable FFMR. Test results were posted in Quality Center used to monitor system health including ECPs, defects, and other system related issues. Analysis of Navy ERP system compliance for each requirement was written, reviewed and approved by members of the Team.

In regards to FISCAM the DON performed an IT controls review of Navy ERP. Upon full implementation the process will include evaluation of the design and operating effectiveness of IT general computer controls and business process automated controls within the Navy ERP environment. The evaluation objectives include the following: 1) assist the DON in determining Navy ERP's ability to support 2014 and 2017 audit readiness goals; and 2) continuous reinforce of internal controls governing Navy ERP, i.e., monitoring of the quality and execution of internal controls over Navy ERP to sustain remediation efforts.

Office of the Assistant Secretary, Research, Development and Acquisition [ASN (RD&A)]
Reporting Category: Information Technology

Career Tools Afloat (CTA) is a technology refresh effort to replace the following systems previously used as training applications by sailors while afloat: Navy Knowledge Online at Sea Client, Navy eLearning Afloat, Electronic Training Jacket Afloat, and Fleet Training Management and Planning System Afloat. CTA provides a common access point for Sailors on surface ships with a “one-stop-shop” to access career training while ashore or afloat. The newly designed tool provides the following benefits to Sailors.

- Reduces Costs to the Global Distance Support Center (GDSC) by using the Navy Training Management and Planning System Afloat (NAFL) Database as the source for Active and Reserve Sailor user data. The authoritative data include when Sailors complete courses afloat ensure a Sailor's credentials associated with courses taken afloat match their credentials in the authoritative Learning Management System (LMS) database ashore. In this way, no course completions are lost during the ship time.
- Allows for modifications to be made to the various career and training tool application URL links without the need to submit costly ECPs for application code changes. The URL links are controlled by files contained within the NAFL Data mart and can be updated weekly.
- Reduction in bandwidth/data replication - maintains a small application footprint and utilizes existing data in the NAFL Data mart for user accounts. Replacement of NKO-At-Sea with CTA results in a 97 percent reduction in file size required for replication of any new Navy Information Application Product Suites (NIAPS) server software release.

Navy Reserve Force (NAVRESFORCOM)
Reporting Category: Information Technology

The Navy Reserve Force Navy Operational Support Center Wi-Fi (NNWF) program increases personnel access to Common Access Card (CAC) enabled web applications fulfilling the Chief of Navy Reserve (CNR) remote access initiative. The NNWF team continuously demonstrated superior leadership, planning, coordination, and technical skill in delivering this service. The program is the first DOD/DON-approved wide scale deployment of commercial Wi-Fi to operational sites for completing mission and readiness related tasking. Specifically, NNWF enables Navy Selected Reserve (SELRES) members to use personal computers to connect via Wi-Fi hotspots installed at Navy Reserve Operational Support Centers (NOSCs). Implementation of NNWF at these sites provides access for approximately 34,000 SELRES at a fraction of the cost of workstations. NNWF annual cost per SELRES is \$35.40 while the annual cost of an NMCI seat is \$2,347.56. In 2nd Quarter FY 11, the project team gained a Global Information Grid Waiver to connect from Defense Information Systems Agency (DISA). In 4th Quarter FY 2011 the team obtained a three-year Authority to Operate (ATO) from Navy Network Warfare Command (NNWC) Operational Designated Approving Authority (ODAA). NNWF is the first instance of the utilization of the NETWORKX contract to support wide scale deployment to operational sites for mission readiness and accomplishment. As of 8 May 2012 the NNWF Team

completed order entries for 184 Navy Reserve sites, completed 180 site surveys, and successfully installed 119 NNWF hotspots. NNWF was awarded the DON Information Management Team Award for the second consecutive year.

TAB B-1

Operational Material Weaknesses/Corrective Actions

Uncorrected Material Weaknesses Identified During the Period:

| Internal Control Reporting Category | Material Weakness | Targeted Correction Year | Page # |
|--|---|---------------------------------------|---------------|
| Contract Administration | Contract Administration (Service Contracts) | 4 th Quarter (Qtr) FY 2013 | B-2-1 |

Uncorrected Material Weaknesses Identified During Prior Periods:

| Internal Control Reporting Category | Material Weakness | First Year Reported | Targeted Correction Year | Page # |
|--|--|----------------------------|---------------------------------|---------------|
| Acquisition | Attenuating Hazardous Noise in Acquisition & Weapon System Design | FY 2010 | 4 th Qtr 2012 | B-2-3 |
| Communications and/or Intelligence and/or Security | Management of Communications Security (COMSEC) Equipment | FY 2006 | 3 rd Qtr 2013 | B-2-5 |
| Communications and/or Intelligence and/or Security | Safeguarding Personally Identifiable Information (PII) | FY 2010 | 1 st Qtr 2013 | B-2-6 |
| Procurement and Contract Administration | Effective Use of Earned Value Management (EVM) Across the Department of the Navy Shipbuilding Programs | FY 2010 | 4 th Qtr 2013 | B-2-8 |

Material Weaknesses Corrected During the Period:

None

TAB B-2

Summary of Uncorrected and/or Corrected Material Weaknesses and Corrective Action Plans

Uncorrected Material Weaknesses Identified During the Period:

Title: Contract Administration (Service Contracts)

IC Reporting Category: Contract Administration

First Year Reported: FY 2012

Target Correction Date: 4th Qtr, FY 2013

Description of Material Weakness: Public Law 109-364 directed DoD to establish a panel on contracting integrity to review progress made by DoD to eliminate areas of vulnerability of the contracting environment that may allow for fraud, waste, and abuse to occur. The panel on contracting integrity identified that surveillance of service contracts as an area that could allow fraud, waste, or abuse to occur. Contracting processes include proper establishment of contracts and the fulfillment of contractual requirements, including performance and delivery, quality control and testing to meet specifications and requirements, performance acceptance, billing and payment controls, justification for contract amendments, and procedures and actions to protect the best interests of the Government.

Lack of proper contracting processes and procedures is a threat to resources and undermines the integrity of the system and the accountability and trust of those responsible for proper contracting within the organization. Such shortcomings undermine the efficiency and effectiveness of an organization and can adversely affect mission performance. Proper contracting processes and procedures have not been found followed in all instances of administering contracts. COR reviews identified contract administration vulnerabilities. Specifically, weaknesses were found in the following areas: training and refresher training, COR delegating duties to other Government personnel, COR not properly appointed by the Procurement Contracting Officer (PCO), failure to obtain access to WAWF to accept/review invoices, all duties/responsibilities not executed as detailed in the COR appointment letter, contractor and subcontractor labor hours and costs were not validated, and COR files lacked documentation of the annual meetings between the PCO and COR.

The new DoD guidance released on March 22, 2012 requires the requiring activities to participate in nominating CORs and assessing their performance of COR responsibilities. This means that the requiring activity shall ensure the COR nominee has no personal conflict of interest with performing duties/responsibilities to be delegated. The requiring activity must develop and forward a COR nomination package to the PCO using the DoD COR Tracking web-based tool (CORT); and not designate a successor COR or delegate or re-delegated to a successor COR any duties/responsibilities that were delegated to the terminated COR. DFARS 201.602-2(2)(ii) states that a COR “must be qualified by training and experience commensurate with the responsibilities to be delegated in accordance with the department and agency guidance.” Training is considered essential for maintaining highly effective CORs. Appropriate

steps should be taken to address this high risk area in the management of service contracts issued by our contracting offices. Both internal and independent audits of such process and procedures will be conducted to verify compliance with DoD and Navy contracting standards.

Corrective Action Summary: The DON has taken a variety of corrective actions to address previously identified deficiencies in contract administration as described in TAB A. Actions taken specific to COR execution include the following: issuing a revision to NAVSUPINST 4205.3D providing more detailed guidance on the responsibilities assigned to CORs and how those responsibilities are to be assigned and executed; notifying Commanding Officers of each Command requiring contracted services of their assigned COR and the responsibilities required; implementing the DoD CORT; adding COR Compliance as a Special Interest Item in PPMAP reviews; and establishing COR Compliance Metrics and report in Command Monthly Metrics Brief. In addition, the DON is in the process of strengthening the administration of service contracts. Upon further assessment from SAO, corrective action plans will be implemented across the DON to satisfy the administration of service contracts.

