
FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2010

STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

SEP 01 2010

MEMORANDUM FOR SECRETARY OF DEFENSE

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

As the Under Secretary of the Navy, I recognize that Department of the Navy (DON) managers are responsible for establishing and maintaining effective internal controls to meet the FMFIA objectives. Information to support this certification statement was derived from information provided by lower level subordinate command management through their FMFIA Certification Statements, audits, inspections, management reviews, and insight gained from daily operations of programs and functions. TAB A-1 provides information on how DON conducted the assessment of internal controls consistent with OMB Circular A-123, "Management's Responsibility for Internal Control." In addition, TAB A-2 provides a summary of significant accomplishments achieved during the reporting period to improve the overall Department's internal control environment.

For the Fiscal Year 2010 reporting period, the DON has identified three new material weaknesses: Safeguarding Personally Identifiable Information, The Effective Use of Earned Value Management Across Navy Shipbuilding Programs, and Attenuating Hazardous Noise in Acquisition and Weapon System Design. Combined with one unresolved prior period material weaknesses, the DON will have four material weaknesses to report. TAB B provides an individual narrative for each uncorrected material weakness. As of the date of this memorandum, I am able to provide a qualified statement of reasonable assurance that the DON's system of internal controls over non-financial operations meets the FMFIA administrative and operational objectives.

The DON conducted assessments of the effectiveness of the DON General Fund's internal control over financial reporting for the following implementation areas: Collections and Disbursements, Procure to Pay Processes, Real Property, General Equipment, Military Equipment, and Operating Materials and Supplies. The DON also conducted assessments of the effectiveness of the Navy Working Capital Fund's internal control over financial reporting for: Collections and Disbursements, Procure to Pay Processes, Inventory, Real Property, and General Equipment. These assessments were conducted in strict compliance with the OMB Circular A-123, Appendix A, and as directed by Department of Defense (DoD) guidance under the oversight of a Senior Assessment Team, which is maintaining complete records of the assessment documentation.

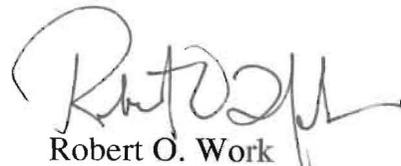
SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act (FMFIA)

Despite the progress our Navy and Marine Corps team has made in improving financial management processes, evidence of even greater gaps and challenges than previously recognized have been discovered in existing financial reporting processes. Until our testing results demonstrate that a greater degree of our remediation actions are sustainable, we will continue to assert no assurance on the effectiveness of our internal controls over financial reporting for both the DON General Fund and the Navy Working Capital Fund. Progress on corrective actions related to prior period material weaknesses are described in TAB D for the DON General Fund and TAB E for the Navy Working Capital Fund.

A new category was added this year to address internal controls over Integrated Financial Management Systems (IFMS) and their ability to comply with the Federal Financial Management Improvement Act. According to guidelines set by OUSD(C), the financial management systems owned by the DON or those operated by service organizations to support DON financial operations must be validated by a qualified independent auditor. As of the date of this memorandum, I am able to assert that the DON IFMS is non-compliant. The DON will work with its service organizations to determine a realistic timeline for achieving compliance.

The 2010 DON Statement of Assurance reflects the continuing enhancement of the Department's internal control environment and activities from prior years. Commands continue to utilize process improvement methodologies to make managers' control programs more timely and meaningful. This robust program, increased self-reporting activity, and the resulting transparency serve to support my assurance that the DON's systems of internal control are being managed effectively to ensure good stewardship, enhance decision-making capability, and comply with Office of the Secretary of Defense policy.

My point of contact is Mr. Michael Moreau. He may be reached at 202-433-4077 or michael.moreau@navy.mil.



Robert O. Work
Under Secretary of the Navy

Attachments:
As stated

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT INTERNAL CONTROL EVALUATION PROCESS

Reporting Fiscal Year

The Statement of Assurance (SOA) provides an adequate and timely assessment of Department of the Navy (DON) internal controls and discloses Material Weaknesses identified during the 12 month period from 1 July 2009 to 30 June 2010. This established timeframe allows the DON to obtain input from its Major Assessable Units (MAUs) and provide comprehensive plans and schedules to correct any identified deficiencies.

Concept of Reasonable Assurance

The DON senior management evaluated the systems of internal accounting and administrative control in effect during the reporting period according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, "*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 (FMFIA) of 1982, and codified under Title 31 of the United States Code. Included is an 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 senior managers with reasonable assurance that:

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

The evaluation of internal controls 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 to be derived, and (2) the benefits include reducing 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, and 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.

Determination of Reasonable Assurance Status

The accomplishments included in TAB A-2, along with financial process improvements, closure of audit report recommendations, and self-reporting, are the best indicators that internal controls are in place and effective. Success in achieving the Department's objectives continues to increase the effectiveness of the entire Department, improve the lives of Sailors, Marines and all DON employees, and results in greater security for the Nation. The DON Managers' Internal Control (MIC) Program is the administrative vehicle for monitoring the Department's systems of internal control. The MIC Program is decentralized and encompasses both shore commands and afloat forces. 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 MIC Program, which includes developing operational policies and procedures, coordinating reporting efforts, and performing oversight reviews. Primary responsibility for program execution and reporting resides within a network of 20 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 MAUs provide SECNAV with their own annual FMFIA Certification Statements. These certification statements are used as the primary source documents for the SECNAV's determination of reasonable assurance over the effectiveness of the overall Department's systems of internal control.

In addition, the DON's Auditor General, in collaboration with the ASN(FM&C)'s Office of Financial Operations (FMO), is responsible for reviewing significant Department-level audit reports and identifying deficiencies that could potentially have a material impact on DON operations. The high degree of collaboration and communication between FMO's MIC program coordinators and Naval Audit Service (NAVAUDSVC) has resulted in a consistent and comprehensive perspective on the DON's internal control position. The internal control self-assessments provided by the DON's senior managers and the ongoing external perspective provided in program audits serve as the two major inputs to the DON SOA.

Internal Control Over Non-Financial Operations

The DON is committed to full disclosure of Material Weaknesses and re-establishing effective controls in those specific areas. We recognize the complementary role of government internal review organizations such as the Naval Audit Service, the Offices of the Inspectors General, and the Naval Criminal Investigative Service in providing areas where control deficiencies are likely. Any areas identified as having a control deficiency are highlighted to the MAUs quarterly for broad management assessment. Any Material Weaknesses reported in this SOA reflect the close collaboration with these oversight organizations.

The NAVAUDSVC is currently validating the effectiveness of corrective actions listed as complete in FY 2009 in the following areas: (1) Marine Corps Small Arms Reporting; (2) Contingency Planning (CP) and CP Testing Management; (3) Oversight of Earned Value Management (EVM) for Naval Acquisition Programs; (4) Safeguarding Personally Identifiable

Information; (5) Continuity Planning Program; and (6) Management and Oversight of the Department of the Navy's Telecommunication Program.

While the MIC Program is an active, on-going collaborative effort throughout the DON, it is the periodic review by senior leadership on the status of current or potential internal control deficiencies that will keep the program viable. The DON evaluated the systems of internal control over non-financial operations reported by the MAUs in accordance with the OMB guidelines. Based on the certification statements provided by the MAUs, and the joint NAVAUDSVC/ASN(FM&C) evaluation process, there are three new material weaknesses concerning Personally Identifiable Information, Earned Value Management, and Hazardous Noise being reported in FY 2010 (Tab B-2). Additionally, TAB B-2 addresses one prior period weakness: Management of Communications Security (COMSEC) Equipment, which has corrective action plans extending into FY 2011. Activity to address the weakness Earned Value Management of Littoral Combat Ships (LCS) 1 and 2 has been incorporated into the new EVM weakness that addresses all DON shipbuilding programs.

Internal Control Over Financial Reporting

As specified in Department of Defense (DoD) Instruction 5010.40, "*Managers' Internal Control Program Procedures*," the DON has separate statements of assurance for Internal Control Over Financial Reporting (ICOFR). This document includes material internal control weaknesses relating to financial reporting processes and the Department's plans to correct them.

The DON continues to implement a process that will over time support 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 the Defense Finance and Accounting Service (DFAS) to streamline the processes for Civilian Labor, Military Labor, Funds Receipt and Distribution, Fund Balance with Treasury, and Reimbursable Work Orders.

In FY 2010, the DON continued a new level of partnership with DFAS-Cleveland (CL) that has resulted in an ongoing exchange and review of ICOFR work products across all required segments. This review has generated gap analyses, reconciliation activities and general discussion which will serve to inform and improve our joint approach to the FY 2011 ICOFR reporting cycle. It has also enabled both the DON and DFAS to more efficiently leverage joint resources to reduce re-work.

FY 2010 marked the end of the Navy's reporting on the Afloat Prepositioning Debt segment, as the referenced debt was liquidated at the close of FY 2009, rendering the segment inactive. The DON also expanded its footprint of audit-ready segments, adding an assertion on Civilian Labor to the previously asserted Accrued Environmental Restoration Liabilities, Liabilities for Base Realignment and Closure Installations, Cash and Other Monetary Assets, Contingent Legal Liabilities for Existing/Pending Litigation, Environmental Liabilities for Conventional and Nuclear Weapons Systems, Other Accrued Environmental Liabilities, Funds Receipt and Distribution, and Investments segments. Planned assertion of the Collections and Disbursements portion of the Fund Balance with Treasury segment was delayed due to a combination of

refocused DoD priorities and lessons learned during the control assessment and testing processes. However, we are preparing to assert audit readiness for Existence and Completeness over Mission Critical Assets (Ships and Submarines, Aircraft, Ordnance, Intercontinental Ballistic Missiles and Satellites), a portion of the Military Equipment segment, and Transportation of People, a portion of the Procure-to-Pay segment, by 30 September 2010.

In other Balance Sheet property-related segments, the DON has de-prioritized valuation of assets in order to further the assertion of their existence and completeness and the Statement of Budgetary Resources (SBR). In the Real Property processes, we are currently implementing corrective actions based on previous years' test results. The General Equipment segment is currently in the "Discovery" phase of the internal control evaluation cycle, and we are implementing initial corrective actions as identified in this phase. Finally, for Inventory and Related Property, the DON is relying on the implementation of Navy Enterprise Resource Planning (ERP) release 1.1 to address control and audit readiness weaknesses.

In FY 2010 FMO continued efforts to provide support to Navy and Marine Corps personnel who are instrumental in documenting and testing internal controls in our financial reporting process. The DON Financial Improvement Program (FIP) Conference, held in January 2010, allowed the FMO FIP team to communicate the latest developments and priorities within the ICOFR and audit readiness areas. The conference was preceded by a full day of off-site training for command FIP coordinators.

As financial improvement and audit readiness efforts are taking place largely within the DON commands, other 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 to this training, the FMO FIP continues its successful weekly "office hours", 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. FMO also made great strides in its preparation to launch an automated guidance tool for risk management and financial improvement practitioners across the DON.

Finally, through the DON FIP discovery process, documentation efforts continue to prepare other General and Navy Working Capital Fund ICOFR segments for future ICOFR reporting cycles, as the DON moves towards its objective of asserting audit readiness over all financial reporting segments.

In accordance with CFO Act requirements, the Marine Corps has been authorized to proceed with an independent, external financial statement audit of its SBR for FY 2010. The DoD Inspector General (DoDIG), with support from an independent public accountant, has been conducting the SBR audit. Focusing on improved financial reporting, the Marine Corps continued an aggressive ICOFR program following the requirements of OMB Circular A-123, Appendix A. The Marine Corps accomplished an "Auditor's Lens" documentation review of specified business processes and re-packaged the processes from those previously developed, to help auditors and others understand Marine Corps' financial processes. Although documentation of the processes continues, the revised process descriptions have been used to help identify key

controls to test. Training conferences were conducted with field financial analysis teams to prepare them for accomplishing ICOFR control tests and supporting the SBR financial statement audit.

In preparation for the audit, Marine Corps assessed the financial management environment to identify dependencies, risks, and gaps, and linked the Marine Corps systems environment, providing traceability from requirements generation to financial statement presentation. They have demonstrated a sustainable audit trail and capability for documentation retrieval and have shown linkage from the detail transactions recorded and reported in the General Ledger (G/L) and the Financial Statement Line.

The ongoing SBR audit has challenged Marine Corps to distinguish areas for improvement from areas that are working well. The audit inquiries and systems reviews have sharpened their focus on their own risk areas and also have identified areas where support providers need to improve their focus; a lesson other DoD organizations may find valuable as they move toward audit readiness.

The Marine Corps continues to improve controls around its financial systems. While preparing for the FY 2010 audit of the SBR, the Marine Corps has intensified efforts to strengthen its financial systems' control environment. The Marine Corps is currently undergoing information technology (IT) control testing 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 operating effectively.

While the external IT testing is currently underway, the Marine Corps continues to update its Service Level Agreements and Memorandums of Agreement/Understanding with its partner service providers to ensure that interfaces are kept current and that roles and responsibilities are clearly set forth in writing. The Marine Corps is continuing to foster cooperative relationships with business partners including DFAS, Business Transformation Agency (BTA), and Defense Logistics Agency (DLA), among others.

Despite the progress our Navy and Marine Corps team has made in improving financial management processes, evidence of even greater gaps and challenges than previously recognized have been discovered in existing financial reporting processes. Until our testing results demonstrate that a greater degree of our remediation actions are sustainable, we will continue to assert no assurance on the effectiveness of our internal controls over financial reporting for both the DON General Fund and the Navy Working Capital Fund. Progress on corrective actions related to prior period material weaknesses are described in TAB D for the DON General Fund and TAB E for the Navy Working Capital Fund.

Internal Control Over Financial Systems

In support of the Federal Financial Management Improvement Act (FFMIA) compliance, a Financial Management (FM) compliance assessment was performed in conjunction with Navy ERP Release 1.1 Integrated System Testing (IST) to determine how effectively Navy ERP could

record and report financial management data in compliance with DoD and Federal Financial Management Regulations.

FMO collaborated with DFAS and Navy ERP subject matter experts (SMEs) to map the applicable requirements to transactions within specific Functional Business Areas where the systems compliance with the requirement could be demonstrated. The Compliance Assessment Test Team determined the Navy ERP solution was significantly compliant (96.2 percent) with the applicable requirements selected from the DFAS Blue Book. Commencing with Navy ERP implementation at Naval Air Systems Command (NAVAIR), FMO instituted a data validation requirement as part of the overall compliance methodology for deployment of Navy ERP across all commands.

As part of the go-live compliance assessment for the Navy ERP implementation at SPAWAR, a combined FMO/DFAS team was assigned the task of validating that all legacy systems' G/L ending balances matched the Navy ERP G/L beginning balances. The validation method focused on comparing the G/L balances within each trial balance. Data obtained from the legacy system was not validated against source documents; instead, the FMO/DFAS Validation Team used multiple crosswalk tables, which mapped each legacy system's U.S. Standard General Ledger (USSGL) accounts to Navy ERP's USSGL accounts.

The FMO/DFAS Validation Team tracked the percentage of G/L balances aligned between the legacy systems and Navy ERP. Initially, 75 percent of the G/L balances contained within the 568 trial balances were consistent. The final results showed 99.67 percent of the G/L account balances passed. The variances that initially failed were corrected during catch up/Full Operational Tempo (FOT). Overall, the FMO/DFAS validation confirmed the data conversion from SPAWAR legacy systems to Navy ERP was completed successfully.

FMO also oversees the DON Financial Management Automated Information Systems (AIS) portfolio. One of FMO's major challenges is to orchestrate the DON Commands' compliance to various AIS requirements. These requirements include: (1) identification and completion of the Department of Defense Information Technology Portfolio Repository (DITPR), (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.

Despite this and similar examples of how the DON is evaluating the effectiveness of its integrated financial management system, per the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) guidance the system as a whole will be considered non-compliant because though our system has been defined, it has not been fully implemented.

Acquisition

As required by OMB Circular A-123, the DON provides this summary of its Assessment of Internal Control over Acquisition Functions using the guidelines set forth in OMB Circular A-123 and Office of the Secretary of Defense, Acquisition Technology and Logistics (OSD(AT&L)) Guidance. This effort focused on determining whether any (new) deficiencies or material weaknesses exist within DON and associated corrective action plans.

For the initial Assessment of Acquisition Functions, DON 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). This year’s assessment reviewed these types of elements captured in Assistant Secretary of the Navy, Research, Development and Acquisition (ASN(RD&A)) implementing actions resulting from various auditing agency report findings and associated recommendations.