Detailed Corrective Action Plans Implemented and Planned:

| | |
|------------------------------|--|
| 1 st Qtr, FY 2012 | Established COR Compliance as a Special Interest Item in Command Monthly Metrics Brief |
| 3 rd Qtr, FY 2012 | Developed a DoD COR Handbook which will address contract surveillance and the roles and responsibilities of the Contracting Officer, the COR and the requiring activity/COR management in surveillance |
| 1 st Qtr, FY 2013 | Compete Testing/Deployment of COR Tracking Tool |
| 2 nd Qtr, FY 2013 | Develop Supplemental COR Training |
| 2 nd Qtr, FY 2013 | Conduct Training for CORs and PCOs on the approved COR supplemental training |
| 2 nd Qtr, FY 2013 | Review the Internal Operating Procedures (IOP) for use by contracting personnel and revise and/or update as needed. Train contracting personnel in use of updated or revised IOPs |
| 2 nd Qtr, FY 2013 | Conduct random sampling of contracts executed by each contracting official to ensure compliance with contracting regulations, directions and IOPs |
| 4 th Qtr, FY 2013 | Release SECNAVINST Implementing DoDI's guidance on the COR |

Uncorrected/Corrected Material Weaknesses Identified During the/In a Prior Period:

Title: Attenuating Hazardous Noise in Acquisition & Weapon System Design

IC Reporting Category: Acquisition

First Year Reported: FY 2010

Target Correction Date: 4th Qtr, FY 2012

Description of Material Weakness: NAVAUDSVC found the DON did not have sufficient processes in place to effectively mitigate hazardous noise risks posed by major weapon systems. Although several DON organizations made significant individual efforts to mitigate exposure to hazardous noise with some collaboration between organizations, there was no requirement, structure or formal process for coordinating these efforts across the department.

Corrective Action Summary: CNO developed a working group to address the following deficiencies identified by NAVAUDSVC: 1) determine a plan to fit and issue the most effective hearing protection to all Sailors already in Navy Enlisted Classifications (NEC), known to be exposed to hazardous noise that are exposed to hazardous noise 2) determine a plan of action to identify the earliest and most feasible opportunity, upon Sailors' entry into service, to fit and issue the appropriate and most effective form of hearing protections to Sailors in Navy NEC known to be exposed to hazardous noise. The working group proposed that BUMED focus on the hearing conservation component and ASN RDA focus on the noise reduction, which includes the noise reduction during the design phase. Tentatively the way ahead to address the issues stated above, include: 1) development of a chart that displays all DON stakeholders for Hearing Conservation and Noise Control and methods to ensure coordination between the two components 2) establishment of roles a responsibilities of each group 3) Completion of a policy review to determine gaps in DON policy between safety, requirements, and acquisition 4) Coordination with the U.S. Marine Corps to ensure a naval approach is developed during the corrective milestones.

In addition, the U.S. Marine Corps Commands shall meet the following objectives: enhance the effectiveness and efficiency of its hearing readiness, create and maintain a high standard of reporting, and ensure that U.S Marine Corps is complying with applicable laws and regulations safeguarding hearing readiness. Marine Corps established policy MARADMIN 010-12 that requires all military personnel and those civilian employees occupationally exposed to enroll in the Command's Hearing Conservation and Readiness Program. Marine's entrance and exit from the hearing conservation program are accurately recorded and tracked in the Medical Readiness Reporting System (MRRS). To improve the medical tracking of the all personnel a software update was deployed for the MRRS that provides a real-time analysis of force medical readiness and immunization, which has a direct impact on the accessibility of hearing information. This online tool provides emails to members when their yearly DD2216 audiograms are due or overdue. The improved training and more vigilant surveillance of hearing exams is intended to yield fewer instances of hearing loss and reduced hearing loss severity; therefore, plans are in place to coordinate with the Bureau of Medicine and Surgery to

increase their hearing evaluations by an estimate of a 62 % increase from the current capacity.

Detailed Corrective Action Plans Implemented and Planned:

| | |
|------------------------------|--|
| 2 nd Qtr, FY 2012 | Hearing Conservation and Readiness Policy established for reporting and recording, with first reports being received by HQMC in May |
| 3 rd Qtr, FY 2012 | Hearing Conservation added to the Safety Division list of assessable units and will be reported in the Internal Control Certification Statement |
| 3 rd Qtr, FY 2012 | Inventory all areas of hazardous noise within the industrial hygiene baseline |
| 4 th Qtr, FY 2012 | Develop a data sharing tool for Defense Occupational and environmental Health Readiness System and Medical Readiness Reporting System |
| 4 th Qtr, FY 2012 | Establish a new policy that requires all military personnel and those civilian employee occupationally exposed to enroll in the Command's Hearing Conservation Program |

Title: Management of Communications Security (COMSEC) Equipment

IC Reporting Category: Security

First Year Reported: FY 2006

Target Correction Date: 3rd Qtr FY 2013

Description of Material Weakness: NAVAUDSVC conducted an audit in FY 2012 that identified opportunities to improve DON procedures and policies for requesting, approving, and documenting the release of Communication Security (COMSEC) equipment to contractors COMSEC equipment accounts in support of DON contracts. The report concluded, overall, internal controls were not sufficient to prevent or promptly detect COMSEC equipment accountability and irregularities or noncompliance.

Corrective Action Summary: Develop and implement a SECNAV instruction that prescribes policy for managing and tracking DON COMSEC equipment accounts supporting DON contracts; and implement a uniform equipment request and loan tracking system with standard operation procedures. In addition, an all hands training will be provided to COMSEC stakeholders on managing and tracking information pertaining to equipment request/release of equipment accounts. Interim status of corrections was provided 31 July 2012, with a recommended target completion date of June 2013.

Detailed Corrective Action Plans Implemented and Planned:

| | |
|------------------------------|---|
| 1 st Qtr, FY 2012 | Established Navy Enlisted Classification (NEC) for COMSEC Account Managers |
| 1 st Qtr, FY 2012 | Reconciled Tri-Service Common Tier-1 Accounts. Reconciliation consisted of researching all reported discrepancies to verify that the data transitioned correctly and to clear up any accounting irregularities that existed from the migration from a paper-based system (NKDS) to a total electronic system. |
| 3 rd Qtr, FY 2013 | Develop and implement a SECNEC that prescribes policy for managing and tracking DON COMSEC equipment accounts supporting DON contracts |
| 3 rd Qtr, FY 2013 | Develop and implement an uniform equipment request and loan tracking system, which provides a standard order of procedures and hands on training to stakeholders on the managing and tracking information on COMSEC |

Title: Safeguarding Personally Identifiable Information (PII)

IC Reporting Category: Communications and/or Intelligence and/or Security

First Year Reported: FY 2010

Target Correction Date: 1st Qtr, FY 2013

Description of Material Weakness: DON breach report metrics and NAVAUDSVC findings demonstrate a need to strengthen existing or create new PII safeguarding policies in three key areas: magnetic hard drives, Social Security Number (SSN) reduction, and PII awareness training. A lack of a comprehensive plan regarding the unnecessary or unlawful collection of SSNs could result in a significant loss or compromise of sensitive PII. While a policy on Data at Rest was issued by the DON Chief Information Officer in January 2009, it has not been fully implemented across the DON. Implementation would significantly reduce the number and impact of PII breaches.

A number of systems (134) continue to collect data due to their interaction with other systems that still require the SSN as a primary identifier resulting in an elevated risk of PII breaches across the DON. Breaches have a negative impact on the morale and well being of our personnel; continued losses of PII are perceived to be a failure by the government to properly safeguard privacy sensitive information. In addition, there is increased Congressional interest in safeguarding PII, because breaches are costly. The impact to affected personnel equates to time spent fixing identity fraud and out of pocket expenses required to cover the cost of financial scams. The impact to Commands includes the cost of mailing notification letters, the cost of setting up a call center (if required), the cost of credit monitoring (if required) and the cost of investigating and mitigating breach incidents.

Corrective Action Summary:

SSN statistics will continue to be updated quarterly until the goal of a 10% decline in the number of high risk breaches related to SSNs for at least 3 continuous months is reached. CIO plans to create a DoD ID to replace SSN.

Detailed Corrective Action Plans Implemented and Planned:

| | |
|------------------------------|---|
| 1 st Qtr, FY 2012 | Completed Phase II of the SSN Usage Reduction Plan. Required a review of DON systems for justification of continued SSN collection and use. Of 179 IT systems that collect the SSN, 45 have or will eliminate the SSN from collection. The remaining 134 systems will continue to be reviewed and will be required to reduce or eliminate the use of the SSN. |
| 2 nd Qtr, FY 2012 | DON CIO message DTG 171625Z provided required guidance |
| 2 nd Qtr, FY 2012 | Create refresher PII training module for DON use and update annual PII awareness training. Course is completed, but the details are being worked with the E-Learning sites for Navy and Marine Corps |

| | |
|------------------------------|--|
| 3 rd Qtr, FY 2012 | Posted an update to the PII training to TWMS, NKO and the DON CIO web site. The message announcement is on scheduled to be released July 2012. |
| 3 rd Qtr, FY 2012 | Phase III of the SSN Usage Reduction Plan consists of three significant actions: 1) Commands are now authorized to use the Department of Defense Identification (DoD ID) number, but must follow strict guidelines for is use, which will be released in the ALNAV. 2) All official forms and IT systems, letters, memoranda, spreadsheets, hard copy lists, and electronic lists must meet the acceptable use criteria if SSNs are collected. If justification for continued use of the SSN cannot be verified, use of the SSN must be eliminated in these communications by 1 October 2015. 3) The use of FAX machines to send information containing the SSN and other PII will be prohibited as of 1 October 2012. Also, as of this date, the sharing of SSNs using network-attached multi-function devices (MFDs) and scanner “scan to e-mail” functionality will be prohibited unless the sender can verify the intended recipient(s) is/are authorized access to the scanned file and the MFD or scanner being used can encrypt the e-mail message containing the scanned file. |

Title: Effective Use of Earned Value Management (EVM) Across the Department of the Navy Shipbuilding Programs

IC Reporting Category: Procurement and Contract Administration

First Year Reported: FY 2010

Target Correction Date: 4th Qtr, FY 2013

Description of Material Weakness:

The DON does not have adequate oversight and application of EVM across its shipbuilding programs. Through a series of audits, the NAVAUDSVC found that DON shipbuilding contractor's EVM systems were noncompliant with DoD guidelines. Based on prior audits, it is NAVAUDSVC opinion that material internal control weaknesses continue to exist because shipbuilding program managers and contractors are not using EVM systems to manage major weapons systems procurement actions. Without effective EVM, managers lose a key tool for making sound management decisions, which can result in schedule slips and cost overruns. OMB Circular A-11 requires EVM on all capital investments. EVM is also required by DODI 5000.02. EVM is required on all non-Firm-Fixed-Price contracts over \$20M. EVM is usually applied during the development and early production phases. Both the contractor and government have EVM responsibilities.

Corrective Action Summary:

Reviews have been conducted as follows:

- 1) EVM data and processes established across NAVSEA to support standardization
- 2) Structure and staffing in place for centralized EVM process ownership and consistent EVM support for NAVSEA shipbuilding programs
- 3) Supervisor of Shipbuilding (SUPSHIP) EVM staffing levels and oversight to ensure adequate support for NAVSEA programs
- 4) Shipbuilding program offices for EVM capability and processes for decision support

The Center for Earned Value Management (CEVM) will baseline the current status of DON shipbuilding EVM implementation and oversight, and set targets for improvement. Targets will include objective measures such as determining the number of contracts non-compliant with EVM policy, percentage of EVM personnel receiving training, or audits of programs to review EVM processes. Deployment of training modules and issuance of policy will also be visible measures of actions taken. DON will also pilot these policy and process changes on two new shipbuilding contracts.

Detailed Corrective Action Plan:

| | |
|-----------------------------|---|
| 4 th Qtr, FY2012 | Establish formal agreement between DON and DCMA to support standardizing EVM data and processes |
| 4 th Qtr, FY2012 | Develop and deploy EVM team training for program offices |

| | |
|-----------------------------|---|
| 4 th Qtr, FY2012 | Develop and deploy EVM analyst training curriculum |
| 4 th Qtr, FY2012 | Implement EVM surveillance to support annual report of contractor compliance to the ANSI Standard compliance to the ANSI Standard |
| 4 th Qtr, FY2012 | Implement recommended changes for centralization of EVM process ownership and consistent EVM support for NAVSEA shipbuilding programs; SUPSHIP staffing levels; and EVM oversight processes; and shipbuilding program office capability and support |
| 4 th Qtr, FY2013 | Attain NAVSEA shipbuilding EVM policy compliance with target |

TAB C

Financial System Assessment

The DON did not complete an internal review of the effectiveness of the ICOFS. As processes are not in place to assess control, the DON provides no assurance as of 30 June 2012 that ICFOs are in compliance with the Federal Financial Management Improvement Act (FFMIA) and OMB Circular A-127, Financial Management Systems.

The DON understands ICOFS plays a key role in the audit of the DON financial statements. The DON implemented a strategy for identifying and prioritizing systems that should be considered audit relevant. Applying a common system taxonomy (i.e. primary financial system, secondary financial system, immaterial financial system and non-financial system), enabled the DON to classify and prioritize all systems. As a result, the DON was able to identify and classify the core accounting systems and key feeder systems utilized by each component (e.g., Commands, DFAS, DLA, etc.).

The DON started with system listings from the DoD IT Portfolio Repository (DITPR)-DON and DON Application and Database Management System (DADMS) and coordinated with Navy segment and Command points of contact to confirm the listings and determine whether there were additional systems that should be considered. Over two hundred systems are utilized to support Navy's complete set of financial statements. Next, the DON worked with the segment leads and Command points of contact to collect and evaluate data to determine which systems were audit relevant and/or significant to the segment assertion package. The following system evaluations were considered during the preliminary determination of financial significance: 1) overall relevance to GF SBR business segments 2) whether the system processes financial data to be used in the SBR (material or immaterial) 3) whether the system was identified as critical in prior testing/assertion efforts 4) whether the system contains key internal controls relevant to the assertion 5) whether the system is a system of record relative to substantive testing. Once a system was identified as audit relevant or critical to the segment assertion package, the DON worked with the segment to collect additional data points that would affect the assessment scope, approach, and timeline. The universe of IT systems is continually updated for each of the business segments. The Assurance & Risk Management Division (A&RMD) periodically shares the current systems universe with the Commands and others and requests them to validate the accuracy of the information. Determining whether a system is audit relevant requires an understanding of the business processes and related financial line items the systems supports as well as the types of information the auditor may request.

The DON developed the strategy for assessing IT controls for Legacy systems in coordination with the DON Chief Information Officer (CIO). The control categories at the application level most relevant to the DON are access controls, segregation of duties, business process controls, interface/conversion controls and data management system controls. This strategy was piloted with the Standard Labor Data Collection and Distribution Application (SLDCADA) and Defense Civilian Personnel Data Systems (DCPDS). Lessons learned will be incorporated prior to rolling out the revised strategy to the remaining Legacy systems. In addition, the DON is currently assessing the Navy ERP IT controls and this evaluation will identify strengths and weaknesses of

existing Navy ERP IT controls that must be designed and operating effectively to support the integrity and reliability of underlying financial data. Additionally, the Marine Corps conducted a limited review of the effectiveness of internal control for four financial management systems: Global Combat Supply System – Marine Corps (GCSS-MC), Marine Corps Permanent Duty Travel (MCPDT), Purchase Request Builder (PR Builder), and Marine Corps Total Force System (MCTFS). The financial system reviews comprised analyses accomplished in support of the FY 2011 SBR audit which, with observation from FY 2010 SBR audit, resulted in Notices of Findings and Recommendations for the Marine Corps management. Corrective actions are underway; not all have been completed.

Furthermore, the Marine Corps continues to analyze and improve controls around its financial systems. The focus was to ensure that its core accounting system, Standard Accounting, Budgeting and Reporting System (SABRS), as well as specified feeder systems provide reasonable assurance that IT controls are in place and functioning. In coordination with Defense Logistics Agency (DLA) and DFAS, the Marine Corps continue to implement and monitor actions identified as material weaknesses are addressed and remediated in order to ensure findings can be tested by DoD OIG and external auditors as part of the FY 2012 Audit.

TAB D-1

Financial Reporting Material Weaknesses / Corrective Actions

Uncorrected Material Weaknesses Identified During the Period:

| Internal Control Reporting Category | Material Weakness | Targeted Correction Year | Page # |
|--|---|---------------------------------|---------------|
| Procure-to-Pay, RWO-G | The DON control environment is not designed and/or operating effectively to ensure that all recorded reimbursable agreements represent a valid need. | FY 2013 | D-2-1 |
| Procure-to-Pay, RWO-G | The DON control environment is not designed and/or operating effectively to ensure that obligations and disbursements related to reimbursable work orders are recorded completely and accurately. | FY 2013 | D-2-1 |
| Order-to-Cash, RWO-P | The DON control environment is not designed and/or operating effectively to ensure that receipt of an advance is evidenced for reimbursable work orders requiring an advance, or that all undelivered RWOs and accounts receivable represent valid transactions that are authorized and approved. | FY 2013 | D-2-2 |
| Order-to-Cash, RWO-P | The DON control environment is not designed and/or operating effectively to ensure that unfilled reimbursable orders/authorizations and that year-end accruals are properly recorded. | FY 2013 | D-2-2 |
| Order-to-Cash, RWO-P | The DON control environment is not designed and/or operating effectively to ensure that reimbursable billings or collections are processed completely and accurately. | FY 2013 | D-2-2 |
| Procure-to-Pay, Accounts Payable | The USMC control environment is not designed and/or operating effectively because of the inability to provide missing receipt and acceptance | FY 2013 | D-2-3 |

| | | | |
|---------------------------|--|---------|-------|
| | supporting documentation for intra-governmental transactions. | | |
| Procure-to-Pay, Contracts | The USMC control environment is not designed and/or operating effectively because of the inability to timely record obligations. | FY 2013 | D-2-4 |