DoDI 5000.02 provides control environments for implementing the Defense Acquisition System. SECNAVINST 5000.2D of 16 October 2008, “*Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System*” serves as the fundamental internal control policy for implementation and compliance with the statutory and regulatory requirements of DoDI 5000.02. SECNAVINST 5000.2D applies to all acquisition programs, Abbreviated Acquisition Programs, non-acquisition programs, and Rapid Deployment Capability programs.

The DON Gate Review process, as set forth in SECNAVINST 5000.2D, is the primary internal control mechanism to ensure compliance with control environments flowing from the DoDI 5000.02. The Gate Review process provides oversight 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.

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.

Program Decision Meetings (PDM) as set forth in SECNAVINST 5420.188F, “*Acquisition Category (ACAT) Program Decision Process*”, are being incorporated into the Gate Review process and associated guidance is provided in the current draft update of SECNAVINST 5000.2D. PDMs provide the forum for the Component Acquisition Executive to review program cost, schedule and performance in preparation for a key acquisition decision.

SECNAVINST 5400.15C of 13 SEP 07, “*Department of the Navy, Research, Development and Acquisition, and Associated Life-Cycle Management Responsibilities*”, documents the duties and responsibilities of ASN(RD&A); Program Executive Officers (PEOs); Direct Reporting Program Managers (DRPMs); CNO; CMC; and Systems Command (SYSCOM) Commanders. 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 5400.15C 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.

The ASN(RD&A) Dashboard system is a live database that provides SECNAV, ASN(RD&A), the Office of the CNO (OPNAV), Headquarters Marine Corps, 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. The dashboard requires general information regarding program milestones and status; and detailed information addressing program assessment, budget information, and metrics information, and now provides standardized briefing templates required for PMs to present at Gate Review meetings. The briefing templates for each Gate Review require specific information relative to the program's progress in the acquisition life cycle.

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, the Systems Engineering Technical Review (SETR) process; the Naval Capabilities Board (NCB); Resources and Requirements Review Board (R3B); 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 SETR process serves as the foundation for program development stages supporting PDMs and Gate Reviews. The SETR policy establishes that DON Systems Commands shall assign, in writing, a Government employee to chair the Technical Review Board (TRB) for each SETR event defined in the program Systems Engineering Plan (SEP). The TRB Chair shall be independent from the program and is normally a senior individual from the Naval SYSCOM technical authority chain with technical expertise relevant to the program. SETR events include system, functional, design, test and production readiness reviews. PMs must address the results of SETR events, along with the technical risk assessments, as required by each Gate Review.

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.

DON has implemented DoD's requirement for annual CSBs by integrating this function into the Gate Review process. ASN(RD&A), as the 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 for which DON is the lead. 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 Deputy Assistant Secretary of the Navy (Cost and Economics). Differences in estimates are noted, explained, and documented in a memorandum from NCCA to ASN(RD&A) and ASN(FM&C).

The Commander, Operational Test and Evaluation Force (COMOPTEVFOR) and Director, Marine Corps Operational Test and Evaluation Activity (MCOTEA) 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 the CNO for all programs and those configuration changes selected for OT&E.

Integrated Product Teams (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 5000.2D, for PEOs, SYSCOMs, DRPMs, and PMs to ensure separation of functions so the authority to conduct oversight, source selection, contract negotiations/award does not reside in one person.

Possible Performance Gaps and Corrective Actions

Gap 1: DoDIG and the Defense Science Board (DSB) have released reports indicating material internal control deficiencies in the DON process for rapidly acquiring and fielding of materiel solutions to urgent needs requests.

Corrective Action: DON published an update to SECNAV Notice 5000 addressing Urgent Needs Process policy on 12 March 2009, as a result of a continuous process improvement effort. The document defines the DON Urgent Needs Process (UNP) and provides guidance for the submission, processing, and response to urgent needs. This Notice incorporates lessons learned and best practices from the Navy, Marine Corps, and Joint Staff processes and establishes overarching DON governance of a uniform process across the Navy and Marine Corps. The UNP ends with the delivery of a solution that meets an acceptable level of performance, timeline, and quantities as defined by the operating forces, and includes a handoff for sustainment and consideration within the deliberate process. Note: The UNP SECNAVNOTE 5000 has been incorporated into SECNAVINST 5000.2E, which is currently in staffing for signature.

Gap 2: The NAVAUDSVC released a report identifying various systemic internal control deficiencies in DON management of exposure to hazardous noise during systems acquisition.

Corrective Action: By 30 December 2010, ASN(RD&A), OPNAV, HQMC, Navy Bureau of Medicine (BUMED), and the SYSCOMs will set up an Enterprise-level oversight group to establish policy, implement processes, and provide control mechanisms as recommended in the audit report.

Gap 3: 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.

Gap 4: GAO reports recommend improvements in the DoD Acquisition Workforce.

Corrective Action: The DON has developed an Acquisition Workforce (AWF) Strategic Plan which is built upon a six-pillar foundation that recognizes the need to (1) rebalance the current workforce (contractor and government), (2) make AWF a part of the DON's annual planning, programming, and budgeting system, (3) strengthen DON's science and engineering domain expertise, (4) improve program management, contracting, and business competencies, (5) deliberately manage leadership acquisition billets, and (6) sustain the AWF. This plan has been vetted throughout OSD and DON and was signed out in August 2010.

Based upon the growth strategies identified in the DON Strategic Plan, specific targeted hiring goals have been identified for core competencies in order to re-balance the AWF with a strong focus on Science and Technology, and Business skills (Contracting, PM, Cost Estimating). Growth plans have been developed and implemented to reach these goals. A POM-12 issue paper was funded for Section 852 Workforce growth. Quarterly reviews are held with the Commands (Budget Submitting Offices) to assess where they are at in executing their growth plans and to determine if any corrective actions need to be put into place. Based upon the quarterly reviews, DON is on-track to meeting the FY 2010 Goals just one year into the execution of the Growth plan.

DON MIC Program Training

The DON MIC Program continues to expand, reaching managers and coordinators at all levels of the Department. In FY 2010, we undertook an extensive update of our computer based training courses, “*MIC Program Training for Coordinators*” and “*MIC Training for Managers*”. These courses have been available on Navy Knowledge Online, the DON’s web-based knowledge sharing portal, since 2005 ensuring that internal controls and MIC Program training has the widest dissemination possible. The courses provide coordinators and managers information on the basics of internal controls, their role in the federal government, the DON MIC Program, and reporting through the annual Statement of Assurance. The content has been re-organized to provide a better flow of subject matter with examples and interactive features to provide context to the presented material. Additionally, the new coordinator’s course incorporates the use of case study tracks, chosen by the student, to reinforce the content in a consistent, relevant way throughout the course.

Points of Contact

The DON points of contact for the MIC Program and issues dealing with Material Weaknesses reported in the DON’s FY 2010 FMFIA Statement of Assurance are:

- Mr. Dennis Taitano, DASN Financial Operations. Mr. Taitano may be reached at (202) 685-6701, or by email at dennis.taitano@navy.mil.
- Ms. Nancy McDermott, ASN(FM&C)/Office of Financial Operations. Ms. McDermott may be reached at (202) 433-4064, or by email at nancy.l.mcdermott@navy.mil.
- Mr. Michael Moreau, ASN(FM&C)/Office of Financial Operations. Mr. Moreau may be reached at (202) 433-4077, DSN 288-4077, or by email at michael.moreau@navy.mil.

MANAGERS' INTERNAL CONTROL (MIC) PROGRAM AND RELATED ACCOMPLISHMENTS

The numerous MIC accomplishments reported in fiscal year FY 2010 reflect a continued Department of the Navy (DON)-wide emphasis on an improved and strengthened MIC Program not only at the highest levels of reporting – the DON's Major Assessable Units (MAUs) – but also throughout the reporting structure. The most significant MIC Program and mission related accomplishments achieved during FY 2010 are highlighted in this section. These improvements relate directly to the DON MIC Program, process improvements, and internal controls over financial reporting across the DON.

STRENGTHENING DON MANAGERS' INTERNAL CONTROLS

ASSISTANT SECRETARY OF THE NAVY (MANPOWER AND RESERVE AFFAIRS) (ASN(M&RA))

Using Statement of Assurance (SOA) Website: In the past, ASN(M&RA)'s SOA was generated, although not fully in compliance with the MIC Program. The full understanding of non-fiscal uses was not applied and there were no issues addressed. This year large risks were addressed along with controls put into place and in many cases, the first evaluation of those controls was completed and validated. ASN(M&RA) was not in compliance with the MIC Program before this year. Now, ASN(M&RA) has demonstrated compliance, performing a thorough scrub of section responsibilities.

CHIEF OF NAVAL OPERATIONS (CNO)

Commander, Navy Installations Command (CNIC) Headquarters (HQ) - MIC SharePoint Automated Tool Development (CNIC): The MIC Program reporting process was previously a manual, labor intensive and time consuming process for Regions, Installations, and Regional Inspector General Offices (OIGs). This process did not allow visibility of high risk program areas or assessments conducted throughout the enterprise. A written SOA is required from each Installation Commanding Officer (ICO) to be submitted to the Regional Commander (REGCOM) as part of the Commanders' SOA package to CNIC. The CNIC Inspector General (IG) team leveraged with Commander, Navy Region Mid-Atlantic (CNRMA) to develop an automated certification process for collecting risk and program assessments, and identify all Assessable Units (AUs) segregated by region, program, and installation. The tool uses the Microsoft SharePoint interface on the CNIC Gateway and collects data throughout the year. The CNIC IG team partnered with CNRMA to develop and deploy the web-based tool to all CNIC regions, installations, and HQ. Using the tool, REGCOMs, Regional Program Directors (RPDs), and ICOs can quickly view information related to all AUs under their area of responsibility.

The new MIC SharePoint tool potentially reduces submission paperwork to almost zero, and enhances transparency, identifies weaknesses, facilitates communication between the RPDs and the ICOs, and supports the REGCOM's SOA. Responsible managers are provided real-time data

on risks and weaknesses affecting their programs. Each site contains MIC instructions and forms with links to training and other Office of Financial Operations (FMO), DON, and Department of Defense (DoD) MIC information. CNIC has deployed the tool to 9 out of 10 regions, and anticipates deployment to all regions and HQ by 1 Jul 10.

MIC Program Development (Commander, Pacific Fleet (COMPACFLT)): The MIC Program is responsible for maintaining a sustained risk management function for the DON. The Comptroller department at COMPACFLT recently assumed control of the program and found that it lacked the framework needed to be a sustainable, value-added program of the Command. COMPACFLT has spearheaded improvements in the program by undertaking efforts to create a more collaborative and sustainable integrated risk management function for overall controls, financial controls, and financial systems controls. Accomplishments include:

- Developing a property management program to more effectively monitor and track financial assets
- Completing testing to support DON financial statement assertion for Funds Receipt and Distribution (FRD) and Civilian Payroll processes, including developing a sustainment strategy for testing in future fiscal years (FYs)
- Creating Civilian Payroll standardized process documentation to be used as a pilot for future business process documentation
- Completing a quantitative and qualitative financial risk assessment to support prioritization of business processes and locations for COMPACFLT
- Enhancing the vulnerability assessments completed by each AU during the FY 2010 SOA process, creating a more interactive assessment, and
- Creating a governance structure which defined roles and responsibilities to support the controls over financial reporting.

MIC Improvements (Naval Postgraduate School (NPS)): Prior to FY 2008, the MIC Program did not receive adequate attention at the NPS. The NPS MIC Program has been developed into a major program that receives command-level support and resources in terms of time, effort and energy. In recent years, required documentation submission rates for the MIC Program have increased from approximately 33 percent in FY 2008 to nearly 100 percent in FY 2010.

The process of coordinating the submission of required documentation has been refined over the past three years to its current state, where document submissions are done electronically via a MIC Program SharePoint site. The SharePoint site allows AU managers and MIC Program coordinators to readily collaborate on information and ideas regarding process evaluation and internal controls. The structure of the MIC Program has also been improved organizationally to provide users a more intuitive interface, and allow them more control over their own current-year library, while ensuring integrity of previous years' submissions for historical documentation.

MIC Program training is conducted frequently, including all-hands and as-needed training, ensuring a broad understanding of the program and of its requirements.

PROCESS IMPROVEMENT

ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER) (ASN(FM&C))

Financial Efficiency Index (FEI) (Office of Budget (FMB)): The FEI application is a web-based tracking system to monitor daily execution performance of Budget Submitting Offices (BSOs) by appropriation account utilizing daily Enterprise Resource Planning (ERP) and DFAS Standardized Accounting & Reporting System (STARS) - Field Level (FL) and Headquarters Claimant Module (HCM) data files. FEI was developed in 2005 to provide senior Department of the Navy (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 targets. Initially, current year obligation targets were calculated based on Office of the Secretary of Defense (OSD) historical obligation rates. Based upon FMB analyst and BSO feedback, the FEI was modified to compare current year performance to BSO spend plans, vice straight line plans, in order to provide improved, realistic comparative data for analysis. The FEI now ties to the monthly obligation phasing plans submitted by the BSOs which feed into the OSD Executive Dashboard vice calculated monthly obligation targets based on historical obligation rates. Additionally, variance explanations are now required for expiring and canceling year accounts to improve focus, understanding, and overall funds management.

Major Defense Acquisition Program (MDAP) Sub-Program Information (FMB): The Program Budget Information System (PBIS) is the DON's formal database for tracking programming, budgeting and execution activity through the budget cycle. PBIS has been enhanced to address a new acquisition information field, MDAP Sub-Program (MDAP2). Previously, OSD did not track MDAP2; however, renewed interest in Selected Acquisition Program Reporting (SAR) by Congress has resulted in a requirement to improve MDAP data accuracy further. In the case where MDAP programs are providing equipment to other MDAP programs, an MDAP2 is occurring. SARs were not doing a good job of reporting other MDAP2s. The result was Congressional action directing improvement in this area. For the Fiscal Year (FY) 2012 budget cycle, OSD directed the Services to be able to provide the required MDAP2 information in conjunction with the Department standard budget estimate submission. FMB Program/Budget Coordination Division (FMB-3) formalized these data fields that describe the MDAP2 programs so that there would be consistency in all future submissions. FMB-3 obtained current mapping for the five programs that have MDAP2 data. Advance coordination with the PBIS contractor resulted in the new field being coded into PBIS. FMB-3 then coordinated with the Office of the Chief of Naval Operations (OPNAV) to have the MDAP2 field updated during the Program Objective Memorandum for FY 2012 (POM12) process. The information is now resident in PBIS and can be used to crosscheck future SAR information to aid in improving the Department's submission.

Overseas Contingency Operations (OCO) Budget Information (FMB): PBIS has been enhanced to address six new OCO data requirements. Previously, OSD developed OCO data details offline in an informal access database which was constantly being changed by Service and OSD users. The result was significant frustration in tracking the final control of Department

OCO funding requests and lack of formality, which resulted in significant rework. For the FY 2012 budget cycle, OSD directed that the Services be able to provide the required detailed OCO information instead of the legacy process. FMB-3 formalized these data fields that describe the OCO so that there would be consistency in all future submissions. A secondary goal was to reduce the amount of work associated with the creation of the information. The result was to leverage automation in PBIS and specific business rules for the data to reduce the amount of manpower required for this effort. FMB-3 obtained current mapping for the new fields and created crosswalks such that four of the six fields could be derived from existing budgetary data to the maximum extent possible. The result was that the majority of the information is now derived in PBIS with the exception of combinations where a budgetary entry maps to several possible field codes for the OCO data, thereby forcing a system user to enter this data manually. The new fields are described below:

- *OCO Operation (OCO OP)* describes the contingency operation that the requested or appropriated funding supports. The information must be entered by the system user.
- *OCO Category (OCO CAT)* provides a detailed listing of the types of effort the funding supports within a given operation. The information must be entered by the system user.
- *Repair, Replacement, Replenish (3R)* highlights the type of activity the OCO funding will provide from a depot/logistics focus. This field is derived from budgetary information in PBIS.
- *Equipment Use (EU)* highlights, for Procurement, the general use for the equipment being purchased based on OSD directed categories. This field is derived from budgetary information in PBIS.
- *Equipment Other (EO)* highlights, for Procurement, the specific use for munitions, aviation, and ground equipment being purchased based on OSD directed categories. This field is derived from budgetary information in PBIS.
- *Cost Breakdown Structure (CBS)* highlights, for all appropriations, the general use of the funding based on OSD CBS codes from the Financial Management Regulation (FMR). This field is derived from budgetary information in PBIS.