Uncorrected Material Weaknesses Identified During Prior Periods:

| Internal Control Reporting Category | Material Weakness | First Year Reported | Targeted Correction Year | Page # |
|--|---|----------------------------|---------------------------------|---------------|
| Budget-to-Report, FBWT | The DON control environment surrounding the recording of collection and disbursement transactions is not designed and/or operating effectively to mitigate the risk of material misstatement to the financial statements. | FY 2006 | FY 2013 | D-2-4 |
| Acquire-to-Retire, ME | The DON cannot establish and/or support ownership and valuation of ME due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations. | FY 2005 | FY 2014 | D-2-5 |
| Acquire-to-Retire, GE | The DON cannot establish and/or support ownership and valuation of GE due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations. | FY 2007 | FY 2014 | D-2-6 |
| Acquire-to-Retire, RP | The DON lacks standardized internal control and supporting documentation requirements, | FY 2006 | FY 2014 | D-2-6 |

| | | | | |
|---------------------------------------|--|---------|---------|-------|
| | affecting the timely and accurate relief of Construction in Progress (CIP) and recordation of Real Property transactions. | | | |
| Plan-to-Stock, Inventory | The DON cannot maintain accurate moving average cost (MAC) inventory values and clear audit trails by Accounting System of Record (ASR) to permit the tracing of transactions from the source documentation to the reported total dollar values on the Inventory line item on Navy's Financial Statements. | FY 2005 | FY 2014 | D-2-7 |
| Plan-to-Stock, OM&S | The DON cannot demonstrate an ability to consistently perform and document annual physical inventories of OM&S and maintain clear audit trails to permit the tracing of transactions from source documentation to comply with established policy requiring source documentation for the reported OM&S dollar values. | FY 2005 | FY 2015 | D-2-7 |
| Budget-to-Report, Information Systems | The USMC control environment is not designed and/or operating effectively for the reason that internal control weaknesses were identified across four financial systems that the DoD OIG reviewed, all used in producing the SBR. | FY 2011 | FY 2013 | D-2-8 |
| Acquire-to-Retire, ME | The USMC control environment for Military Equipment is not designed and/or operating for the reason that evidence to support the | FY 2008 | FY 2013 | D-2-9 |

| | | | | |
|-----------------------|---|---------|---------|-------|
| | five financial statement audit assertions (i.e., Existence, Completeness, Valuation, Rights and Obligations, and Presentation and Disclosure) is insufficient or not readily available. | | | |
| Acquire-to-Retire, RP | The USMC control environment for Real Property is not designed and/or operating effectively for the reason that evidence to support the five financial statement audit assertions is insufficient or not readily available. | FY 2008 | FY 2014 | D-2-9 |

TAB D-2

Summary of Uncorrected and/or Corrected Material Weaknesses and Corrective Action Plans

Uncorrected Material Weaknesses Identified During the Period:

IC Reporting Category: Procure-to-Pay, RWO-G

Target Correction Date: 1st Qtr FY 2013

Description of Material Weakness: The DON control environment is not designed and/or operating effectively to ensure that all recorded reimbursable agreements represent a valid need. The potential audit risk is that the DON may overstate Accounts Payable on its financial statements by including invalid/unauthorized transactions.

Corrective Action Summary: Commands will implement a Tri-annual Review to monitor the status of Reimbursable Agreements and to identify agreements that require closeout. Dormant commitments and unliquidated obligations are reviewed for timeliness, accuracy, and completeness. Dormant commitments and unliquidated obligations are closed out as necessary based on the criteria provided in policy and guidance. The Tri-annual Review must include a review of these commitments and obligations to certify that the transactions conform to the management requirements for proper financial management oversight as prescribed in the DoD Financial Management Regulation (FMR). This review will occur during each of the four-month periods ending on January 31, May 31 and September 30 of each fiscal year. The FMR requires fund holders to maintain adequate documentation supporting these reviews for 24 months.

IC Reporting Category: Procure-to-Pay, RWO-G

Target Correction Date: 1st Qtr FY 2013

Description of Material Weakness: The DON control environment is not designed and/or operating effectively to ensure that obligations and disbursements related to reimbursable work orders are recorded completely and accurately. The potential audit risk is an understatement/overstatement of obligations/disbursements on the DON's financial statements.

Corrective Action Summary: Commands will be required to implement a monthly post-disbursement validation procedure. Commands will perform a monthly reconciliation with trading partners to identify any differences in agreements. All differences will be logged and tracked through to resolution. Grantor personnel sign the Trading Partner Reconciliation. An authorizing official reviews and approves any corrections resulting from the reconciliation.

IC Reporting Category: Order-to-Cash, RWO-P

Target Correction Date: 1st Qtr FY 2013

Description of Material Weakness: The DON control environment is not designed and/or operating effectively to ensure that receipt of an advance is evidenced for reimbursable work orders requiring an advance, or that all undelivered RWOs and accounts receivable represent valid transactions that are authorized and approved. The potential audit risk is that the DON may overstate accounts receivable or overstate obligations and accounts payables on its financial statements by including invalid/unauthorized transactions.

Corrective Action Summary: For orders requiring an advance, the acceptance is created when funds are sent; therefore the Cash Collection Voucher (DD 1131) should be validated as evidence of acceptance. Commands will implement a Tri-annual Review to monitor the status of Reimbursable Agreements and to identify agreements that require closeout. Dormant receivables and unfilled orders are reviewed for timeliness, accuracy, and completeness. Dormant receivables and unfilled orders are closed out as necessary based on the criteria provided in policy & guidance. The Tri-annual Review must include the review of Accounts Receivable to certify that the transactions conform to the management requirements for proper financial management oversight as prescribed in the DoD Financial Management Regulation (FMR). This review will occur during each of the four-month periods ending on January 31, May 31 and September 30 of each fiscal year. The FMR requires fund holders to maintain adequate documentation supporting these reviews for 24 months.

IC Reporting Category: Order-to-Cash, RWO-P

Target Correction Date: 1st Qtr FY 2013

Description of Material Weakness: The DON control environment is not designed and/or operating effectively to ensure that unfilled reimbursable orders/authorizations and that year-end accruals are properly recorded. The potential audit risks are an understatement/overstatement of unfilled reimbursable orders/authorizations on the DON's financial statements and that financial transactions will not be recorded in the proper reporting period.

Corrective Action Summary: Commands will perform a monthly reconciliation with trading partners to identify any differences in agreements. All differences will be logged and tracked through resolution. Performer personnel sign the Trading Partner Reconciliation. An authorizing official reviews and approves any corrections resulting from the reconciliation.

IC Reporting Category: Order-to-Cash, RWO-P

Target Correction Date: 1st Qtr FY 2013

Description of Material Weakness: The DON control environment is not designed and/or operating effectively to ensure that reimbursable billings or collections are processed completely and accurately. The potential audit risk is that revenue or collections may be misstated.

Corrective Action Summary: DFAS will implement a process to research all unmatched collections identified in the Unmatched Collection Database and resolve appropriately. This process has already been implemented and tested at DFAS-Cleveland. DFAS-Columbus will implement a similar process. DFAS will implement standardized Defense Cash Accountability (DCAS) and Intra-governmental Payment and Collection (IPAC) bill run reviews. This will require certifying accountants to track all items within a DFAS Internal Control spreadsheet in order to achieve full accountability for transactions processed through DCAS and/or IPAC. All adjustments, corrections and reversals should be certified. A certifying accountant will certify the reconciliation between DCAS/IPAC and the Accounting System of Record.

IC Reporting Category: Procure-to-Pay, Account Payable

Target Correction Date: 4th Qtr FY 2013

Description of Material Weakness: The USMC control environment is not designed and/or operating effectively because of the inability to provide missing receipt and acceptance supporting documentation for intra-governmental transactions. Project Management Offices (PMOs) often do not receive delivery confirmation documentation from Defense Contract Management Agency (DCMA) – Authorized Contracting Officers (ACOs), DoD – Distribution Management Offices (DMOs), Service – Project Management Offices (PMOs), Fleet Marine Force (FMF) delivery points, non-FMF delivery points or interim delivery points. As a result, the recording of receipt (expense) transactions in SABRS often takes place after invoice payments are made rather than at the time of delivery. This issue involves all contracts in DoD that contain Marine Corps Systems Command (MCSC) funding that directs the acceptance point to be at origin or destination.

- The deficiencies were identified in the results of the SBR Audit Notice of Finding and Recommendation (NFR) 2010-FS-003, “Liquidations precede the recording of expenses” and NFR 2010-FS-004, “Lack of sufficient audit evidence to substantiate obligations, expenses, and disbursements recorded as of 9/30/09.”
- The issue is also related to NFR 2011-004, “Controls over the Intra-governmental Payment and Collection (IPAC) System Process” that observed that the Marine Corps does not adequately monitor payments made under intra-governmental purchase agreements to determine the accuracy and validity of the payments for goods and services.

Corrective Action Summary: MCSC Deputy for Financial Management, Managerial Accounting Office (MAO) implemented a process to record expenses based on each individual

disbursement which will alleviate carrying records in abnormal conditions when the expense is not recorded prior to the disbursement voucher posting. MCSC will continue to provide quarterly training and continue the MAO expense process to mitigate this issue. USMC has developed and is finalizing policy and SOPs to require standard documentation for IPAC receipt and acceptance audit trails.

IC Reporting Category: Procure-to-Pay, Contracts

Target Correction Date: 4th Qtr FY 2013

Description of Material Weakness: The USMC control environment is not designed and/or operating effectively because of the inability to timely record obligations. There is no electronic posting interface with the Marine Corps accounting system, Standard Accounting, Budgeting and Reporting System (SABRS), when joint contracts are awarded by Navy and external organizations such as the Army and Defense Contract Management Agency (DCMA), so manual posting of obligations is required. In some cases, notification of contract award and posting obligations in SABRS does not occur until the vendor submits an invoice for payment and the error is caught during the pre-validation phase of the DFAS payment process. Obligations are recorded late in SABRS; the DoD FMR requires recordation within six to ten days of award. This includes contract modifications that affect obligation increases or decreases. The deficiency was identified in the SBR audit results (NFR 2010-FS-013, “Lack of Timely and Accurate Recordings of Transactions”). When SABRS obligation postings (increases or decreases) are not recorded timely, the financial position is understated or overstated in the affected reporting months.

Corrective Action Summary: Corrective actions taken include: 1) developed management guidance (SABRS Aged and Abnormal Reports Manual) and produce monthly reports from which Marine Corps Commands and HQMC can monitor and address abnormal accounting conditions, 2) created and implemented a rigorous Tri-Annual Review (TAR) and confirmation process, and 3) published management guidance (Tools Support Document) that empowers Commands and HQMC with information resource tools that enable the timely retrieval of source documentation to support audit requirements and assist in providing complete supporting documentation for audit samples.

Uncorrected Material Weaknesses Identified During Prior Period:

IC Reporting Category: Budget-to-Report, Fund Balance with Treasury (FBWT)

First Year Reported: FY 2006

Target Correction Date: 2nd Qtr FY 2013

Description of Material Weakness: The DON control environment surrounding the recording of collection and disbursement transactions is not designed and/or operating effectively to

mitigate the risk of material misstatement to the financial statements. The following control weaknesses have been identified in the collections and disbursements business process: lack of controls to prevent problem disbursements and a lack of periodic reconciliation of FBWT.

Corrective Action Summary: Corrective actions planned include: 1) Implement a process that includes a solid internal control environment to ensure proper reconciliation of Command/Activity accounting system reports and records with Treasury's reports and records, and 2) improve processes and/or systems to prevent/materially reduce processing of transactions that cause problem disbursements. Business Activity Monitoring (BAM) is the primary tool DFAS is looking to utilize in the DON's FBWT audit readiness effort. BAM is currently used to perform some disbursement and collection reconciliations of detail transactions from DCAS to DON accounting systems. DFAS is working to implement improvements and enhancements to these reconciliations to improve the efficiency of the tool, as well as improve results. In addition, DFAS is working to implement an additional reconciliation tool within the BAM platform. This tool (Audit Assertion Workbench) will reconcile Treasury balances, via Government Wide Accounting (GWA), to the general ledger balances recorded in DON accounting systems. In return the tool will reconcile Treasury and general ledger discrepancies using detailed transactions from GWA and DCAS. While this BAM reconciliation is being completed for production use, DFAS Cleveland is performing a monthly reconciliation via off-line tools. As a compensating manual control, DAFS is currently producing an off-line Treasury to Accounting system reconciliation, similar to what BAM is expected to produce once it is fully functioning. In addition, DFAS and FMO are going to try and test this manual reconciliation with the upcoming first round of testing, trying to gauge its efficiency and effectiveness.

IC Reporting Category: Acquire-to-Retire, Military Equipment (ME)

First Year Reported: FY 2005

Target Correction Date: 4th Qtr FY 2014

Description of Material Weakness: The DON cannot establish and/or support ownership and valuation of ME due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations. Additionally, the DON cannot substantiate that the asset records in accounting system of record (non-financial) represent all ME assets. For the assets included in the accounting system of record, the DON cannot include all ancillary costs to the asset or assign a correct useful life. Finally, the DON's inability to reconcile their property accountability systems with their financial systems causes the presentation and disclosure of the assets to be inaccurate.

Corrective Action Summary: The DON has already received an unqualified opinion on Existence, Completeness and Rights for Ships, Satellites, Trident Missiles, and Aircraft. Corrective action tasks for the remaining ME segment will follow the FIAR assertion process. Starting in the 1st Qtr FY 2013, the DON will initiate discovery action including a Business Process Standardization effort to map and streamline business processes. This will be followed by an initial round of inventory testing for E&C in the 3rd Qtr FY 2013. Corrective Actions will

follow based on results. The corrective actions will include: determine causes for failure, make corrective action plans, train responsible parties, implement internal controls, and retest performance. A second round of testing will commence in 3rd Qtr FY 2014. Assertion of Existence, Completeness, Rights and Obligations, and Presentation and Disclosure is expected on 30 Sep 2014.

IC Reporting Category: Acquire-to-Retire, General Equipment (GE)

First Year Reported: FY 2007

Target Correction Date: 4th Qtr FY 2014

Description of Material Weakness: The DON cannot establish and/or support ownership and valuation of GE due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations. Additionally, the DON cannot substantiate that the asset records in accounting system of record represent all GE assets. For the assets included in the accounting system of record, the DON cannot include all ancillary costs to the asset or assign a correct useful life. Finally, the DON's inability to reconcile their property accountability systems with their financial systems causes their presentation and disclosure of the assets to be inaccurate.

Corrective Action Summary: Corrective action tasks for the GE segment will follow the FIAR assertion process. Starting in the 1st Qtr FY 2013, the DON will initiate Discovery action including a Business Process Standardization (BPS) effort to map and streamline business processes. This will be followed by an initial round of inventory testing for E&C in the 3rd Qtr FY 2013. Corrective Actions will follow based on results. A second round of testing will commence in 3rd Qtr FY 2014. Assertion of Existence, Completeness, Rights and Obligations, and Presentation and Disclosure is expected on 30 Sep 2014.

IC Reporting Category: Acquire-to-Retire, Real Property (RP)

First Year Reported: FY 2006

Target Correction Date: 2nd Qtr FY 2014

Description of Material Weakness: The DON lacks standardized internal control and supporting documentation requirements, affecting the timely and accurate relief of Construction in Progress (CIP) and recordation of Real Property transactions. Deficiencies within the real property acquisition, inventory and disposal processes and systems result in miscommunication and insufficient support for real property asset ownership and valuation. A reconciliation of real property tenant utilization data is required to satisfy the Department of Defense (DoD) imputed costs policies.

Corrective Action Summary: NAVFAC has been following the FIAR assertion process. NAVFAC automated the DD 1354 process, which captures CIP costs in the Facilities Information System (FIS) and matches to RP values recorded in the accountable property system of record Internet Navy Facilities Assets Data Store (iNFADS). NAVFAC WCF assets were transitioned from PPMS to iNFADS for accurate real property reporting. Additional Discovery work and 'As-Is' Internal Control Gap Analysis were completed in 3Q FY 2012. Process and system improvement working groups are scheduled for 3Q & 4Q FY 2012, followed by corrective action implementation and training through 4Q FY 2013. Inventory testing for E&C is expected in 3Q FY 2013 with assertion of Existence, Completeness, Rights and Obligations, and Presentation and Disclosure is expected on 31 Mar 2014.

IC Reporting Category: Plan-to-Stock, Inventory

First Year Reported: FY 2005

Target Correction Date: 1st Qtr FY 2014

Description of Material Weakness: The DON cannot maintain accurate moving average cost (MAC) inventory values and clear audit trails by Accounting System of Record (ASR) to permit the tracing of transactions from the source documentation to the reported total dollar values on the Inventory line item on Navy's Financial Statements. The initial MAC values for the inventory items in ERP were calculated with an adjusted latest acquisition cost (LAC) maintained in the legacy accounting system. The legacy accounting system did not maintain the necessary historical cost data to support MAC. Authoritative source documentation to calculate MAC was unavailable and does not exist for all material currently in the NWCF-SM inventory. There are also current organic processes that do not support the proper valuation of MAC.