This enables an improvement in the timeliness, responsiveness, and level of detail of DON OCO information.

Research, Development, Test and Evaluation, Navy (RDTEN) Budget Justification Documents (RDOCS) Application (FMB Investment and Development Division (FMB-2) & FMB-3): The Office of the Under Secretary of Defense (Comptroller) (OUSDC) wanted to transition to RDOCS to force compliance with their interpretation of the FMR and to provide a common format for budgets being provided to Congress. RDOCS automated all the number checks that FMB analysts (and OUSDC analysts) are required to do. This allowed the analysts to concentrate on content rather than math consistency or format. The desire was to develop a system that could be used from first data entry all the way up. Developing a system that could be used easily by all the BSOs was a challenge. Some BSOs already had automation for producing the budget and other exhibits did not lend themselves to fitting into a mold. That required developing a flow control that could be used by BSOs that each had their own unique workflow structure. Security was also a concern. Existing structures that were in place for other FMB applications were used to ensure data integrity; however, it was also important that the BSOs

would be free to draft their budgets without outside review of their plans until they had a coherent plan. OSD changed the schema several times during development. FMB-3 staff was the lead programmer for the RDOCS effort, responsible for the majority of the design and programming of RDOCS, which is being used by about 300 users in 14 BSOs and FMB. RDOCS went from concept to prototype in four months; then from prototype to production in one-and-a-half months. The RDOCS application is intended to assist the BSOs in collecting the information needed to produce required RDTEN Budget Exhibits.

Safeguarding Personal Identifiable Information (PII) used in DON Civilian Pay Assertion (Office of Financial Operations (FMO)): To support testing DON civilian pay transactions, DFAS passed DON initial data sets which contained PII data. The DON Financial Improvement Program (FIP) Team and DFAS immediately convened and established strong, effective controls on this data. DFAS used a restricted access section of its ePortal to pass data sets, and the DON FIP severely limited access to the data as it conducted testing. The FIP Team developed data handling controls based on DoD/DON guidance and on commercial best practices. It conducted extensive training sessions on the handling of data and it ensured that none of the PII was retained after testing. DFAS quickly developed the capability of blanking or deleting PII from Civilian Pay data sets it passed for testing.

CHIEF OF NAVAL OPERATIONS (CNO)
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Analysis of Suspended Expenditures (Bureau of Naval Personnel (BUPERS)): BUPERS Operations and Maintenance, Navy (OMN) accounting staff (PERS 7043) located in Pensacola, FL, has established the practice of carefully reviewing and analyzing problem expenditures in order to preclude recurrence. Problem expenditures are transactions that do not match an obligation for an activity. They can be unmatched disbursements (UMDs) where the line of accounting (LOA) is valid, but the document did not find an obligation or the obligation was insufficient to post; or UMDs where expenditures have been paid, but the LOA is incorrect so it did not post to the specific general ledger (G/L) where it belongs. This is an example of detective controls. Since August 2009, PERS 7043 has purposely analyzed the root cause of problem expenditures to prevent recurrence of the situations encountered. The analysis of expenditures has brought to the forefront several accounting issues such as:

- Travel claim expenditures posting to the wrong FY due to a system irregularity
- The importance of fund code table maintenance, and
- DFAS-Indianapolis posting cross disbursements to the wrong LOA due to the use of pre-existing accounting codes in their system, only down to the subhead level, while overlooking the Bureau Control Number (BCN).

This practice and implementation of detective controls has reduced problem disbursement inflow by 58 percent (from \$8.8M to \$3.7M) since August 2009. BUPERS intends to expand this practice to achieve future efficiencies.

Morale, Welfare and Recreation (MWR) Military Ticket Program (MTP) Inventory System (Commander, Navy Installations Command (CNIC)): Navy Region Southwest's MTP is the warehouse where MTPs purchase the tickets to be resold at the installation's MWR

Information, Tickets & Travel (ITT) offices. Thousands of tickets (entertainment/amusement parks/etc.) are sold each day to various ITT programs around the United States. Each ticket in the MTP ticket inventory is counted each quarter, 33 percent each month. At least once a year, 100 percent of the ticket inventory is counted by both MWR and an outside auditor. This process is not only time-consuming but also susceptible to human error. The installment of a recently developed Oracle system improved MWR Region Management's ability to quickly identify overdue MTP accounts, and the Print on Demand and Easy Tickets programs significantly reduced and controlled ticket inventory. During FY 2009, more than \$800K in previously uncollected MTP debts were recovered and inventory levels were reduced by 63,299 tickets, lowering the inventory value from \$15.8M to \$12.4M.

Engineering Change Proposal (ECP) Packages for Kit Requirements (Naval Air System Command (NAVAIR)): NAVAIR kit management provides kit assembly, positive inventory management control, requisition processing, reclamation, and worldwide distribution for technical directive change kits. A key element of this business is the NAVAIR Central Kitting Activity (CKA). Quarterly physical audits of the CKA kit inventories reflected 100 percent inventory accuracy. Lean Six Sigma (LSS) studies on the CKA produced the following improvements:

- Identification and removal of inactive kits has reduced the storage requirement by 16 percent
- Technology improvements through the use of digital scales, updated personal computers, and kit labeling systems has saved five work hours per week for kit assembly operations.
- Kit reclamation process improvements reduced turnaround time to process kit credits from 340 days to 33 days. These improvements reduced contractor support costs for kit credits posting by \$20K in FY 2009. \$5M in excess credits to a number of Program Managers, Air (PMAs) was returned in FY 2009.
- A Draft Standard Work Package for Kit Reclamation Process was completed in April 2010.
- A portable headset was provided for kit assembly, which allowed workers to assist in the warehouse while being available to answer phone calls at the same time.

These improvements have resulted in the assembly of 23,379 kits during FY 2009 through May 2010 as well as the shipment of 77,214 kits to install at sites FY09 through May 2010 resulting in the recovery of \$7.6M from kit reclamation.

Special Project 1391 Development and Funding Document Acceptance for Projects Over \$500K (Naval Facilities Engineering Command (NAVFAC)): Over the last few years there have been multiple instances of possible Anti-Deficiency Act (ADA) violations across NAVFAC. Quite often the issues are related to inaccurate or incomplete Shore Facility Planning Documentation leading to improper work classification (repair vs. construction). ADA issues have also occurred during the course of construction, contract execution, and completion. Policy and guidance for the classification of work is addressed in OPNAV Instruction 11010.20G. Recent potential violations and near misses demand that NAVFAC adhere to a more formalized process to avoid adverse actions. Personnel who accept and sign funding documents and contracts and others associated with a project, regardless of fund source, are potentially liable for

ADA violations. Project development and reviews for compliance with applicable policies and laws should be occurring from project inception through construction completion. Several actions have been identified and approved and signed by NAVFAC Headquarters (HQ) Operations. Naval Engineering Training and Operating Procedures and Standards (NETOPS) #18 titled, "Special Project 1391 Development and Funding Documents Acceptance for Projects Over \$500K," was approved and published on 7 June 2010. This NETOPS provided guidance to all of the NAVFAC Enterprise on the procedures and processes for the acceptance of funding documents for projects exceeding \$500K. Specifically:

- Plans to designate a Subject Matter Expert (SME) at each Facilities Engineering Command (FEC) for the review and certification of project documentation for compliance with the ADA
- NAVFAC on-line ADA Awareness Training has been developed and deployed
- The designated SME will leverage support from Counsel, Capital Improvements (CI), Asset Management (AM), Acquisition (AQ), and Financial Management (FM) business lines at the FEC and the Echelon II and III commands as necessary. The review shall ensure that the project:
 - Is properly documented and has a valid scope of work (DD 1391)
 - Is complete and usable
 - Is resourced with the proper fund type
 - Is resourced with the proper FY funds
 - Has the correct "classification of work," i.e. repair, construction, maintenance, equipment installation
 - Has an estimate that is within applicable thresholds, and
 - Does or does not require Deputy Assistant Secretary of the Navy (Installations & Facilities) (DASN(I&F)) approval for Navy and Marine Corps "repair" projects exceeding \$4.9M, and/or appropriate Navy Secretariat approval and Congressional notification period of 21 calendar days for all DoD repair projects exceeding \$7.5M
- SME certification will be provided to AQ and FM

Additionally, NAVFAC is coordinating with the United States Marine Corps (USMC) on their project development process to guard against any future ADA violations. Many of these processes will be similar to those in NETOPS #18 and OPNAV Instruction 11010.20G; however, the USMC will have some specific process related to their project development and planning.

Process Management and Audit Program (PMAP) (NAVFAC): NAVFAC established its PMAP as a structured program to comprehensively and systematically assess its acquisition climate and culture that focuses on regulatory/statutory compliance and use of the enterprise-wide Business Management System (BMS), which serves as the platform for all of NAVFAC's standardized processes. The PMAP monitors and reports on elements of risk to the Head of the Contracting Activity. PMAP focuses on four areas identified as potentially high risk in the contracting arena: Leadership, Acquisition Workforce, Contract Strategy and Contract Execution.

In addition to conducting on-site visits around the world, the PMAP team also uses Internal Business Assessments (IBAs) to assist activities in producing quality and cost effective products in accordance with regulatory guidelines and statutes. The IBA process facilitates a 360-degree review of each activity, builds quality into operations, and supports transactional data analysis. In FY 2009, PMAP reviewed over 90 IBAs; this process is unique to NAVFAC Acquisition and is managed by PMAP.

In FY 2009, the PMAP team conducted 22 on-site visits and audited over 465 contract actions with an estimated value of \$3.9B. By investing in this program, NAVFAC has taken a proactive approach to acquisition oversight, risk identification, best practice identification, and regulatory/statutory compliance. The PMAP review process is used across the corporation and contributes to more consistent work products, ensures compliance with regulations and adherence to established policies. The PMAP helps to reduce Inspector General (IG), Government Accountability Office (GAO), and Naval Audit Service (NAVAUDSVC) findings, which in turn will save time and valuable resources. PMAP is also having a positive impact on increasing the professionalism and morale of its Acquisition workforce.

The success of this PMAP accomplishment is further evidenced by NAVFAC's PMAP Program Manager being recognized for their outstanding leadership and contributions with the 2009 Under Secretary of Defense (Acquisition, Technology & Logistics) Workforce Achievement Award in the "Contract Audit" category.

Mission Assurance Decision Support System (MADSS) (Naval Sea Systems Command (NAVSEA)): There is a need in DoD for components to reduce the risk of degraded or failed communications missions by developing techniques and implementing tools to fight through cyber or kinetic attacks that degrade the Global Information Grid (GIG). The capability to capture and share critical near real-time network anomaly alerting, monitoring, and reporting with Network Operations (NetOps) and Mission Assurance partners is currently unavailable to the Defense Information Systems Agency (DISA) and mission operators. The MADSS Joint Capability Technology Demonstration (JCTD) provides warfighters and DISA the ability to manage and mitigate the risks to their missions imposed by the vulnerabilities in the GIG and its supporting commercial infrastructure. MADSS enables asset criticality determination, maintains cyber situational awareness, and rapidly reports impacts across Defense Sectors, Agencies, Services, and Combatant Commands (COCOMs) with respect to mission dependencies. Additionally, MADSS enables effective GIG engineering and provisioning by identifying potential vulnerabilities and associated avoidance criteria upfront. Through the integration of disparate critical and authoritative data sources, MADSS provides COCOMs, Services, and Agencies (CC/S/A) actionable information for their GIG areas of responsibility.

The MADSS JCTD leverages existing NetOps, Critical Infrastructure Protection, and Computer Network Defense toolsets and knowledgebase, and allows decision support staffs of the CC/S/As greater access to essential data to apply policy and procedures in making operational decisions based on impact and alternatives, at the same time improving information-sharing across mission partners. MADSS enables CC/S/As to effectively utilize cyberspace awareness to support planning and conduct operations. In near real-time, each commander affected by a GIG event

will be aware of the potential impact on their mission while staying abreast of how the same event may impact the mission execution of other commanders.

In FY 2009 and FY 2010, in conjunction with United States Strategic Command and the Joint Interoperability Test Center as the Operational Test Agency, MADSS successfully conducted a total of six technical and operational demonstrations, proving its effectiveness in addressing the Combatant Commands' Critical Operational Issues as identified by the Joint Staff. MADSS is transitioning into a Program of Record under DISA/Program Executive Office for Mission Assurance (PEO-MA). Under PEO-MA, MADSS will be available as a DoD-wide Enterprise Service, achieving its Initial Operational Capability and Final Operational Capability in FY 2012. Naval Surface Warfare Center Dahlgren Division (NSWCDD) is the Technical Manager of the MADSS JCTD, responsible for all aspects of technical execution from requirement analysis, system design, and engineering to system testing. NSWCDD is also responsible for program management.

Decrease in Navy Private Motor Vehicle (PMV) Fatalities (Naval Safety Center (NSC)): PMV fatalities typically account for more than half of all Navy fatalities in any given FY. For example in FY 2009, the Navy lost 35 Sailors in PMV fatalities which comprised 53 percent of the total Navy fatalities for the FY. These losses are a degrader of Navy readiness and a significant cost to the Navy Enterprise; therefore, achieving a reduction in PMV fatalities has the attention of Navy leadership and is one of the highest priorities within the Navy Safety Program. Additionally, PMV fatalities are singled out as one of the four categories targeted for a 75 percent reduction by the Secretary of Defense (SECDEF). The 75 percent reduction is to be achieved by the end of FY 2012 using FY 2002 as a baseline. While the Navy has not yet met the 75 percent reduction goal set by the SECDEF, a significant reduction in PMV fatalities has been achieved, particularly since the beginning of FY 2009. For example in FY 2009, Navy PMV fatalities were 54 percent below the FY 2002 baseline year and so far FY 2010 is on track to be even better than FY 2009. To put this in perspective, had the Navy PMV fatality rate remained at FY 2002 levels during the FY 2003 through FY 2009 period, an additional 59 Sailors would have died in PMV mishaps.

A decrease in PMV fatalities has been achieved through leadership emphasis at all levels of command and training enhancements that have been instituted. In particular, the Military Sportbike Rider's Course (MSRC) introduced in May 2008, has had a positive effect on the number of Navy motorcycle fatalities. NSC has also begun to see a correlation between completion of the MSRC and a reduction in motorcycle mishap injuries as well as fatalities. Through June 2010, more than 9,400 Sailors have completed MSRC and the number of untrained sportbike riders has been reduced to approximately 2,300. As the number of untrained sportbike riders declines further, the Navy should experience even less motorcycle fatalities and injuries.

Improvements in Operational Risk Management (ORM)/Time Critical Risk Management (TCRM) (NSC): Improvements are needed in the use of ORM during the execution of operations. Time Critical Risk Management TCRM was incorporated into the revision of the ORM instruction. The revision is complete and expected to be signed and promulgated in the 4th Quarter of FY 2009. The revision includes:

- Providing better clarity on roles and responsibilities for ORM
- Definition of NSC's role as the Navy's ORM Model Manager
- Incorporation of ORM assessment requirements and process
- Incorporation of material on TCRM, and
- Incorporation of TCRM in an ORM Learning Continuum.

As TCRM becomes inculcated in the Fleet, NSC believes the Navy will experience a reduction in mishaps due to human error.

Installation Fielding Plan (Space and Naval Warfare Systems Command (SPAWAR)): Late additions to the installation fielding plan for scheduled availability periods:

- Led to fully Integrated Logistics Support (ILS) not being in place to meet the required ship maintenance timeline of (availability minus 4 months) (A-4)
- Negatively impacted already scheduled installations in meeting their required ILS timelines
- Resulted in the late delivery of ILS products to the Fleet, impacting system supportability, and
- Introduced additional, avoidable costs attributable to the higher cost of unplanned work and rework due to short deadlines.

Late additions also resulted in the redirection of personnel to work on emergent tasking. To accommodate late development of ILS support products and required documentation, these valuable support assets were taken away from currently planned work for ship maintenance at planned installations. Following process improvements gleaned from a LSS event and Rapid Improvement Event (RIE) the carrier first time Ship's Program Manager (SPM) approval rate is 95 percent, up from an original approval rate of less than five percent just over three years ago. Overall, ILS certification on time (A-4) approval for planned CNO installations is 97 percent. Continuous meetings and interactions with the SPMs for carriers, ships, and submarines ensures continuous process improvements (CPI) and efficiencies.