Corrective Action Summary: Implementation and deployment of Navy ERP Single Supply Solution (SSS/ERP 1.1) continues through 1st quarter FY 2013. Also, discussions with FMO and Commands to refine the procurement contractual actions to support proper MAC valuation are on-going.

IC Reporting Category: Plan-to-Stock, OM&S

First Year Reported: FY 2005

Target Correction Date: 2nd Qtr FY 2015

Description of Material Weakness: The DON cannot demonstrate an ability to consistently perform and document annual physical inventories of OM&S and maintain clear audit trails to permit the tracing of transactions from source documentation to comply with established policy requiring source documentation for the reported OM&S dollar values. Legacy systems were designed for material management purposes, not to capture financial information, therefore the

DON has not maintained the historical cost data necessary to comply with Generally Accepted Accounting Principles (GAAP).

Corrective Action Summary: Over half of the OM&S balance is composed of DON Ordnance and UAE. The DON believes that the Ordnance and UAE segments are auditable, and is working on Information Technology General Control (ITGC) testing to complete those assertions. For the remaining OM&S, the DON is concluding a Navy ERP Lean Six Sigma effort to capture and record assets, including valuation in Navy ERP. In the interim, the non-Ordnance OM&S segment will follow the FIAR assertion process. Starting in the 1st Qtr FY 2013, the DON will initiate Discovery action including a Business Process Standardization (BPS) effort to map and streamline business processes. This will be followed up by an initial round of inventory testing for E&C in the 3rd Qtr FY 2013. Corrective Actions will follow based on results. The corrective actions will include: determine causes for failure, make corrective action plans, train responsible parties, implement internal controls, and retest performance. A second round of testing will commence in 3rd Qtr FY 2014. Assertion of Existence, Completeness, Rights and Obligations, and Presentation and Disclosure is expected on 31 Mar 2015.

IC Reporting Category: Budget-to-Report, Information Systems

First Year Reported: FY 2011

Target Correction Date: 3rd Qtr FY 2013

Description of Material Weakness: The USMC control environment is not designed and/or operating effectively for the reason that internal control weaknesses were identified across four financial systems that the DoD OIG reviewed, all used in producing the SBR. Based on the FY 2010 and 2011 Audits of the Statement of Budgetary Resources (SBR), 62 Notices of Findings and Recommendations were provided to Marine Corps management. The Department of Defense Office of the Inspector General (DoD OIG) characterized these findings (in aggregate) as a material weakness in Financial Management Systems. The findings were based on internal control weaknesses identified across four financial systems that the DoD OIG reviewed, all used in producing the SBR, one of which is owned by the Marine Corps:

- Marine Corps Total Force System (MCTFS) – United States Marine Corps
- Defense Departmental Reporting System (DDRS) – Defense Logistics Agency (DLA)
- Standard Accounting, Budgeting and Reporting System (SABRS) – Defense Finance and Accounting Service (DFAS)
- Defense Cash Accountability System (DCAS) – DLA

The weaknesses span across all business application control categories defined in the Government Accountability Office (GAO) Federal Information System Controls Audit Manual (FISCAM), including application general controls, business process, interface, and data management system controls.

Corrective Action Summary: In coordination with DLA and DFAS, continue to implement and monitor actions identified in Plans of Actions and Milestones to address the internal control weaknesses. Additionally, as of June 2012 approximately one-third of the weaknesses have been remediated and accepted by the DoDIG. Another one-third of the findings has been remediated and is ready to be tested by the DoDIG and its external auditors as part of the FY 2012 Audit. Create software change requests (SCRs) and continue progressing to address the remaining outstanding issues.

IC Reporting Category: Acquire-to-Retire, ME

First Year Reported: FY 2008

Target Correction Date: 2nd Qtr FY 2013

Description of Material Weakness: The USMC control environment for Military Equipment is not designed and/or operating for the reason that evidence to support the five financial statement audit assertions (i.e., Existence, Completeness, Valuation, Rights and Obligations, and Presentation and Disclosure) is insufficient or not readily available. Military Equipment valuation is potentially unsupported given weaknesses in maintaining supporting documentation for military equipment valuations, acquisition or disposal dates, useful life, waivers, and program completeness.

Corrective Action Summary: Procure contract support to provide services in Item Unique Identification (IUID) project planning, criteria analysis, mission essential systems, pedigree data collection, engineering analysis, and data management. Initiate opportunistic and “Seek-and-Apply” marking. Issue Marine Corps Order on IUID of Marine Corps Ground Equipment. Continue random sample review of Existence and Completeness (E&C) compliance by Headquarters Marine Corps (HQMC), Operating Force and Support Establishment. Develop and execute independent review of mission-critical assets with Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) Property & Equipment Policy Office. Continue random sample compliance review for HQMC, the Operating Force and Support Establishment. Develop an E&C checklist. Review and revalidate programs and ensure appropriate supporting documentation. Complete ground legacy equipment “Seek-and-Apply” and Reserve Forces surge marking efforts and transition to sustainment.

IC Reporting Category: Acquire-to-Retire, RP

First Year Reported: FY 2008

Target Correction Date: 4th Qtr FY 2014

Description of Material Weakness: The USMC control environment for Real Property is not designed and/or operating effectively for the reason that evidence to support the five financial statement audit assertions is insufficient or not readily available. Real Property valuation

remains unsupported given a continued lack of audit trail documentation. Findings are congruent with the DON weaknesses and are representative of additional coordination requirements with the NAVFAC to ensure that property transfers, capital improvements, and disposals are accompanied by appropriate supporting documentation.

Corrective Action Summary: Define and formalize valuation methodologies and document retention policy of real property. Increase training and conduct training at select installations. Develop a DD Form 1354 module in iNFADS to be used for all military construction (MILCON). Conduct meetings with Marine Corps Real Property Accountability Officers to resolve business process issues related to real property accountability. Publish process guidance document for real property stewardship at Marine Corps installations. Procure contract support to document internal controls for real property financial reporting and conduct on-site validation of new guidance at Marine Corps installations. Marine Corps and DON coordinate on real property solutions (NAVFAC Source Documentation Sustainment). Publish guidance letter on real property classification. Publish new Marine Corps Order (MCO) 11000.14, Marine Corps Facilities Manual Management of Real Property.



DEPARTMENT OF THE NAVY
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(FINANCIAL MANAGEMENT AND COMPTROLLER)
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WASHINGTON, DC 20350-1000

7000
FMO-20120118
9 July 2012

MEMORANDUM FOR THE CHAIR, DEPARTMENT OF DEFENSE SENIOR
ASSESSMENT TEAM

SUBJECT: Office of Management and Budget Circular A-123, Appendix A, Internal
Control Over Financial Reporting

REFERENCE: Office of the Under Secretary of Defense, Memorandum dated 3 May 2012,
*Internal Control over Financial Reporting and Financial Systems Statement of Assurance
Reporting Requirements*

The Department of the Navy (DON) conducted an internal review of the effectiveness of the Navy's Internal Control Over Financial Reporting (ICOFR) for the Financial Improvement Plan (FIP) assessable units identified in the *May 2012 Financial Improvement and Audit Readiness (FIAR) Plan Status Report*. The *May 2012 FIAR Plan Status Report* provides information pertaining to the DON's accomplishments and identifies the schedule for the DON's FIP assessable units that are currently under evaluation.

The assessment was conducted in compliance with the *OMB Circular No. A-123, Appendix A*, and the *December 2011 DoD FIAR Guidance* under the oversight of the Navy's Senior Assessment Team (SAT). The DON's SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, the DON is able to provide no assurance (processes not in place to assess all controls) that the DON's internal control over financial reporting assessable units as of June 30, 2012 were operating effectively.

The DON did not complete an internal review of the effectiveness of the internal controls over the financial systems. Accordingly, the DON is able to provide no assurance (processes not in place to assess all controls) that the internal controls over the financial systems as of June 30, 2012, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-127.

The DON also asserts that the material weaknesses identified below and related corrective action(s) included in Attachment 1, are supported by the detail included in the DON Integrated Plan of Action and Milestones (POAM), Section 1, *Our Financial Environment*.

SUBJECT: Office of Management and Budget Circular A-123, Appendix A, Internal Control Over Financial Reporting

- **Material Weakness / Nonconformances**

| | |
|--|-----------------------|
| <i>Fund Balance with Treasury (GF)</i> | <i>March 2013</i> |
| <i>Reimbursable Work Orders – Grantor</i> | <i>September 2012</i> |
| <i>Transportation of People</i> | <i>September 2012</i> |
| <i>Military Equipment Assets (GF)</i> | <i>September 2017</i> |
| <i>General Equipment (GF & NWCF)</i> | <i>September 2017</i> |
| <i>Real Property Assets (GF & NWCF)</i> | <i>September 2017</i> |
| <i>Inventory (NWCF)</i> | <i>December 2014</i> |
| <i>Operating Materials & Supplies (GF)</i> | <i>September 2017</i> |
| <i>Reimbursable Work Orders – Performer</i> | <i>September 2012</i> |

- **Corrected Material Weaknesses / Nonconformances**

None



DENNIS J. TAITANO
Deputy Assistant Secretary of the Navy
(Financial Operations)

Attachment:
As Stated



DEPARTMENT OF THE NAVY
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WASHINGTON, DC 20360-3000

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7000
RFA

JUL 11 2012

MEMORANDUM FOR CHAIR, DEPARTMENT OF THE NAVY SENIOR ASSESSMENT TEAM

Subj: UNITED STATES MARINE CORPS INTERNAL CONTROL OVER FINANCIAL REPORTING END OF YEAR STATEMENT OF ASSURANCE FOR FY 2012

Ref: (a) Office of Management and Budget (OMB) Circular No. A-123, Appendix A
(b) Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Guidance December 2011
(c) Internal Control over Financial Reporting and Financial Systems Statement of Assurance Reporting Requirements
(d) SECNAVINST 5200.35E

Encl: (1) Summary of Corrective Action Plans

1. The U.S. Marine Corps conducted an internal review of the effectiveness of the internal control over financial reporting (ICFR) in accordance with the references. This review aimed to support Department of the Navy (DON) Financial Improvement and Audit Readiness (FIAR) objectives by targeting specific evaluations that strengthen the integrated objectives of the DON Statement of Budgetary Resources (SBR) Plan and the Marine Corps' approach to asset existence and completeness verification. As such, the Marine Corps can only provide assurance for select assessable units influencing the SBR focus areas highlighted in the May 2012 FIAR Plan Status Report or other areas that were referenced in previous Statement of Assurance (SOA) submissions. Therefore, I can provide no assurance on areas that are not within those listed in the May 2012 FIAR Plan Status Report or were not previously disclosed by the Marine Corps.

2. The assessment was conducted under the oversight of the Marine Corps' Senior Assessment Team (SAT). The Marine Corps SAT is designated to provide oversight in maintaining complete records of the assessment documentation. Based on the results of this assessment, the Marine Corps is able to provide a qualified SOA that the internal control over financial reporting assessable units as of June 20, 2012, were operating effectively with the exception of the material weaknesses noted below.

3. The Marine Corps also conducted a limited review of the effectiveness of internal control for four financial management systems: Global Combat Supply System - Marine Corps (GCSS-MC), Marine Corps Permanent Duty Travel (MCPDT), Purchase Request Builder (PR Builder), and Marine Corps Total Force System (MCTFS). Additionally,

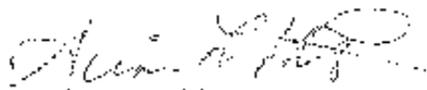
Subj: UNITED STATES MARINE CORPS INTERNAL CONTROL OVER FINANCIAL
REPORTING AND OF YEAR STATEMENT OF ASSURANCE FOR FY 2012

financial system reviews comprised analyses accomplished in support of the FY 2011 SRP audit which, with observations from the FY 2010 SRP audit, resulted in Notices of Findings and Recommendations for Marine Corps management. Corrective actions are underway; not all have been completed. The Department of Defense Office of the Inspector General (DOD OIG) characterized these findings (in aggregate) as a material weakness in Financial Management Systems.

| <u>4. Material Weaknesses</u> | <u>Corrective Action Target</u> |
|---|---------------------------------|
| Military Equipment Assets | March 2013 |
| Real Property Assets | September 2014 |
| Missing Receipt and Acceptance Supporting Documentation for Intra-governmental Transactions | September 2013 |
| Timely Recording of Obligations | September 2013 |
| Information Systems | March 2013 |

5. Other risk and internal control assessments impacting Financial Reporting, Reimbursable Orders, Procurement, Miscellaneous Payments, Transportation, and Travel were conducted. The ICOPR reviews were focused on controls around obligation and expense/voucher approvals. While results varied, none of these focus areas resulted in a material weakness. Therefore, the enclosure highlights all current, uncorrected material weaknesses which form the basis of the FY 2012 cycle SOA. Efforts are underway to address these via formalized corrective action milestones pending additional analyses and concurrence by the Marine Corps SAT.

6. If you have any questions, please contact Mr. Alex Hardisson at 703-695 3470 or by e mail at alex.hardisson@usmc.mil.



Ariane L. Whittemore
Acting Chair, U.S. Marine Corps
Senior Assessment Team

Points of Contact

The DON points of contact for the MIC Program and issues dealing with Material Weaknesses reported in the DON's FY 2012 FMFIA Statement of Assurance are:

- Mr. Dennis Taitano, DASN (FO). Mr. Taitano may be reached at (202) 685-6701, or by email at dennis.taitano@navy.mil.
- Mr. Kevin Frisby, ASN (FM&C)/Office of Financial Operations. Mr. Frisby may be reached at (202) 685-0775, or by email at kevin.frisby@navy.mil.
- Ms. Erica Gaddy, ASN (FM&C)/Office of Financial Operations. Ms. Gaddy may be reached at (202) 685-0791, DSN 352-0791, or by email at erica.gaddy@navy.mil.
- Mr. Gerald Robinson, ASN (FM&C)/Office of Financial Operations. Mr. Robinson may be reached at (202) 685-0785, DSN 352-0785, or by email at gerald.l.robinson1@navy.mil.

Acronym List

| | |
|-------------|--|
| ACAT | Acquisition Category |
| ACO | Authorized Contracting Officers |
| AFAA | Air Force Audit Agency |
| AIS | Automated Information Systems |
| AOR | Area of Responsibility |
| A&RMD | Assurance & Risk Management Division |
| AR | Audit Readiness |
| ASN | Assistant Secretary of the Navy |
| ASN (EI&E) | ASN Energy, Installations and Environment |
| ASN (FM&C) | ASN Financial Management and Comptroller |
| ASN (M&RA) | ASN Manpower and Reserve Affairs |
| ASN (RD&A) | ASN Research, Development and Acquisition |
| ASR | Accounting System Record |
| AT&L | Acquisition, Technology and Logistics |
| ATO | Authority to Operate |
| AU | Assessable Unit |
| BCA | Business Case Analysis |
| BPS | Business Process Standardization |
| BRAC | Base Realignment and Closure |
| BSO | Budget Submitting Office |
| BUMED | The Navy Bureau of Medicine and Surgery |
| BUPERS | Bureau of Naval Personnel |
| BW | Business Warehouse |
| CAC | Common Access Card |
| CCRB | Contract Requirement Review Board |
| CDM | Competency Development Model |
| CEVM | Center for Earned Value Management |
| CFR | Code of Federal Regulations |
| CIB | Contract Information Bulletin |
| CIO | Chief Information Officer |
| CIP | Construction in Progress |
| CIVPAY | Civilian Pay |
| CMC | Commandant of the Marine Corps |
| CNIC | Commander, Navy Installations Command |
| CNO | Chief of Naval Operations |
| CNR | Chief of Navy Reserve |
| COE | Center of Excellence |
| COMOPTEVFOR | Commander, Operational Test and Evaluation Force |

| | |
|------------------|---|
| COMSEC | Communications Security |
| COMNAVSPECWARCOM | U.S. Naval Special Warfare Command |
| COR | Contracting Officer's Representative |
| CORT | Contracting Officer Representative Tracking |
| CPI | Continuous Process Improvement |
| COS | Chief of Staff |
| CRRB | Contract Requirements Review Board |
| CSBs | Configuration Steering Boards |
| CTA | Career Tools Afloat |
| CVP | Contract Vendor Payment |
| DADMS | DON Application and Database Management System |
| DASN (FO) | Deputy Assistant Secretary of the Navy (Financial Operations) |
| DCAS | Defense Cash Accountability System |
| DCMA | Defense Contract Management Agency |
| DCPDS | Defense Civilian Personnel Data Systems |
| DDRS | Defense Data Repository System |
| DFARS | Defense FAR Supplement |
| DFAS | Defense Finance and Accounting Service |
| DIFMS | Defense Industrial Financial Management System |
| DITPR | DoD Information Technology Portfolio Repository |
| DISA | Defense Information Systems Agency |
| DLA | Defense Logistics Agency |
| DMDS | Defense Message Dissemination System |
| DMO | Distribution Management Office |
| DMS | Defense Messaging System |
| DNS-3 | Director of Navy Staff, Director of Management |
| DoD | Department of Defense |
| DoDI | Department of Defense Instruction |
| DoDIG | DoD Inspector General |
| DON | Department of the Navy |
| DRMO | Defense Re-utilization Marketing Management Office |
| DRPMs | Direct Reporting Program Managers |
| DTS | Defense Travel System |
| E&C | Existence & Completeness |
| EAC | Estimate at Completion |
| EC | Electronic Commerce |
| ECH | Echelon |
| ECP | Engineering Change Proposal |
| EDIPI | Electronic Data Interchange Personal Identifier |