In 2007, SPAWAR and the Program Executive Officer, Command, Control, Communications, Computers and Intelligence (PEO C4I) piloted a funded test effort utilizing the Naval Surface Warfare Center Carderock Division (NSWCCD) Philadelphia team to populate all Installation Alteration Furnished (IAF) material for full ship alterations. This effort has resulted in a dramatic reduction in SPM rejections for IAF, from 100 percent to fewer than ten percent. As a result, the pilot was determined to be a success and the PEO C4I became committed to fully funding this effort. Funding for IAF was approved in FY 2008 and FY 2009, and as a result, SPM rejections for IAF in FY 2010 are less than five percent, further validating the effectiveness of this solution.

ILS certifications with NAVSEA Program Manager Ships (PMS-312) have resulted in zero Type Commander ILS waiver requests to date in FY 2010, a continued success story from 2007.

Lastly, the SPAWAR ILS team uses metrics to:

- Measure the effectiveness of SPAWAR's ILS Certification program (e.g., track delivery of Ship Installation Drawings (SIDs) and Ship Change Documents (SCDs) for proper ILS products), including all late additions to the work plan for all carrier installations from availability minus 12 months (A-12) to the end of availability
- Track installation (carrier/ship/submarine) ILS certification milestone achievement (A-4)
- Provide NAVSEA, Type Commanders and Ship's Commanding Officers (COs) monthly ILS messages reflecting current status of all outstanding logistics products by alteration until all are final, including all caveat approvals, and
- Report caveat/interim ILS product closure by program and estimated completion date (ECD).

Navy Certifying Authority (CA) Restructuring in Support of the DoD Information Assurance Certification and Accreditation Process (DIACAP) (SPAWAR): The DoD Information Technology Security Certification and Accreditation Process (DITSCAP) process was slow and inaccurate. Internal controls were not well managed as a result. Implementation of the DITSCAP, as well as Navy CA resources reduction, required a restructuring of the process in order to meet objectives/requirements. Further, CA documentation and filing did not employ any electronic media or methodology. Paper certifications were still prepared, printed, copied and maintained in files. Building from previous LSS project efforts, the CA restructured its process to align with the DIACAP methodology and roles. It further maximized the efficiency of resources the CA was provided by OPNAV by leveraging the best work from programs and sites submitting packages. The entire legacy review cycle was eliminated and Navy CA liaison staff members were refocused to attend to programs early in the DIACAP process and to provide SME guidance before collaboration. Programs were then expected to represent their residual risk accurately in collaboration with the CA being a supporting SME. Further, electronic records were implemented and paper instances of certifications were eliminated.

Total improvement is five to eight days of collaboration preparation time for programs and liaison staff. The Navy programs have enjoyed as much as 30 days earlier scheduling of collaboration because the separate in-depth review step was eliminated.

With this new process, staffing was reduced from 20 full time equivalent (FTE) contractors to 14 and extraneous resources were eliminated (two Strategic staffers, one FTE NPGS Professor, and one FTE Cross Domain Solutions SME). By total count, staff was reduced from 24 to 14. At least two of the FTEs are funded by sources other than the Information Systems Security Program (ISSP) OPNAV funding.

In addition, the CA process restructuring reduced annual resource requirements by approximately \$3.5M, as summarized below:

- FY 2008 resources = \$6.5M
- FY 2009 resources = \$6.6M
- FY 2010 resources = \$3.0M

As of May FY 2010, approximately 900 packages have been reviewed with no loss of capacity in the face of significant resource reduction.

COMMANDANT OF THE MARINE CORPS (CMC)

Marine Corps Web Risk Assessment Cell (MWRAC): Marine Corps web applications were exposed to attacks from external actors without the benefit of a complete security audit. Prior to July 2009, there was no formal vulnerability assessment of Marine Corps web applications deployed to the Marine Corps Enterprise Network (MCEN). Custom software security issues account for the majority of unknown risk within the enterprise since they cannot be discovered with commodity scanners and generic checklists. The Marine Corps implemented a MWRAC to ensure operational security and cyber security posture of all MCEN web applications. The team initiates crawl methodologies and inspections to identify vulnerabilities that could be used as a foundation for sophisticated attacks against Marine Corps assets. Following the discovery of possible vulnerabilities, site owners and program managers completed a correction action and milestone plan. MWRAC Cyber Security teams monitored, validated and tested remediation actions. Since the MWRAC commencement in July 2009, the cell has identified 307 unique application vulnerabilities. To date, 77 percent of the most critical vulnerabilities have been fixed. Additionally, the MWRAC has discovered and guided remediation plans for over 2,300 PII records exposed through public websites. MWRAC Cyber Security teams continue to canvass web applications to identify and remediate possible vulnerabilities.

Property Control at Marine Corps Base (MCB) Camp Pendleton: Trends of equipment loss prompted a review of property control at Camp Pendleton. Responsible Officers (ROs) must ensure accountability of assets and appropriate custody, care and safekeeping of property entrusted to possession or supervision of an individual. The command increased the frequency of asset reconciliations from semiannually to quarterly in order to encourage ROs to regularly verify their accountable property. Now, the ROs have more initiative to report accountable property, disposal of unnecessary equipment residing in the records, and timely reporting of RO changes resulting in proper turnovers.

In addition, the Supply Section initiated assist visits to evaluate Standing Operating Procedures (SOPs) and recommend improvements. One specific example included the Battalion's Corporals Course. The course has extremely high student turnover and classroom property was routinely unaccounted for. Accountability improvements were implemented and all property was accounted for during the next reporting period.

Additionally, an annual training schedule for ROs was implemented in order to familiarize ROs with their duties. Due to the nature of the Battalion, ROs are located throughout the base with very demanding work schedules. In order to mitigate the impact training would have on ROs primary duties, the training is offered on a quarterly basis for new ROs, and as an annual refresher.

Reduction of Repair Cycle Time in High Mobility Multipurpose Wheeled Vehicle (HMMWV) Assembly and Body Repair: The HMMWV assembly and body repair lines did not have a repeatable and sustainable process to meet production demands. Output fluctuated greatly and overtime was routinely scheduled in order to meet demand. Some causes of the high repair cycle times were a lack of standardized work sequences, inadequate work space layout and an improperly trained workforce. Marine Corps Maintenance Center Barstow utilized the CPI

methodology to define, measure, and analyze the current process in order to develop a quality controlled environment. A 6s (sort, straighten, shine, standardize, sustain, safety) baseline score was used to identify areas for improvement. As a result, HMMWV assembly cycle time was reduced by 92 percent and total cost was reduced to below the budgeted baseline. Overtime was reduced by 86 percent and rework was reduced by 76 percent.

The HMMWV body repair line was relocated next to the HMMWV assembly line in order to implement single piece flow work sequencing. The relocation resulted in a reduction in travel time of 99.5 percent. The proper mix of tools was moved to their actual point of use, reducing unneeded time to find the correct tool. Consequently, labor hours were reduced by 64.02 percent. The process improvement effort was able to bring together the workforce to focus on communicating possible process improvements and worker empowerment. The end product is an improved capability to respond to warfighter requirements.

DEPARTMENT OF THE NAVY/ASSISTANT FOR ADMINISTRATION (DON/AA)

Information Assurance Vulnerability Alert (IAVA): IAVA is the notification of computer system vulnerabilities identified by a Department of Defense Computer Emergency Response Team (DoD CERT) that requires immediate action. The DON/AA, Office of Information Technology (OIT) coordinates the DON Secretariat response and reports mitigating actions and compliance. Limitations in the notification process have made it difficult for DON/AA, OIT to mitigate vulnerabilities and report compliance within the specified timeframe. This has resulted in a backlog and delayed reporting. The DON Online Compliance Reporting System (OCRS) structure was revised and all organizations agreed to the realignment. As a result, (1) OPNAV organizations were separated from the Secretariat, allowing OPNAV to report directly in OCRS, and (2) all Secretariat organizations have been realigned directly under the Secretary of the Navy (SECNAV) Washington DC, which allowed them to report Information Assurance Vulnerability Management (IAVM) compliance directly with OIT acting as the Secretariat Program Manager. These actions resulted in increased time for system administrators to respond to IAVMs as they are now notified directly via OCRS electronically.

OFFICE OF NAVAL RESEARCH (ONR)

ONR Civilian Check-In/Out Project: ONR check-in and checkout processes took an average of 8 days (check-in) and 5 days (checkout) to complete. New workforce members had to wait for their processing to be finalized prior to obtaining their building badges, Common Access Cards and computers. Additional wait time for these items resulted in lost man hours and reduction in productivity. Issues that contributed to the delays included missing information, personnel availability, lack of follow-up, and completion of tasks external to ONR. The goal of the project team was to reduce the cycle times by 50 percent. A cross-functional team was chartered to conduct a project on both processes. Improvements were accomplished by identifying bottlenecks and standardization of process inputs/tasks. The implemented solutions include elimination of follow up actions, identified back up personnel, reduced signatures on the check-in sheet and provisions for completed System Authorization Access Request-Navy (SAAR-N) forms to comply with Information Assurance requirements. Mistake proofing was also employed to evaluate the improvements prior to adoption by the Command. Validation

steps have shown a 49 percent reduction in the check-in cycle time, allowing workforce members to be fully functional within 4 days. The checkout cycle time has been reduced one day (20 percent).

Change Request (CR) Mass Reassignment Project: Within ONR's Oracle e-business suite, financial documents for both the acquisition and FM communities are created and executed to commit and obligate funds. Documents went into a dormant status when the originating and executing employee assigned within the e-business workflow departed ONR. When this occurred, the document could not be completed until reassigned for processing by the helpdesk. Reassignment was taking upwards of three days to accomplish, thus affecting the commitment and obligation of ONR funds. The e-business suite was redesigned to provide a new role for various Command users with the ability to immediately reassign documents en masse to active employees to allow document execution upon completion. This process improvement reduced the queue time by 50 percent when documents required mass reassignment.

DON INTERNAL CONTROLS OVER FINANCIAL REPORTING

CHIEF OF NAVAL OPERATIONS (CNO)

Standard Operating Procedures (SOPs) in Financial Improvement Program (FIP) (Bureau of Medicine and Surgery (BUMED)): To meet the goal of a clean audit opinion on the Statement of Budgetary Resources (SBR) and the Balance Sheet, BUMED launched the Command Level Testing (CLT) effort. With CLT, BUMED embarked on a fact finding mission to identify core business processes and key controls for managing those processes effectively and efficiently. CLT then tested whether the controls identified were working effectively.

BUMED leveraged CLT efforts to identify business processes having an impact on its financial statements. CLT results showed variance in execution of core business processes and approaches to identifying and implementing effective controls. To address variance revealed by CLT findings, SOPs were issued to standardize best practices and reduce variation in process execution throughout the entire Budget Submitting Organization (BSO). SOPs have been written, tested, and implemented in the following key areas:

- Defense Travel System
- Real Property
- Government Purchase Card
- Personal Property
- Pharmacy Inventory Management
- Prime Vendor Management
- Support Agreements (Receiver Side), and
- Contract Close Out

Senior leadership embraced the SOPs and established a "Tone from the Top" to engage all areas of leadership from the highest levels of the BSO, to activity comptrollers and the worldwide workforce at the deck plate level.

As activities continue to become familiar with and execute core business processes using the SOPs, BUMED intends to use the CLT approach to verify that execution variation and performance improvements are sustained throughout the BSO. For example, when completing their Statement of Assurance (SOA), the Navy Marine Corps Public Health Center specifically stated that adopting processes from the SOPs assisted them with improving controls and performance in both their Tri-Annual Review program and the Government Travel Charge Card program.

SOPs have proven their value to the enterprise as a way of effecting positive change management at all levels of program execution.

Commander, Naval Reserve Forces Command (CNRFC) Comptroller (N8) Financial Management (FM) Processes and Procedure Improvements (CNRFC): CNRFC N8 developed process maps and SOPs for all N8 functional areas to solidify processes and to improve and strengthen internal controls. The program has been so successful that 98 processes across seven codes have been identified for mapping, along with 62 desktop guides. This program not only ensures Continuity of Operations Plan capabilities but a 24/7/365 training tool that can meet very dynamic human resource environments. Furthermore, the approximately \$1.7M for the program can be directly attributed to Enterprise Resource Planning (ERP) preparations; CNRFC has an anticipated ERP “go live” in FY 2014. Improvements were made in the following key areas:

- N8 developed process map for each functional area relating to:
 - Reserve Personnel Navy (RPN) Pay, Travel, Training, Bonus and others
 - Operation Maintenance Navy Reserve (OMNR) Funds Receipt and Distribution, Obligation Expenditure and Reporting
 - Program Objectives Memorandum for OMNR. The process mapping of the Intelligent Workbook (IW) allowed Manpower and Personnel (N1)/N8 to accurately capture 251 Work Years in labor at \$35.6M in FY 2012; as well as, \$183.3M in contractor product and \$3.4M in mixed contractor product/labor, and
 - Accounting Policy and Reporting for both RPN and OMNR
- N8 developed both a travel tracking tool and an aviation fuel reconciliation tool for the RCC and NOSCs
 - The travel tracking tool allows the Reserve Component Commands (RCCs) and Navy Operational Support Centers (NOSCs) to better track and take action on any outstanding travel advances and travel claims, and associated pay to reduce the value of unliquidated obligations. The first version of the tool was deployed in FY 2009 with continued distribution to CNRFC’s Echelon IV and V commands; by the end of FY 2010, 126 NOSCs should have the tool implemented at their command. This greatly increased visibility of outstanding travel advances and unliquidated travel orders and has led to a \$900K+ decrease in outstanding travel advances from FY 2005 to FY 2010. Sites such as RCC Southwest now display 5.7 percent fewer outstanding travel transactions translating to 6.5 percent less unliquidated obligations.

- The aviation fuel tool also allows for better RCC and NOSC oversight (i.e. granularity) ensuring fuel obligations and receipts are tracked, entered into, and reconciled in the accounting system, making variances quickly visible and explanations timely. This allows for 100 percent validation of the proper Job Order Number (JON)/accounting data prior to recording in Fund Administration and Standardized Document Automation (FASTDATA)/Standardized Accounting & Reporting System (STARS) - Field Level (FL). This tool allows BSO 72 to dramatically increase accounting accuracy and speed reconciliation of a \$160M fuel account (OMNR 1A1A). The tool has reduced days to receipt by 50 percent and resulted in a 41 percent decrease in fuel disbursements without receipts.
- N8 increased the focus on prior year expenditure rates, metrics, trends and the Financial Efficiency Index (FEI) to develop corrective actions for future business processes that will improve CNRFC Financial Efficiency. BSO 72 exceeded the FEI goal in FY 2009; this trend is expected to continue through FY 2010.
- N8 produces a daily Status of Funds for the RCCs and CNRFC Comptroller. The increased frequency provided RCC Comptrollers with timely funds balances and visibility for problem disbursements. With the emphasis on improvement and reduction of problem disbursement, root cause analysis and reduction of inflow as it related to the RCCs has gained greater attention and proactive strides were made to reduce future problem disbursements. N8 also analyzed the information across the entire claimancy to identify common themes and provided broad solutions whenever possible resulting in a reduction in the age, dollar amount and quantity of unmatched disbursements. This resulted in a reduction of accounting errors (Voucher and Schedule of Withdrawal and Credits – SF1081s) from \$982K in January 2010 to \$126K in July 2010. CNRFC was also able to reduce BSO 72 problem disbursements from \$4.8M in October 2009 to \$1.2M in July 2010.
- N8 decentralized the Civilian Pay and timekeeping and strengthened the overall accounting reporting and internal controls. CNRFC is now 100 percent automated at the Echelon II and Echelon III commands. Manual signature cards are now replaced by an automated process that ensures updates are accurately done in the system in order for certification to be completed. Improper JONs formerly inputted on manual timesheets have been replaced by dropdown codes in the automated systems increasing efficiencies by decreasing the incorrect JONs which end up in suspension affecting obligations. Overtime and leave must be approved in advance in the automated system vice tracking down manual leave chits and overtime sheets.
- N8 implemented a more aggressive Tri-annual Review of Obligations and Commitments. CNRFC/BSO 72 completed a 100 percent review coinciding with FY 2010 end-of-fiscal review generating additional buying power for mission critical needs. In the RPN appropriation alone, analysts reviewed 1,574 records totaling \$58M. Prior year funding identified was used to cover the Navy's foreign currency fluctuation bill. Results of FY 2010 3rd Quarter review identified \$1M in funds available for reprogramming.

FIP SOP: Monthly Reconciliation (Office of Naval Intelligence (ONI)): A key challenge faced when reconciling financial documents was reconciling statements, which were out of balance between agencies and the Resource Management Office (RMO). The goal was to

provide SOPs for each phase of the FM process, which each financial specialist followed during the execution phase of their assigned program budgets. At the beginning of Fiscal Year (FY) 2010, SOPs were developed by RMO-1 to enhance command performance surrounding budget execution. One SOP in particular was developed to provide guidance to RMO-11's financial specialists when reconciling their program accounts. This SOP is now being used as a quick reference guide by all financial specialists within RMO-11 when reconciling execution of the budget authority allocated to each of their respective command centers. Additionally, the SOP is used as a training tool for newly hired and reassigned financial specialists within the RMO directorate who must understand how to accurately reconcile their assigned program accounts.

The Monthly Reconciliation SOP adheres to the Office of Management and Budget (OMB) Circular A-123, Appendix A, Management's Responsibility for Internal Control as well as the Department of Defense (DoD) Financial Management Regulation (FMR). Prior to implementation of the monthly reconciliation, no automated mechanism existed within RMO-1 to track requirements submitted by command centers for execution. The implementation of this reconciliation tool and its corresponding SOP has allowed RMO-11/Execution Office to:

- Track the accurate, complete, and timely execution of submitted program requirements
- Proactively identify issues related to unexecuted, unobligated, and unexpended balances and develop mitigation strategies like the identification of other funding opportunities based on mission and bona fide need, and
- Report the status of budget execution to the command's higher echelon and resource sponsor (N2/N6) as well as other external organizations like the OMB and the Office of the Director of National Intelligence.

Because this tool is used daily, RMO-1 is readily able to provide the most up-to-date status of execution for the command. This ability is vital, as the information is reported daily to the Comptroller/Chief Financial Executive to assist with decision-making that impacts the command.

COMMANDANT OF THE MARINE CORPS (CMC)

Improvements to Financial Reporting through the Financial Statement Audit of the SBR: The Chief Financial Officers Act of 1990 (PL 101-576) (CFO Act) requires that each Federal Agency improve its system of accounting, financial management, and internal controls so that issued financial information is reliable and fraud, waste and abuse is deterred. This requirement presents significant challenges to the DoD given its organizational complexity. To date, no combatant component of the DoD has achieved audit readiness for a full financial statement. This hinders DoD efforts to demonstrate compliance with CFO Act requirements via transparent stewardship of federal resources.

In accordance with CFO Act requirements, the Marine Corps has been authorized to proceed with an independent, external financial statement audit of its SBR for FY 2010. The DoD Inspector General (DoDIG) with support from an independent public accountant has been accomplishing the SBR audit. Focusing on improved financial reporting, the Marine Corps continued an aggressive Internal Control over Financial Reporting (ICOFR) program following

the requirements of OMB Circular No. A 123, Appendix A. The Marine Corps accomplished an “Auditor Lens” documentation review of specified business processes and repackaged them from those previously developed to help auditors and others understand the financial processes used by the Marine Corps. Although documentation of the processes continues, the revised process descriptions were used to help identify key controls to test. The Marine Corps conducted training conferences with field financial analysis teams to prepare them for accomplishing ICOFR control tests and supporting the SBR financial statement audit.

In preparation for the audit, the Marine Corps assessed the FM environment to identify dependencies, risks, and gaps, and linked the Marine Corps systems environment, providing traceability from requirements generation to financial statement presentation. The Marine Corps has demonstrated a sustainable audit trail and capability for documentation retrieval and has shown linkage from the detail transactions to the General Ledger (G/L) to the Financial Statement Line.

The ongoing SBR audit has challenged the Marine Corps to distinguish systems and issues that need improvement from areas it is confident are working well. The audit inquiries and systems reviews have sharpened its focus on their own risk areas and also have identified areas where support providers need to improve focus, a lesson that other DoD organizations will find valuable as they move toward audit readiness.

The Marine Corps continues to improve controls around its financial systems. While preparing for the FY 2010 audit of the SBR, the Marine Corps intensified efforts to strengthen its financial systems’ control environment. The Marine Corps is currently undergoing information technology (IT) control testing 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.

While the external IT testing is currently underway, the Marine Corps continues to update its Service Level Agreements (SLAs) and Memorandums of Agreement/Understanding (MOAs/MOUs) with its partner service providers to ensure that interfaces are kept current and that roles and responsibilities are clearly set forth in writing. The Marine Corps is continuing to foster cooperative relationships with business partners including the Defense Finance and Accounting Service (DFAS), Business Transformation Agency (BTA), and Defense Logistics Agency (DLA), among others.

(TAB B-1)

LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
<u>Category: Major Systems Acquisition</u> Attenuating Hazardous Noise in Acquisition and Weapon System Design	1 st Qtr, FY 2011	B-2-1
<u>Category: Communications and/or Intelligence and/or Security</u> Safeguarding Personally Identifiable Information (PII)	3 rd Qtr, FY 2011	B-2-3
<u>Category: Major Systems Acquisition</u> Effective Use of Earned Value Management (EVM) Across the Department of the Navy Shipbuilding Programs	4 th Qtr, FY 2013	B-2-5

Uncorrected Weaknesses Identified During Prior Periods:

Title	<u>Correction Qtr & FY Date</u>			Page #
	Year First Reported	Per Last Annual Statement	Per This Annual Statement	
<u>Category: Communications, Intelligence and/or Security</u> Management of Communications Security (COMSEC) Equipment	FY 2006	2 nd Qtr, FY 2011	2 nd Qtr, FY 2011	B-2-7

Corrected Weaknesses Identified During All Periods:

Title	Year First Reported	Page #
<u>Category: Major Systems Acquisition</u> Earned Value Management (EVM) for Littoral Combat Ships (LCS) 1 and 2	FY 2008	B-3-1

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During Current Period”

Title and Description of Issue: *Attenuating Hazardous Noise in Acquisition and Weapon System Design:* The DON was found to not have sufficient processes in-place to effectively mitigate hazardous noise risks posed by major weapon systems. Although several DON organizations were making significant individual efforts to mitigate exposure to hazardous noise with some informal collaboration between these organizations, there was no requirement, structure or formal process for coordinating these efforts across the Department.

Functional Category: Major Systems Acquisition

Component: Department of the Navy

Senior Official in Charge: RDML David F. Baucom, Deputy Assistant Secretary of the Navy (DASN), Acquisition and Logistics Management (A&LM)

Pace of Corrective Action:

Year Identified: FY 2010

Original Targeted Correction Date: 1st Qtr, FY 2011

Targeted Correction Date in Last Year’s Report: N/A

Current Target Date: 1st Qtr, FY 2011

Reason for Change in Date: N/A

Validation Process: A central DON body established with responsibility and authority to manage efforts to mitigate exposure to hazardous noise throughout DON organizations.

Results Indicator: Central body established by first quarter of Fiscal Year 2011

Source(s) Identifying Weakness: NAVAUDSVC Report 2010-0038, “Consideration of Hazardous Noise in the Acquisition of Selected Major Department of the Navy Weapon Systems and Platforms”, published 22 June 2010

Major Milestones to Include Progress to Date:

A. Completed Milestones: N/A

B. Planned Milestones through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Establish a central DON body to manage efforts to mitigate exposure to hazardous noise throughout DON organizations.
1 st Qtr, FY 2011	Establish Internal Management Controls (IMC) and provide oversight to verify that all acquisition programs in their purview officially identify and assess known/recognized noise hazards early in the acquisition process.
1 st Qtr, FY 2011	Establish IMC and provide oversight to ensure that DON acquisition programs include threshold/goal requirements in their respective contracts.
1 st Qtr, FY 2011	Provide status report to NAS addressing progress of coordination to establish IMC and provide oversight to ensure System Safety Design Order of Precedence is followed during the acquisition process to ensure that, where possible, concerns such as hazardous noise are mitigated early in the process through system design.
1 st Qtr, FY 2011	Revise SECNAVINST 5000.2D to address risk matrix use, uniform guidance for setting risk acceptance authority levels, and prohibiting delegation of risk acceptance authority.
1 st Qtr, FY 2011	Establish IMC and provide oversight early in the acquisition process to ensure program offices properly establish risk acceptance authority levels in accordance with the revised SECNAVINST 5000.2D.
1 st Qtr, FY 2011	Establish/revise policy and establish IMC(s) requiring MIL-STD-882D, Appendix A compliance for properly assigning Risk Acceptance Codes.
1 st Qtr, FY 2011	Establish/revise policy to require risk acceptance authority level of approval appropriate to the severity of the risk (according to OPNAVINST 5100.23G).
1 st Qtr, FY 2011	Establish/revise policy to require program offices to develop mitigation solutions in collaboration with end users; and obtain formal acceptance of mitigation from end user solutions prior to reducing RAC levels.
1 st Qtr, FY 2011	Provide a status report to NAS addressing the progress to establish guidance that specifies minimum information program offices are required to track, and establish controls to ensure that DON acquisition program offices maintain a current log of identified hazards and an assessment of residual mishap risk.

C. Planned Milestones Beyond Fiscal Year 2011: N/A

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During Current Period”

Title and Description of Issue: *Safeguarding Personally Identifiable Information (PII):* The number and impact of PII breaches across the DON is unacceptably high and has remained fairly constant over the past 12 months. DON breach report metrics and Naval Audit 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 DON policy guidance regarding the turn in or disposal of magnetic hard drives and 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.

Functional Category: Communications and/or Intelligence and/or Security

Component: Department of the Navy

Senior Official in Charge: Ms. Barbara H. Hoffman, DON Chief Information Officer (Acting)

Pace of Corrective Action:

Year Identified: FY 2010

Original Targeted Correction Date: 3rd Qtr, FY 2011

Targeted Correction Date in Last Year’s Report: N/A

Current Target Date: 3rd Qtr, FY 2011

Reason for Change in Date: N/A

Validation Process: (1) Release of the DON Magnetic Hard Drive Disposal Policy Message. (2) Release of the DON SSN Reduction Plan, Phase One. (3) Completion of updated Annual PII Awareness Training Module and PII Refresher Training

Results Indicator: (1) A 10 per cent decline in the number of high risk breaches related to hard drives for at least three continuous months. (2) A 10 per cent decline in the number of high risk breaches related to SSNs for at least three continuous months. (3) A 20 per cent increase in the total number of DON personnel who have completed Annual PII Awareness training by the end of FY 2011 as compared to FY 2010.

Source(s) Identifying Weakness: NAVAUDSVC Report N2009-0027, “Processing of Computers and Hard Drives During the Navy Marine Corps Intranet (NMCI) Computer Disposal Process,” dated 28 April 2009

NAVAUDSVC Report N2010-011, “Accessibility of Personally Identifiable Information through the Navy Marine Corps Intranet Homeport Web Site,” dated 2 March 2010

Major Milestones to Include Progress to Date:

A. Completed Milestones: N/A

B. Planned Milestones through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Release the DON Magnetic Hard Drive Disposal Policy.
2 nd Qtr, FY 2011	Release DON Social Security Number (SSN) Usage Reduction Plan Phase 1.
3 rd Qtr, FY 2011	Create Refresher PII Training Module for DON Use and Update Annual PII Awareness Training.

C. Planned Milestones Beyond Fiscal Year 2011: N/A

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During Current Period”

Title and Description of Issue: *Effective Use of Earned Value Management (EVM) Across the Department of the Navy Shipbuilding Programs:* The Navy does not have adequate oversight and application of EVM on its programs. Failure to effectively implement EVM prevents managers from fully realizing its benefits and may result in disjointed planning, lack of performance insight, increased management process risk, obscured problems, lack of accountability, or subjective assessments. EVM deficiencies have also been identified through ongoing audits and reviews conducted by within the Navy and through recent Nunn-McCurdy certifications. 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. Earned Value Management 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.

Functional Category: Major Systems Acquisition

Component: Department of the Navy

Senior Official in Charge: Ms. B. J. White-Olson DASN, Management and Budget

Pace of Corrective Action:

Year Identified: FY 2010

Original Targeted Correction Date: 4th Qtr, FY 2013

Targeted Correction Date in Last Year’s Report: N/A

Current Target Date: 4th Qtr, FY 2013

Reason for Change in Date: N/A

Validation Process: Center for Earned Value Management (CEVM) will baseline current status of EVM implementation and oversight, then 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.

Results Indicator: CEVM will continue to track metrics toward meeting established targets as described in the validation process.

Source(s) Identifying Weakness: EVM Defense Support Team report to Congress, September 2009

Major Milestones to Include Progress to Date:

A. Completed Milestones: N/A

B. Planned Milestones through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	OASN(RDA) to develop process to engage with major programs on use of EVM, including status of correcting this material weakness.
2 nd Qtr, FY 2011	Training and support in place to enhance leadership use of EVM
3 rd Qtr, FY 2011	Identify two newly awarded shipbuilding programs for implementation of revised EVM processes and begin tracking EVM compliance and use.
3 rd Qtr, FY 2011	Review policies to support standardizing EVM data and processes established across Naval Sea Systems Command (NAVSEA).
4 th Qtr, FY 2011	Review structure and staffing in place for centralized EVM process ownership and consistent EVM support for NAVSEA shipbuilding programs.
4 th Qtr, FY 2011	Review SUPSHIP EVM staffing levels and EVM oversight processes to ensure adequate support for NAVSEA programs.
4 th Qtr, FY 2011	Review Shipbuilding program offices for EVM capability and processes for decision support.

C. Planned Milestones Beyond Fiscal Year 2011:

2 nd Qtr, FY 2012	Develop and deploy EVM team training for program offices.
3 rd Qtr, FY 2012	EVM analyst training curriculum developed and deployed.
3 rd Qtr, FY 2012	SUPSHIP EVM surveillance in place to support annual report of contractor compliance to the ANSI Standard.
4 th Qtr, FY 2012	Implement recommended changes for centralization of EVM process ownership and consistent EVM support for NAVSEA shipbuilding programs.
4 th Qtr, FY 2012	Implement recommended changes for SUPSHIP staffing levels and EVM oversight processes.
4 th Qtr, FY 2012	Implement recommended changes to address shipbuilding program office capability and support.
4 th Qtr, FY 2013	NAVSEA shipbuilding EVM policy compliance meets target level.

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Management of Communications Security (COMSEC)*

Equipment: Naval Audit Service (NAVAUDSVC) conducted an audit in 2006 of the Navy management of communications security equipment. The audit found Navy procedures lacking and listed a number of recommendations to correct the problems.

Functional Category: Communications, Intelligence and/or Security

Component: Department of the Navy

Senior Official in Charge: RADM Kendall. L. Card, Director, Concepts, Strategies, and Integration (N2N6F)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 3rd Qtr, FY 2007

Targeted Correction Date in Last Year’s Report: 2nd Qtr, FY 2011

Current Target Date: 2nd Qtr, FY 2011

Reason for Change in Date: The 2006 Audit was conducted during preparations for the DON-wide transition to Common Tier 1 (CT-1). The transition did not occur until 1 August 2007 and was followed shortly thereafter by a maintenance release to the software that caused numerous processing issues that took several months to resolve. This resulted in a slippage in the reconciliation of post-transition data.

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

Results Indicator: Results are considered satisfactory when there is complete accountability of COMSEC equipment.

Source(s) Identifying Weakness: NAVAUDSVC Report N2006-0035, “Management of Communications Security Equipment,” dated 17 July 2006

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Commandant of the Marine Corps (CMC) Staff and Chief of Naval Operations (CNO) Staff completed investigation of missing COMSEC Equipment.
Completed	CMC Staff and CNO Staff established written guidelines to address identified internal control weaknesses.
Completed	CMC Staff and CNO Staff strengthened and enforced their internal controls over COMSEC Equipment at the owning activities with accurate records and on-site verification.
Completed	CMC Staff and CNO Staff verified complete accountability of COMSEC Equipment.
Completed	OPNAVINST 5239.1C signed 18 August 2008 and published.
Completed	Revise Electronic Key Management System (EKMS) Manager Training Course.
Completed	Establish a Plan of Action and Milestones to expedite reconciliations within CT-1 and determine manning and funding resources.
Completed	Conduct full revision of all COMSEC Documentation - Naval Communications Security Material System (NCMS) issued new pubs April 2010 and updated July 2010.
Completed	Enforce and Oversee Completion of Mandatory CT-1 Accountability and Reconciliation Training at the Local level - NETWARCOM made attendance at Town Hall Meetings, where this training is conducted, mandatory in 2009. NCMS conducts annual Town Hall meetings in all Fleet concentration areas.