| | |
|---------|--|
| EDS | Execution Documentation Subsystem |
| EKMS | Electronic Key Management System |
| EOD | Explosive Ordnance Disposal |
| EPA | Environmental Protection Agency |
| ERP | Enterprise Resource Planning |
| ES | End Strength |
| EVM | Earned Value Management |
| EVMS | EVM System |
| FAD | Funding Authorization Document |
| FAM | Financial Audit Manual |
| FAR | Federal Acquisition Regulation |
| FASAB | Federal Accounting Standards Advisory Board |
| FBWT | Fund Balance With Treasury |
| FEI | Financial Efficiency Index |
| FFMR | Federal Financial Management Requirements |
| FIAR | Financial Improvement and Audit Readiness |
| FIP | Financial Improvement Program |
| FIS | Financial Information System |
| FISMA | Federal Information Security Management Act |
| FM | Financial Management |
| FMB | ASN(FM&C), Office of Budget |
| FMF | Fleet Marine Force |
| FMFIA | Federal Managers' Financial Integrity Act |
| FMO | Office of Financial Operations |
| FMR | Financial Management Regulation |
| FOT | Full Operation Tempo |
| FSCR | Financial Statement Compilation and Reporting |
| FTE | Full Time Equivalents |
| FY | Fiscal Year |
| FYDP | Future Year Defense Plan |
| GAAP | Generally Accepted Accounting Principles |
| GAGAS | Generally Accepted Government Auditing Standards |
| GAO | Government Accountability Office |
| GCPS | Government Commercial Purchase Card |
| GCSS-MC | Global Combat Supply System – Marine Corps |
| GDSC | Global Distance Support Center |
| GE | General Equipment |
| HazMat | Hazardous Material |
| HHG | Household Goods |

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| HQMC | Headquarters Marine Corps |
| IBR | Integrated Baseline Review |
| ICEs | Independent Cost Estimates |
| ICOFR | Internal Controls over Financial Reporting |
| ICOFS | Internal Controls over Financial Systems |
| ICONO | Internal Controls over Non-Financial Operations |
| iNFADS | internet Naval Facilities Assets Data Store |
| IOP | Internal Operating Procedures |
| IPAC | Intra-governmental Payment and Collection |
| IPM | Internal Policy Memorandum |
| IPTs | Integrated Project Teams |
| IO | Intelligence Oversight |
| IT | Information Technology |
| ITGC | Information Technology General Control |
| IUID | Item Unique Identification |
| JV | Journal Voucher |
| KPIs | Key Performance Indicators |
| KPPs | Key Performance Parameters |
| KSAs | Key System Attributes |
| LAC | Latest Acquisition Cost |
| LFORM | Landing Forces Operational Reserve Material |
| LMS | Learning Management System |
| MAA | Mission Assurance Assessment |
| MAC | Moving Average Cost |
| MAO | Managerial Accounting Office |
| MARCORLOGCOM | Marine Corps Logistics Command |
| MARFORCOM | Marine Forces Command |
| MAUs | Major Assessable Units |
| MCO | Marine Corps Order |
| MCOTEA | Marine Corps Operational Test and Evaluation Activity |
| MCPDT | Marine Corps Permanent Duty Travel |
| MCSC | Marine Corps Systems Command |
| MCTFS | Marine Corps Total Force System |
| MDA | Milestone Decision Authority |
| MDAP | Major Defense Acquisition Program |
| ME | Military Equipment |
| MEDEVal | Medical Evaluation |
| MEDHold | Medical Hold |
| MFD | Multi-Functional Devices |

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| MIC | Managers' Internal Control |
| MICP | MIC Program |
| MILCON | Military Construction |
| MILPAY | Military Pay |
| MILSTRIP | Military Standard Requisitioning and Issue Procedures |
| MMC | Maintenance Management Center |
| MOA | Memorandums of Agreements |
| MRRS | Medical Readiness Reporting System |
| NAFL | Navy Training Management and Planning System Afloat |
| NAVAIR | Naval Air Systems Command |
| NAVAUDSVC | Naval Audit Service |
| NAVCENT | Naval Forces Central Command |
| NAVFAC | Naval Facilities Engineering Command |
| NAVIG | Naval Inspector General |
| NAVRESFORCOM | Naval Reserve Forces Command |
| NAVSEA | Naval Sea Systems Command |
| NAVSUP | Naval Supply Systems Command |
| NCB | Naval Capabilities Board |
| NCCA | Naval Center for Cost Analysis |
| NEC | Navy Enlisted Classification |
| NESIB | Navy Enterprise Senior Integration Board |
| NFR | Notice of Finding and Recommendation |
| NHC | Naval Health Clinic |
| NIAPS | Navy Information Application Product Suites |
| NICE | Navy Interface for Command Email |
| NKO | Navy Knowledge Online |
| NNWC | Navy Network Warfare Command |
| NNWF | Navy Operational Support Center Wi-Fi |
| NMCARS | Navy Marine Corps Acquisition Regulation Supplement |
| NOSC | Navy Reserve Operational Support Center |
| NOST | Navy OPSEC Support Team |
| NRC | Nuclear Regulatory Commission |
| NRDW | Navy Reserve Data Warehouse |
| NRV | Net Realizable Value |
| NSA | National Security Agency |
| OCNR | Chief of Navy Reserve |
| ODAA | Operational Designated Approving Authority |
| OGC | Office of General Counsel |
| OJAG | Office of the Judge Advocate General |

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| OM&S | Operating Materials and Supplies |
| OMB | Office of Management and Budget |
| OPNAV | Office of the Chief of Naval Operations |
| OPSEC | Operations Security |
| OSD | Office of Secretary of Defense |
| OT&E | Operational Test and Evaluation |
| PDHA | Post-Deployment Health Assessment |
| PDHRA | Post-Deployment Health Reassessment |
| PEO | Program Execution Officer |
| PERSEC | Personnel Security Program |
| PHA | Physical Health Assessment |
| PII | Personally Identifiable Information |
| PM | Program Managers |
| PMB | Performance Measurement Baseline |
| PMO | Program Management Office |
| PO | Purchase Order |
| PoAM | Plan of Action and Milestones |
| POL | Petroleum, Oils and Lubricants |
| PPB | Production Plant Barstow |
| PPBE | Planning, Programming, Budgeting, and Execution |
| PR | Purchase Request |
| PSI | Personnel Security Investigations |
| QA | Quality Assurance |
| R3B | Resources and Requirements Review Board |
| RD&A | Research, Development and Acquisition |
| RDT&E | Research Development Test and Evaluation |
| RP | Real Property |
| RWIPT | Risk Working-level Integrated Product Team |
| RWO-G | Reimbursable Work Order - Grantor |
| RWO-P | Reimbursable Work Order – Performer |
| SABRS | Standard Accounting, Budgeting and Reporting System |
| SAT | Senior Assessment Team |
| SBR | Statement of Budgetary Resources |
| SECNAV | Secretary of the Navy |
| SECNAVINST | SECNAV Instruction |
| SELRES | Selected Reserve |
| SERTO | South East Region Travel Orders |
| SFIS | Standard Financial Information Structure |
| SLDCADA | Standard Labor Data Collection and Distribution Application |

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| SOA | Statement of Assurance |
| SOP | Standard Operating Procedure |
| SPAWAR | Space and Naval Warfare Systems Command |
| SSAE | Statement on Standards for Attestation Engagement |
| SSBI | Single Scope Background Investigations |
| SSC | SPAWAR Systems Command |
| SSN | Social Security Number |
| SWRMC | Southwest Regional Maintenance Center |
| SYSCOM | Systems Command |
| TDY | Temporary Duty |
| TOA | Total Obligation Authority |
| TOP | Transportation Of People |
| TOPA | Travel Order Processing Application |
| ToT | Transportation of Things |
| TECOM | Training and Education Command |
| TPOCS | Third Party Outpatient Collection System |
| TWMS | Total Workforce Management System |
| UAE | Uninstalled Aircraft Engines |
| UMD | Unmatched Disbursements |
| UBO | Uniform Business Office |
| UNSECNAV | Under Secretary of the Navy |
| USFFC | United States Fleet Forces Command |
| USMC | United States Marine Corps |
| VCNO | Vice Chief of Naval Operations |
| WCF | Working Capital Fund |
| WeBAD | Web-Based Appeal Database |
| WYPC | Work Year Personnel Cost |

FEDERAL MANAGERS'
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FY 2012



DEPARTMENT OF THE NAVY