B. Planned Milestones through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2010	Establish Navy Enlisted Classification (NEC) for COMSEC Account Manager (NEC was chopped off by NETWARCOM and forwarded to OPNAV N1 and N2/N6 for final decision).
2 nd Qtr, FY 2011	Reconcile CT-1 Accounts (NCMS is at 94 percent completion with less than 24 accounts remaining. Those remaining are in-theater accounts, USMC depots, a handful of submarines and several extremely large shore accounts. All are being actively worked and will be completed this year).

C. Planned Milestones Beyond Fiscal Year 2011:

Date:

Milestone:

Ongoing

Resolve all CT-1 Accounting Errors (All accounting errors or discrepancies identified in all Audits were corrected within days of the final audit report. The semi-annual inventory/reconciliation process continually resolves accounting disparities through the automated and manual processes in-place using EKMS and CT-1).

(TAB B-3)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

“Weaknesses Corrected This Period Identified During Prior Periods”

Title and Description of Issue: *Earned Value Management (EVM) for Littoral Combat Ships (LCS) 1 and 2:* EVM certification and compliance at Shipyards supporting DON shipbuilding programs continues to be a concern for the Department. EVM certification and compliance at Lockheed Martin (LM) and General Dynamics (GD), the prime contractors for LCS 1 and 2, respectively, continue to be monitored closely given the history of significant LCS program cost growth at those two shipyards. The Compliance Reviews recommended by the Naval Audit Service have been requested and Defense Contract Management Agency (DCMA) has begun engagement with the LCS shipbuilders, however the timing and execution of the formal review are outside the direct control of the DON. However, ASN(RD&A) recognizes that the issue of shipbuilding EVM certification and compliance is greater than these two shipyards, recommends closure of this material weakness and has provided a new material weakness covering EVM across DON shipbuilding programs. This new material weakness provides for comprehensive corrective action and follow-up by DON at all contractor sites supporting Naval shipbuilding programs.

Functional Category: Major Systems Acquisition

Component: Department of the Navy

Senior Official in Charge: Ms. Allison F. Stiller, DASN Ship Programs

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year’s Report: 1st Qtr, FY 2011

Current Target Date: 1st Qtr, FY 2011

Reason for Change in Date: Activity to address the weakness incorporated into the new EVM weakness that addresses all DON shipbuilding programs.(See B-2-6)

(TAB D-1)
LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES
DEPARTMENT OF THE NAVY (DON) GENERAL FUND

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
N/A		

Uncorrected Weaknesses Identified During Prior Periods:

Title	<u>Correction Qtr & FY Date</u>			Page #
Title	Year First Reported	Per Last Annual Statement	Per This Annual Statement	Page #
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Collections and Disbursements	FY 2006	1 st Qtr, FY 2010	4 th Qtr, FY 2012	D-2-1
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Procure to Pay Processes	FY 2005	3 rd Qtr, FY 2011	4 th Qtr, FY 2012	D-2-4
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
General Equipment	FY 2007	4 th Qtr, FY 2013	4 th Qtr, FY 2013	D-2-6
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Military Equipment	FY 2005	4 th Qtr, FY 2013	3 rd Qtr, FY 2014	D-2-10
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Operating Materials And Supplies (OM&S)	FY 2005	2 nd Qtr, FY 2015	2 nd Qtr, FY 2015	D-2-15
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Real Property	FY 2006	2 nd Qtr, FY 2013	2 nd Qtr, FY 2013	D-2-19

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Collections and Disbursements, General Fund.* Control environment does not mitigate the risk of material misstatement due to inaccurate recording of collection and disbursement transactions. Control weaknesses include: lack of controls designed to prevent problem disbursements; lack of segregation of duties; lack of periodic reconciliation of Fund Balance with Treasury.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006 (as Financial Reporting of Fund Balance with Treasury, General Fund)

Original Targeted Correction Date: 4th Qtr, FY 2008

Targeted Correction Date in Last Year's Report: 1st Qtr, FY 2010

Current Target Date: 4th Qtr, FY 2012

Reason for Change in Dates: DON, supported by DFAS, requires additional time to implement the Business Activity Monitoring (BAM) tool, to facilitate the reconciliation of Fund Balance with Treasury at the detail transaction level.

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

Results Indicator: The weakness is considered resolved when the DON has developed and implemented a process and internal control system to ensure a proper reconciliation of Command/Activity accounting reports and records with Treasury's reports and records. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Research current problem disbursement efforts, collaborate with other DFAS centers to discuss problem disbursements, determine if adequate resources are assigned to work problem disbursements and determine the areas of focus for problem disbursements at DFAS-CL (3.1.1.2 – 3.1.1.5)
Completed	Review of policies and procedures by system, identify the universe of DFAS and Navy personnel with the ability to approve accounting adjustments (3.2.1.2, 3.2.1.3)
Completed	Design tests using OMB A-123 Guidance (4.1)
Completed	Perform Phase I testing of key controls 1-10 for disbursements (4.2.1 – 4.2.1.1.10)
Completed	Perform testing of controls for collections (4.2.1.2 – 4.2.1.2.2)
Completed	Define and Report Weaknesses, if any were identified through testing (4.2.1.2.3)
Completed	Corrective Action Tasks for Problem Disbursements/Collections: identify UMD roles and responsibilities by appropriation and customer (3.1.1.1)
Completed	Corrective Action Tasks for Problem Disbursements/Collections: Interfund, No Obligation and MILCON working Groups will meet to research the major issues associated with problem disbursements. Define controls and determine deficiencies in the to-be process (3.1.1.6 – 3.1.1.8.3)
Completed	Corrective Action Tasks for Review/Approval of Accounting Adjustments: obtain definition of accounting adjustments by system; update/ revoke the user access to correspond, identify roles and responsibilities and mechanism for preparing accounting adjustments (3.2 – 3.2.1.9)
Completed	Corrective Action Tasks for Reconciliation of Cash: Observe Business Activity Monitoring (BAM) demo, assess impact of the outcome of IOC/FOC on reconciliation (3.3 – 3.3.3.2)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2011	Perform re-testing to validate the effectiveness of corrective actions.
1 st Qtr, FY 2012	Confirm Fund Balance with Treasury reconciling items were identified and resolved.

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2012	Complete Assertion Package, Management Assertion, Submit Assertion Package to DoDIG & FIAR(6 – 6.2)
4 th Qtr, FY 2012	Verification and Validation, Audit Substantive Testing (FAM/GAAS Standards) (5, 5.1)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Procure to Pay Processes, General Fund.* Control environment does not mitigate the risk of material misstatement due to inaccurate recording of obligation, expense, and disbursement transactions. Control weaknesses include: lack of timely obligation; lack of proper receipt and acceptance; and lack of reconciliation of Fund Balance with Treasury.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005 (as Financial Reporting of Accounts Payable, General Fund)

Original Targeted Correction Date: 2nd Qtr, FY 2008

Targeted Correction Date in Last Report: 3rd Qtr, FY 2011

Current Target Date: 4th Qtr, FY 2012

Reason for Change in Dates: DON, supported by DFAS, requires additional time to implement the Business Activity Monitoring (BAM) tool, to facilitate the reconciliation of Fund Balance with Treasury at the detail transaction level. The implementation of the tool is required to validate appropriate recording of disbursement transactions.

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

Results Indicator: The weakness is considered resolved when all related deficiencies have been mitigated by corrective actions and through testing. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plan for the Other Contractual Services segment.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Design Tests using OMB A-123 Appendix A Guidance (4.1)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2011	Evaluate the operating effectiveness of key controls 1 – 16 (4.2.1 – 4.2.1.16)
4 th Qtr, FY 2011	Corrective Action Tasks for process definition, system configuration and change management (3 – 3.1.3.1)

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
3 rd Qtr, FY 2012	Test of Design and Effectiveness of Internal Controls using OMB A-123 Appendix guidance. (4)
3 rd Qtr, FY 2012	Verification and Validation through Audit of Substantive Testing – Financial Audit Manual/Generally Accepted Auditing Standards: Define rationale for asserting and perform audit substantive testing.(5, 5.1)
4 th Qtr, FY 2012	Management Assertion, Complete Assertion Package and submit to DoDIG & FIAR (6 – 6.2)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of General Equipment, General Fund.*

The Navy is currently working with the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) and Navy major commands to fully implement Statement of Federal Financial Accounting Standard No. 23, “eliminating the category national defense property, plant and equipment.” Reclassification of some property that is currently considered Military Equipment to General Equipment will increase the materiality of this line item in future years. Due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations, the Navy cannot establish and/or support ownership and valuation of General Equipment. Additionally, the Navy cannot substantiate that the asset records in accounting system of record represent all General Equipment assets. For the assets included in the accounting system of record, the Navy cannot include all ancillary costs to the asset or assign a correct useful life. Finally, the Navy’s inability to reconcile their property accountability systems with their financial system causes their presentation and disclosure of the assets to be inaccurate.

Corrective action tasks for the General Equipment segment are divided into four processes consisting of the following:

- Physical Inventory Process
- Receipt and Acceptance Process
- Proper Financial Accounting Treatment for Assets (PFAT4A) Process
- Valuing Equipment Process.

Each process contains similar corrective action implementations, which are: train responsible parties, implement manual controls, execute corrective actions, measure, monitor, disseminate, and test performance, identify control test failures, determine cause, and retrain/retest as necessary.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2007

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2013

Current Target Date: 4th Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that the General Equipment segment is ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: General Equipment systems and interfaces are compliant; all required assets are recorded in General Equipment systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Naval Audit Service Audit Report N2009-0016, "Management of Special Tooling and Special Test Equipment at Space and Naval Warfare Systems Command," dated December 8, 2008.
- Naval Audit Service Audit Report N2009-0026, "Management of Special Tooling and Special Test Equipment at Naval Air Systems Command," dated April 24, 2009.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Defined Audit-Ready Financial Environment (Integrated Financial Management System) by communicating and distributing Acquire to Retire Audit Readiness (1.3, 1.3.1)
Completed	Identified known weaknesses (1.5)
Completed	Documented effective controls and prioritized control weaknesses (1.7)
Completed	Gap Analysis for the following Commands: BUMED, BUPERS, CNIC, FFC-CPF, NAVSEA, ONR, SPAWAR, SPECWAR (1.8.1 -1.8.8.2)
Completed	Identify and document the individuals who will fulfill the specific roles/responsibilities identified in 1.11. Identify Navy WAWF POCs by command. Identify Navy Program Execution Office POCs (3.1, 3.1.1.2,

	3.1.1.2.2).
Completed	Implement system changes for WAWF-DPAS interface. Create DODAAC table, and update receipt and acceptance policy and procedures (3.3.1.1 to 3.3.1.3)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Implement training through the use of materials development in WBS Task 1.11 and establish positions/reporting Chain of Command, if necessary (3.1.2, 3.1.3)
1 st Qtr, FY 2011	Update Receipt and Acceptance Policy and Procedures (3.3.1.3)

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2012	Update PFAT4A-related Policy and Procedures and train responsible parties for the PFAT4A Process (3.2.1 and 3.2.2)
2 nd Qtr, FY 2012	Complete PFAT4A Manual Controls (3.2.2.5)
3 rd Qtr, FY 2012	Execute PFAT4A Corrective Actions and Measure Performance (3.2.3 – 3.2.4)
1 st Qtr, FY 2013	Execute Physical Inventory Corrective Actions (3.3.2.3)
1 st Qtr, FY 2013	Execute Valuation Corrective Actions and Measure Valuation Controls Effectiveness (3.4.2-3.4.3)
1 st Qtr, FY 2013	Complete Physical Inventory Corrective Action (3.3.2)
1 st Qtr, FY 2013	Measure and Test Physical Inventory Performance (3.3.2.4-3.3.2.5)
1 st Qtr, FY 2013	Train Responsible Parties: Receipt and Acceptance Process and Controls for Manual Controls, Systematic Controls and assign barcodes and marking of incoming equipment (3.3.1.4 to 3.3.1.4.3)
1 st Qtr, FY 2013	Train Responsible Parties: Physical Inventory Process and Controls which includes Baseline Inventory Performance and Annual/Cyclical Inventory Performance (3.3.2.2 to 3.3.2.2.3)
1 st Qtr, FY 2013	Execute Receipt and Acceptance Corrective Actions (3.3.1.5)
1 st Qtr, FY 2013	Measure Receipt and Acceptance Performance (3.3.1.6)
1 st Qtr, FY 2013	Test Receipt and Acceptance Performance (3.3.1.7)
1 st Qtr, FY 2013	Receipt and Acceptance Corrective Action (3.3.1.8)
2 nd Qtr, FY 2013	Mock Audit/Final Testing/Corrective Action (3.6)
2 nd Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
3 rd Qtr, FY 2013	Proper Financial Accounting Treatment for Assets (PFAT4A) Corrective Actions (3.2)
3 rd Qtr, FY 2013	Test PFAT4A Performance and complete PFAT4A Corrective Actions (3.2.5, 3.2.6)

3 rd Qtr, FY 2013	Equipment Valuation Corrective Actions (3.4)
3 rd Qtr, FY 2013	Test Valuation Performance and Complete Valuation Corrective Action (3.4.4, 3.4.5)
4 th Qtr, FY 2013	Complete Verification and Validation (V&V) and Management Assertion (5, 6)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Military Equipment, General Fund*

The Department of the Navy (DON) cannot establish or support ownership and valuation of military equipment due to (1) lack of supporting documentation, (2) underutilization of the accounting system of record and (3) system limitations. Additionally, the DON cannot substantiate that the asset records in accountable systems of record (non-financial) represent all Military Equipment assets and that those assets include all their ancillary costs (freight, inspection, augmentation), or assigned correct useful life. Legacy information systems did not maintain a historical cost baseline; therefore, the DON cannot properly record and maintain the value of military equipment. Further, accountable systems of record are not tied to the accounting systems, hampering accurate valuation of assets. Reclassification of some property that is currently considered Military Equipment to General Equipment will affect the accurate reporting of this line item. The DON has not properly recorded and presented contract financing interim payments as capitalized Military Equipment, due to inadequate and conflicting policy. The DON has not properly entered data in the Capital Asset Management System – Military Equipment to ensure that the Construction-In-Progress (CIP) balance is accurate.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year’s Report: 4th Qtr, FY 2013

Current Target Date: 3rd Qtr, FY 2014

Reason for Change in Dates: On 11 August 2009, the USD Comptroller directed all Department of Defense (DoD) services and agencies to focus their efforts to improve financial information and processes supporting audit readiness to two major areas, (1) their Statement of Budgetary Resources (SBR) and (2) Existence and Completeness of mission critical assets. Similarly, FY 2010 FIAR guidance published in May 2010 reprioritized Financial Improvement Plan (FIP) efforts to focus on Existence and Completeness of mission critical assets, with valuation to be addressed after successful audits have been achieved. In response to this change,

the Department of the Navy (DON) has redirected its FIP resources and plans to assert SBR audit readiness in FY 2012. For Existence and Completeness, the DON also plans to assert audit readiness for Ships, Aircraft, Satellites, Trident Missiles, and Ordnance by 30 September 2010. Valuation of legacy and newly acquired mission critical assets will be completed in accordance with the FIAR guidance.

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

Results Indicator: The weakness is considered resolved when the DON meets Federal Accounting Standards for the financial reporting of Property, Plant and Equipment. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Government Accountability Office (GAO), Report GAO-01-244 “Report on the Department of Defense Fiscal Year 2001 Major Management Challenges and Program Risks,” dated January 16, 2001.
- Department of Defense, Office of Inspector General Report D-2004-036, “Independent Auditor’s Report on the Department of Defense Fiscal Year 2003 Agency-Wide Principal Financial Statements,” dated December 10, 2003.
- DoDIG, Report D-2008-042, “Reporting of Contract Financing Interim Payments on the DoD Financial Statements,” dated January 31, 2008.
- DoDIG, Report D-2008-103, “Memorandum Report on Internal Controls Over the U.S. Special Operations Command Military Equipment Baseline Valuation Effort,” dated June, 13, 2008.
- GAO, Report GAO-05-284T, “Fiscal Year 2004 U.S. Government Financial Statements,” dated February 9, 2005.
- DoDIG, Report D-2009-049, “Internal Controls over the United States Marine Corps Military Equipment Baseline Valuation Effort”, dated February 9, 2009.
- DoDIG, Report No. D-2009-065, “Navy Reporting of Financing Payments for Shipbuilding on the Financial Statements,” dated March 26, 2009.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) and/or Financial Improvement Initiative (FII) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Initiate discovery at NAVAIR Pilot Program Office (3.1)
Completed	Work with the DASN (Air) to select “pilot” team members including PEO(s), financial management, and logistics representatives (3.2.1.1)
Completed	Preparation Activities for Military Equipment Valuation (MEV) includes: brief FMO and ASN/RDA on pilot approach, identify organization for gap analysis study support, finalize AS-IS and TO-BE process, and develop data collection templates (3.2.1.2.1 – 3.2.1.2.1.7)
Completed	MEV Gap Analysis Study includes: conduct kick-off event with pilot leadership team and SME participants, execute preliminary reports in Navy ERP, perform data collection, develop metrics, and conduct measure leadership review with gap analysis study results (3.2.1.2.2 – 3.2.1.2.2.9)
Completed	Conduct leadership review of implementation strategy, conduct control tollgate, and develop pilot out-brief (3.2.1.3.2.13, 3.2.1.3.2.18, 3.2.1.3.2.19)
Completed	MEV Gap Analysis Study to include: analyze “As-Is” and “To-Be” Model Difference, conduct Toll-Gate review, and develop and conduct pilot out-brief (3.1)
Completed	Define accountable systems of record by transitioning Non-Aircraft Inventory Readiness and Reporting System (AIRRS) and Naval Vessel Register (NVR) to DPAS and defined current DON policy and guidance (3.2.1.1)
Completed	Complete MEV Pilot to include: preparation of activities for MEV Pilot, implementation of MEV Pilot, analysis of impact on legacy information systems, and finalize implementation strategy (3.2.1.3 – 3.2.1.3.2.12)
Completed	Existence and Completeness: Identify and prioritize military equipment assessable units. (9.1-9.4)
Completed	Marine Corps contract awarded for Item Unique Identification (IUID) implementation
Completed	Marine Corps executed temporary data storage repository in order to capture aggregated military equipment asset data from legacy IUID records
Completed	Marine Corps initiated opportunistic IUID marking of legacy equipment at the Logistics Command Depot-Level Maintenance Centers
Completed	Marine Corps System Command-led, GDIT-executed, seek-and-apply marking of Marine Corps Automated Readiness Evaluation System (MARES) reportable legacy Principal End Items (PEI) in the active Marine forces was initiated

Completed	Promulgate Marine Corps Order on IUID of Marine Corps ground equipment
Completed	MARES reportable PEI IUID marking complete in active Marine forces
Completed	Marine Corps initiated marking of non-MARES PEI in active Marine forces, and all marking in Reserve forces

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2010	Assessable unit assertion preparation (9.6-9.6.4.25)
4 th Qtr, FY 2010	Implement corrective actions based on discovery efforts (all areas) (9.6.5-9.6.5.3)
4 th Qtr, FY 2010	Management Evaluation (9.7-9.7.4)
4 th Qtr, FY 2010	Management Assertion (9.8-9.8.6)
1 st Qtr, FY 2011	Issue clarifying guidance for definition of military equipment, procedures for special situations, and develop a methodology to identify Work in Progress. (3.11)
3 rd Qtr, FY 2011	Analyze impact in legacy information systems by developing a business case for legacy systems during LSS and obtaining leadership guidance for LSS legacy data migration strategy. (3.5.2.10-3.5.2.10)
3 rd Qtr, FY 2011	Finalize implementation strategy, implementation plan, metrics, training, plan, communications plan, and change management plan. (3.5.2.11-3.5.2.18)
4 th Qtr, FY 2011	Sustainment (9.9-9.9.3)
4 th Qtr, FY 2011	Validation (9.10-9.10.5)
4 th Qtr, FY 2011	Marine Corps review and revalidate waived programs and ensure appropriate supporting documentation

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY2012	Complete Material Management Lean Six Sigma (LSS) Implementation. (3.5.2-3.5.2.9)
2 nd Qtr, FY 2012	Marine Corps complete ground legacy equipment Seek-and-Apply PEI marking
2 nd Qtr, FY 2012	Marine Corps complete marking in Reserve Forces
2 nd Qtr, FY 2012	Marine Corps complete marking of non-MARES PEI in active Marine Forces
3 rd Qtr, FY 2012	Audit (9.11-9.11.5)
2 nd Qtr, FY 2013	Military Equipment accuracy at Aviation Locations: complete inventory of all military equipment assets and identify unusable, damaged or missing items. (3.8.1-3.8.2)
2 nd Qtr, FY 2013	Develop and implement methodology for military equipment accuracy at all other locations. (3.9.1-3.9.2)
2 nd Qtr, FY 2013	Full Global Combat Support system – Marine Corps (GCSS-MC) implementation and sustainment

2 nd Qtr, FY 2013	Identify and implement a military equipment sampling methodology to sustain data quality. (3.10-3.10.2)
1 st Qtr, FY 2014	Evaluate LSS results and ERP functionality to remaining command functional requirements. (3.6.1-3.6.3)
1 st Qtr, FY 2014	Roll out “To-Be” process to Navy Commands (NAVAIR, NAVSEA, SPAWAR) based on ERP implementation schedule. (3.7-3.7.3)
2 nd Qtr, FY 2014	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
3 rd Qtr, FY 2014	Verification and Validation using FAM/GAAA standards. (5-5.1)
3 rd Qtr, FY 2014	Complete and submit management assertion package to DoDIG and FIAR. (6-6.2)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Operating Materials and Supplies (OM&S), General Fund.* The Navy does not perform and document annual physical inventories of OM&S or comply with established policy to require source documentation be provided to support or provide a clear and concise audit trail to the reported OM&S dollar values. Additionally, the Navy does not provide adequate oversight of contract work performed to modify the OM&S updating and reporting process. Legacy systems were designed for material management purposes but not designed to capture any financial information, therefore, the Navy cannot maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005

Original Targeted Correction Date: 4th Qtr, FY 2011

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2015

Current Target Date: 2nd Qtr, FY 2015

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that the OM&S segment is ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: OM&S systems and interfaces are compliant; all required assets are recorded in OM&S systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- DoDIG Report D-2003-039, “Report on the Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost,” dated December 31, 2002.
- DoDIG Report D-2004-036, “Independent Auditor’s Report on the Department of Defense Fiscal Year 2003 Agency-Wide Principal Financial Statements,” dated December 10, 2003.
- DoDIG Report D-2007-048, “Reporting of Navy Sponsor Owned Material Stored at the Space and Naval Warfare Systems Centers,” dated January 26, 2007.
- DoDIG Report D-2007-085, “Reporting of Navy Sponsor Owned Material Stored at the Naval Air Systems Command Activities,” dated April 23, 2007.
- Naval Audit Service Audit Report, N2007-0047, “Industrial Logistics Support Management Information System,” dated July 31, 2007.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Analyze and confirm which OM&S systems will be replaced by ERP and which will remain as legacy systems (3.1)
Completed	Complete deficiency correction actions identified in 2007 by Naval Audit Service in DON legacy OM&S systems (3.3)
Completed	Identify legacy information systems which are Candidate for Conversion/Migration into Navy ERP (3.4.1.1.2)
Completed	Perform data mapping from legacy environment to NAVY ERP (3.4.1.1.3)
Completed	Determine ERP strategy and solution to address SOM, Appropriation Purchase Account (APA) material, Property in the Possession of Contractors (PIPC), and residual material and deploy NAVY ERP Release 1.1 (3.5, 3.7)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2010	Ordnance Information System (OIS) Assessable Unit: review OIS inventory efforts conducted since February 2007 for accuracy, completeness and issues/complications identified and review policies and procedures, conduct interviews with a random selection of property officers and identify and train responsible personnel on Existence & Completeness audit procedures (9.5.1 – 9.5.1.7)
4 th Qtr, FY 2010	Financial environment assessment (1)
3 rd Qtr, FY 2011	Analyze impact on legacy information systems and finalize implementation strategy of Material Management pilot (3.9.1.2.10 – 9.9.1.2.11.7)
3 rd Qtr, FY 2011	Issue clarification guidance for definition of OM&S (3.6)

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2012	Material Management (MM) Lean Six Sigma (LSS), complete preparation activities for Material Management (MM) Pilot (3.9.1 – 3.9.1.2)
1 st Qtr, FY 2012	Implement “To Be” process in accordance with implementation strategy (3.9.1.2.12)
2 nd Qtr, FY 2012	Assessable unit assertion preparation for existence & completeness quick wins (9.5)
2 nd Qtr, FY 2012	Management evaluation for existence & completeness quick wins (9.6)
2 nd Qtr, FY 2012	Management assertion for existence & completeness quick wins (9.7)
3 rd Qtr, FY 2012	Existence and completeness of operating materials and supplies assessable units (9)
3 rd Qtr, FY 2012	Sustainment: obtain list of accountable property officers and query OIS to identify additions and deletions since the 2007 Naval Audit Service Report (9.8 – 9.8.3)
1 st Qtr, FY 2013	Develop a plan to either replace ILSMIS and DECKPLATE systems with Navy ERP or link them to Navy ERP (3.2)
1 st Qtr, FY 2013	Identify and implement sampling methodology to sustain data quality (3.12 – 3.12.2)
2 nd Qtr, FY 2013	Interface legacy systems with ERP and design and implement interfaces between legacy systems and ERP (3.8 – 3.8.1)
1 st Qtr, FY 2014	Corrective Action Tasks (3)
1 st Qtr, FY 2014	Key control objectives/FIAR key milestones – Operating Material and Supplies (2)
1 st Qtr, FY 2014	Confirm “To Be” processes in Navy ERP (3.9)
1 st Qtr, FY 2014	Evaluate LSS results and ERP functionality to remaining command functional requirements (3.9.2.1 – 3.9.2.3)
1 st Qtr, FY 2014	Implement “To Be” environment, and roll-out OM&S process for following commands: NAVAIR, NAVSEA, and SPAWAR (3.10 3.10.3)

1 st Qtr, FY 2014	Identify OM&S holders across Navy Commands (3.11)
4 th Qtr, FY 2014	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
1 st Qtr, FY 2015	Complete Verification and Validation (V&V) (5)
2 nd Qtr, FY 2015	Complete Management Assertion (6)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Real Property, General Fund.*

Due to lack of supporting documentation and system limitations, the Department of the Navy (DON) cannot post timely transactions to establish or support the valuation of Construction-in-Progress (CIP), and establish or support the valuation and ownership of Real Property across its component organizations. The DON lacks standardized procedures for transferring of real property from Naval Facilities Engineering Command (NAVFAC) to the receiving entities. The DON cannot validate users of all real property that do not reimburse the provider for goods and services, and cannot reconcile their inventory with Department of Defense (DoD) records in accordance with imputed costs policies.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 2nd Qtr, FY 2009

Targeted Correction Date in Last Year’s Report: 2nd Qtr, FY 2013

Current Target Date: 2nd Qtr, FY 2013

Reason for Change in Dates: N/A

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

Results Indicator: The material weakness will be corrected when a process and internal control system is developed and implemented to ensure that the DON has adequate documentation to support accurate and timely Real Property estimates and valuations. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Department of Defense Inspector General (DoDIG) Report. D-2006-072, “Internal Controls Related to Department of Defense Real Property,” dated April 6, 2006.
- DoDIG Report. D-2008-072, “Controls Over Army Real Property Financial Reporting,” dated March 28, 2008.
- Naval Audit Service Audit Report N2009-0029, “Internal Controls over the Department of the Navy’s Construction in Progress Account,” dated May 21, 2009.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) and/or Financial Improvement Initiative (FII) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans for the Department of the Navy.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	STARS reconciliation for MILCON Reimbursables. Complete the Military Construction Program (MILCON) reimbursable corrective action by creating journal vouchers for MILCON(Reimbursable) Lines of Accounting (LOA) in the iNFADS System and upload financial data in STARS (3.1 – 3.1.3)
Completed	Implementation of a fully net-centric environment (3.12)
Completed	Complete Base Realignment and Closure (BRAC) net realizable value by updating NITC depreciation algorithm in iNFADS system, Defense Capabilities and Management (DCM) modifications and include balance for GL 1890/1899 in DCM (3.2)
Completed	Marine Corps defined Alternative Valuation Methodology for Real Property
Completed	Marine Corps tested NAVFAC improvements (DD-1354 availability and iNFADS accuracy)
Completed	Marine Corps tested NAVFAC improvements within the scope of ICOFR testing for FY 2010 (DD-1354 availability and iNFADS accuracy)
Completed	Marine corps increased training, conducted classes at MCB Camp Pendleton, MCB Camp Butler, MCAS Iwakuni, MCLB Albany, MCB Hawaii, and MCB Camp Lejeune
Completed	Marine corps worked with NAVFAC and NITC to develop a DD Form 1354 module in iNFADS that became active in the quarter and will be used in the future for all MILCON construction.

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2010	Develop inventory plan for all real property asset classes (3.10.1)
4 th Qtr, FY 2010	Complete Capital Leases by assessing iNFADS data, updating property record card based on assessment in iNFADS, and modify iNFADS in order to identify capital leases (3.3)
4 th Qtr, FY 2010	Design breakage in Construction In Progress (CIP). Establish requirements and thresholds for inactive project design; identify FIS system query parameters, process and system test and training, and final process and system implementation (3.5 – 3.5.6)
4 th Qtr, FY 2010	Capital Improvement to Leases (3.4)
4 th Qtr, FY 2010	Capital improvements to leases include iNFADS modifications and new balance for GL 1820 – Q2 FY 2009 (3.4 – 3.4.6)
4 th Qtr, FY 2010	For existence improvements, the Marine Corps is using non-traditional methods of validating the inventory. Marine Corps GIS section will update its imagery at least once every three years and the images are then compared to the iNFADS inventory, to reconcile between the inventory and the images.
1 st Qtr, FY 2011	Account and report imputed costs for real property assets (3.9)
1 st Qtr, FY 2011	Marine Corps will implement DD Form 1354 module for MILCON projects. This will extract costs directly from FIS which is an auditable system, and should relieve the requirement for some supporting documentation
1 st Qtr, FY 2011	Marine Corps will improve source documentation with NAVFAC (FIAR Tool Input)
2 nd Qtr, FY 2011	Process Testing (3.6.1.9)
2 nd Qtr, FY 2011	Develop Implementation plan for new processes (3.7.5)
2 nd Qtr, FY 2011	Source Document Availability Assessment (Field Level) (3.11.3)_
2 nd Qtr, FY 2011	Marine Corps and DON coordination of real property solutions (NAVFAC source documentation sustainment)
3 rd Qtr, FY 2011	Test New Processes (3.7.6)
3 rd Qtr, FY 2011	Prepare Communication Plan (3.7.7)
3 rd Qtr, FY 2011	Prepare training Plan (3.7.8)
4 th Qtr, FY 2011	Guidance, Implementation and Testing for 1354 Working Group Phase II – MILCON Projects in Process (3.6.2 – 3.6.2.3)
4 th Qtr, FY 2011	Complete DoD-wide asset reconciliation (3.8)
4 th Qtr, FY 2011	1354 Working Group Phase II – MILCON Projects in process to ensure accurate Real Property Data (3.6.2 – 3.6.2.3)
4 th Qtr, FY 2011	Develop Implementation Plan for new processes (3.6.4.5)
4 th Qtr, FY 2011	Implement DoD Asset Reconciliation for DLA, TriCare, and DoDEA (3.8.8)
4 th Qtr, FY 2011	Define DON Estimation Methodology for historical Asset Cost (3.11.4)

C. Planned Milestones Beyond Fiscal Year 2011:

Date:	Milestone:
2 nd Qtr, FY 2012	Ensure that iNFADS property records contain accurate and complete data for all 24 required existence and completeness data elements (3.13)
2 nd Qtr, FY 2012	Transfer and Acceptance of Real Property (1354/RPUIID—New MILCON Phase I) to ensure accurate Real Property Data (3.6.1)
2 nd Qtr, FY 2012	Develop Implementation Plan for new processes and roll out process/system training (3.6.3.5, 3.5.3.6)
2 nd Qtr, FY 2012	Test New Processes (3.6.4.6)
2 nd Qtr, FY 2012	Prepare Communication Plan (3.6.4.7)
3 rd Qtr, FY 2012	Begin using new process and system (3.6.3.7)
3 rd Qtr, FY 2012	Analyze and Summarize Results (4.3)
3 rd Qtr, FY 2012	Define and report weaknesses, if any were identified by tests (4.4)
4 th Qtr, FY 2012	Periodic inventory of real property (complete inventory once every five years) (3.10)
4 th Qtr, FY 2012	Develop inventory plan for all real property asset classes (3.10.1)
4 th Qtr, FY 2012	Establish real property acquisition value baseline (3.11)
1 st Qtr, FY 2013	Complete other methods of acquisition (1354 Working Group Phase II) and process controls for real property disposal to ensure accurate real property data (3.6.2, 3.6.3)
1 st Qtr, FY 2013	Evaluate other methods of Acquisition (non-MILCON) (3.6.3 – 3.6.3.8)
1 st Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
1 st Qtr, FY 2013	Complete Verification and Validation (V&V) (5)
2 nd Qtr, FY 2013	Complete Assertion Package and submit to DoDIG & FIAR (6.1 – 6.2)

(TAB E-1)
LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES
NAVY WORKING CAPITAL FUND (NWCF)

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
N/A		

Uncorrected Weaknesses Identified During Prior Periods:

Title	Year First Reported	Per Last Annual Statement	Per This Annual Statement	Page #
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Collections and Disbursements	FY 2006	1 st Qtr, FY 2010	4 th Qtr, FY 2012	E-2-1
<u>Functional Category:-</u>				
<u>Financial Reporting</u>				
Procure to Pay Processes	FY 2005	1 st Qtr, FY 2013	4 th Qtr, FY 2012	E-2-4
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Inventory	FY 2005	1 st Qtr, FY 2013	1 st Qtr, FY 2013	E-2-6
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Real Property	FY 2006	2 nd Qtr, FY 2013	2 nd Qtr, FY 2013	E-2-9
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
General Equipment	FY 2007	4 th Qtr, FY 2013	4 th Qtr, FY 2013	E-2-13

(TAB E-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Collections and Disbursements, Navy Working Capital Fund.* Control environment does not mitigate the risk of material misstatement due to inaccurate recording of collection and disbursement transactions. Control weaknesses include: lack of controls designed to prevent problem disbursements; lack of segregation of duties; lack of periodic reconciliation of Fund Balance with Treasury.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006 (as Financial Reporting of Fund Balance with Treasury, General Fund)

Original Targeted Correction Date: 4th Qtr, FY 2008

Targeted Correction Date in Last Year's Report: 1st Qtr, FY 2010

Current Target Date: 4th Qtr, FY 2012

Reason for Change in Dates: DON, supported by DFAS, requires additional time to implement a tool to facilitate the reconciliation of Fund Balance with Treasury at the detail transaction level.

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

Results Indicator: The weakness is considered resolved when the DON has developed and implemented a process and internal control system to ensure a proper reconciliation of Command/Activity accounting reports and records with Treasury's reports and records. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Research current problem disbursement efforts, collaborate with other DFAS centers to discuss problem disbursements, determine if adequate resources are assigned to work problem disbursements and determine the areas of focus for problem disbursements at DFAS-CL (3.1.1.2 – 3.1.1.5)
Completed	Review of policies and procedures by system, identify the universe of DFAS and Navy personnel with the ability to approve accounting adjustments (3.2.1.2, 3.2.1.3)
Completed	Design tests using OMB A-123 Guidance (4.1)
Completed	Perform Phase I testing of key controls 1-10 for disbursements (4.2.1 – 4.2.1.1.10)
Completed	Perform Phase I testing of controls for collections (4.2.1.2 – 4.2.1.2.2)
Completed	Define and Report Weaknesses, if any were identified through testing (4.2.1.2.3)
Completed	Corrective Action Tasks for Problem Disbursements/Collections: identify UMD roles and responsibilities by appropriation and customer (3.1.1.1)
Completed	Corrective Action Tasks for Problem Disbursements/Collections: Interfund, No Obligation and MILCON working Groups will meet to research the major issues associated with problem disbursements. Define controls and determine deficiencies in the to-be process (3.1.1.6 – 3.1.1.8.3)
Completed	Corrective Action Tasks for Review/Approval of Accounting Adjustments: obtain definition of accounting adjustments by system; update/revoke the user access to correspond, identify roles and responsibilities and mechanism for preparing accounting adjustments (3.2 – 3.2.1.9)
Completed	Corrective Action Tasks for Reconciliation of Cash: Observe Business Activity Monitoring (BAM) demo, assess impact of the outcome of IOC/FOC on reconciliation (3.3 – 3.3.3.2)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2011	Perform re-testing to validate the effectiveness of corrective actions.

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2012	Complete Assertion Package, Management Assertion, Submit Assertion Package to DoDIG & FIAR(6 – 6.2)
4 th Qtr, FY 2012	Verification and Validation, Audit Substantive Testing (FAM/GAAS Standards) (5, 5.1)

(TAB E-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Procure to Pay Processes, Navy Working Capital Fund.* Navy’s Procure to Pay segment encompasses the Reimbursable Work Order (Grantor), Supplies and Materials, Leases, Transportation of People, and Other Contractual Services processes. Deficiencies in this area include: the inaccurate input of source documentation into Wide Area Work Flow (WAWF) that may result in unmatched collections, invalid billings, and duplicate entries if certain unique identifiers are not input correctly. In some cases, WAWF invoices that are usually received electronically for contract services are submitted in hard copy, which causes a delay in payment and may result in unmatched disbursements. Additionally, audit trail responsibilities need to be clarified for the Mechanization of Contract Administration Services (MOCAS) system to ensure that there is proper supporting documentation for the proprietary and budgetary accounts for Accounts Payable. Lastly, accruals are being executed inconsistently and do not always comply with the standards outlined by GAAP.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005 (as Financial Reporting of Accounts Payable, DON Working Capital Fund)

Original Targeted Correction Date: 2nd Qtr, FY 2008

Targeted Correction Date in Last Report: 1st Qtr, FY 2013

Current Target Date: 4th Qtr, FY 2012

Reason for Change in Dates: DON expects to complete the Procure to Pay process in tandem with Financial Reporting of Collections and Disbursements (FBwT)-General Fund and adjusted the Target Date accordingly.

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

Results Indicator: The weakness is considered resolved when all related deficiencies have been mitigated by corrective actions and through testing. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plan for the Other Contractual Services segment.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Design Tests using OMB A-123 Appendix A Guidance (4.1)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2011	Evaluate the operating effectiveness of key controls 1 – 16 (4.2.1 – 4.2.1.16)
4 th Qtr, FY 2011	Corrective Action Tasks for process definition, system configuration and change management (3 – 3.1.3.1)

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
3 rd Qtr, FY 2012	Test of Design and Effectiveness of Internal Controls using OMB A-123 Appendix guidance. (4)
3 rd Qtr, FY 2012	Verification and Validation through Audit of Substantive Testing – Financial Audit Manual/Generally Accepted Auditing Standards: Define rationale for asserting and perform audit substantive testing.(5, 5.1)
4 th Qtr, FY 2012	Management Assertion, Complete Assertion Package and submit to DoDIG & FIAR (6 – 6.2)

(TAB E-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Inventory, Navy Working Capital Fund.* The Navy cannot maintain accurate 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 Navy misclassified and reported Sponsor Owned Material as Operating Materials and Supplies (OM&S) due to control deficiencies in following existing guidance, performance of annual physical inventories and oversight of contracts. Legacy systems cannot maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards. As a result, the DON is unable to accurately account for, value, and report inventory on financial statements in accordance with Generally Accepted Accounting Principals and Federal Accounting Standards Advisory Board Statements of Federal Financial Accounting Standards.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005

Original Targeted Correction Date: 4th Qtr, FY 2011

Targeted Correction Date in Last Year's Report: 1st Qtr, FY 2013

Current Target Date: 1st Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that inventory are ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: inventory systems and interfaces are compliant; all required assets are recorded in inventory systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- DoDIG, Report D-2003-039, “Report on the Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost,” dated December 31, 2002.
- DoDIG, Report D-2007-085, “Reporting of Navy Sponsor-Owned Material Stored at the Naval Air Systems Command Activities,” dated April 23, 2007.
- Naval Audit Service, Audit Report N2007-0047, “Industrial Logistics Support Management Information System,” dated July 31, 2007
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Included Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the June 2010 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Conducted a Financial Environment Assessment for Inventory (1.0)
Completed	Issued clarification guidance for definition of inventory, procedures for special operational situations, and Work-in-Progress (WIP), and identify inventory built for service assets, and the proper costing and accounting treatment (3.10, 3.10.1)
Completed	Roll out of ERP for NAVSUP – Phase I (3.3.1.1)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2010	Roll out ERP for NAVSUP – Phase 2 (3.3.1.2)
2 nd Qtr, FY 2011	Roll out ERP for NAVSUP – Phase 3 (3.3.1.3)
4 th Qtr, FY 2011	Identify Inventory Sampling Methodology (3.9.1)
4 th Qtr, FY 2011	Require NSWC, NUWC, and COMFISC to maintain source documentation to permit tracing of transactions such that clear and precise audit trails exist (3.8)
4 th Qtr, FY 2011	Cleanse and migrate data to Navy ERP, correct inventory accuracy at Aviation Materials location and inventory existence deficiency at Sea Materials location (3.4 – 3.6.2)

C. Planned Milestones Beyond Fiscal Year 2011:

Date:	Milestone:
1 st Qtr, FY 2012	Correct Inventory Valuation Deficiency by implementing a direct method of valuing Depot Level Repairable and proper USSGL accounting for inventory (3.7 – 3.7.1.3.4)
2 nd Qtr, FY 2012	Identify and Implement Inventory Sampling Methodology to sustain data quality (3.9, 3.9.2)
2 nd Qtr, FY 2012	Prepare Key Control Objectives/FIAR Key Milestones (2.0)
2 nd Qtr, FY 2012	Complete review, correction or modification, and documentation of business and financial processes (3.2)
2 nd Qtr, FY 2012	Develop auditable opening balances with appropriate supporting documentation that is readily available for auditors (3.1)
3 rd Qtr, FY 2012	Design tests using OMB A-123, Appendix A Guidance (4.1)
4 th Qtr, FY 2012	Perform testing of Inventory (4.2)
1 st Qtr, FY 2013	Complete Test of Design (TOD) analyze and summarize results, and define and report weaknesses, if any were identified by tests (4.0, 4.3, 4.4)
1 st Qtr, FY 2013	Complete Verification and Validation (V&V) (5.0)
1 st Qtr, FY 2013	Complete Management Assertion (6.0)

(TAB E-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Real Property, Navy Working Capital Fund.* Due to lack of supporting documentation and system limitations, the Navy cannot post timely transactions to establish or support the valuation of Construction-in-Progress (CIP), and establish or support the valuation and ownership of Real Property. The Navy lacks standardized procedures for transferring of real property from Naval Facilities Engineering Command (NAVFAC) to the receiving entities. The Navy cannot validate users of all real property that do not reimburse the provider for good and services, and cannot reconcile their inventory with Department of Defense (DoD) records in accordance with imputed costs policies.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 2nd Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2013

Current Target Date: 2nd Qtr, FY 2013

Reason for Change in Dates: N/A

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

Results Indicator: The material weakness will be corrected when a process and internal control system is developed and implemented to ensure that the DON has adequate documentation to support accurate and timely Real Property estimates and valuations. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Department of Defense Inspector General (DoDIG) Report. D-2006-072, “Internal Controls Related to Department of Defense Real Property,” dated April 6, 2006.
- DoDIG Report. D-2008-072, “Controls Over Army Real Property Financial Reporting,” dated March 28, 2008.
- Naval Audit Service Audit Report N2009-0029, “Internal Controls over the Department of the Navy’s Construction in Progress Account,” dated May 21, 2009.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) and/or Financial Improvement Initiative (FII) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans for the Department of the Navy.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	STARS reconciliation for MILCON Reimbursables. Complete the Military Construction Program (MILCON) reimbursable corrective action by creating journal vouchers for MILCON(Reimbursable) Lines of Accounting (LOA) in the iNFADS System and upload financial data in STARS (3.1 – 3.1.3)
Completed	Implementation of a fully net-centric environment (3.12)
Completed	Complete Base Realignment and Closure (BRAC) net realizable value by updating NITC depreciation algorithm in iNFADS system, Defense Capabilities and Management (DCM) modifications and include balance for GL 1890/1899 in DCM (3.2)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2010	Develop inventory plan for all real property asset classes (3.10.1)
4 th Qtr, FY 2010	Complete Capital Leases by assessing iNFADS data, updating property record card based on assessment in iNFADS, and modify iNFADS in order to identify capital leases (3.3)
4 th Qtr, FY 2010	Design breakage in Construction In Progress (CIP). Establish requirements and thresholds for inactive project design; identify FIS system query parameters, process and system test and training, and final process and system implementation (3.5 – 3.5.6)

4 th Qtr, FY 2010	Capital Improvement to Leases (3.4)
4 th Qtr, FY 2010	Capital improvements to leases include iNFADS modifications and new balance for GL 1820 – Q2 FY 2009 (3.4 – 3.4.6)
1 st Qtr, FY 2011	Account and report imputed costs for real property assets (3.9)
2 nd Qtr, FY 2011	Process Testing (3.6.1.9)
2 nd Qtr, FY 2011	Develop Implementation plan for new processes (3.7.5)
2 nd Qtr, FY 2011	Source Document Availability Assessment (Field Level) (3.11.3)_
3 rd Qtr, FY 2011	Test New Processes (3.7.6)
3 rd Qtr, FY 2011	Prepare Communication Plan (3.7.7)
3 rd Qtr, FY 2011	Prepare training Plan (3.7.8)
4 th Qtr, FY 2011	Guidance, Implementation and Testing for 1354 Working Group Phase II – MILCON Projects in Process (3.6.2 – 3.6.2.3)
4 th Qtr, FY 2011	Complete DoD-wide asset reconciliation (3.8)
4 th Qtr, FY 2011	1354 Working Group Phase II – MILCON Projects in process to ensure accurate Real Property Data (3.6.2 – 3.6.2.3)
4 th Qtr, FY 2011	Develop Implementation Plan for new processes (3.6.4.5)
4 th Qtr, FY 2011	Implement DoD Asset Reconciliation for DLA, TriCare, and DoDEA (3.8.8)
4 th Qtr, FY 2011	Define DON Estimation Methodology for historical Asset Cost (3.11.4)

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2012	Ensure that iNFADS property records contain accurate and complete data for all 24 required existence and completeness data elements (3.13)
2 nd Qtr, FY 2012	Transfer and Acceptance of Real Property (1354/RPUID—New MILCON Phase I) to ensure accurate Real Property Data (3.6.1)
2 nd Qtr, FY 2012	Develop Implementation Plan for new processes and roll out process/system training (3.6.3.5, 3.5.3.6)
2 nd Qtr, FY 2012	Test New Processes (3.6.4.6)
2 nd Qtr, FY 2012	Prepare Communication Plan (3.6.4.7)
3 rd Qtr, FY 2012	Begin using new process and system (3.6.3.7)
3 rd Qtr, FY 2012	Analyze and Summarize Results (4.3)
3 rd Qtr, FY 2012	Define and report weaknesses, if any were identified by tests (4.4)
4 th Qtr, FY 2012	Periodic inventory of real property (complete inventory once every five years) (3.10)
4 th Qtr, FY 2012	Develop inventory plan for all real property asset classes (3.10.1)
4 th Qtr, FY 2012	Establish real property acquisition value baseline (3.11)
1 st Qtr, FY 2013	Complete other methods of acquisition (1354 Working Group Phase II) and process controls for real property disposal to ensure accurate real property data (3.6.2, 3.6.3)
1 st Qtr, FY 2013	Evaluate other methods of Acquisition (non-MILCON) (3.6.3 – 3. 6.3.8)

1 st Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
1 st Qtr, FY 2013	Complete Verification and Validation (V&V) (5)
2 nd Qtr, FY 2013	Complete Assertion Package and submit to DoDIG & FIAR (6.1 – 6.2)

(TAB E-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of General Equipment, Navy Working Capital Fund.* Due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations, the Navy cannot establish and/or support ownership and valuation of General Equipment. Additionally, the Navy cannot substantiate that the asset records in accounting system of record represent all General Equipment assets. For the assets included in the accounting system of record, the Navy cannot include all ancillary costs to the asset or assign a correct useful life. Finally, the Navy’s inability to reconcile their property accountability systems with their financial system causes their presentation and disclosure of the assets to be inaccurate.

Corrective action tasks for the General Equipment segment are divided into four processes consisting of the following:

- Physical Inventory Process
- Receipt and Acceptance Process
- Proper Financial Accounting Treatment for Assets (PFAT4A) Process
- Valuing Equipment Process.

Each process contains similar corrective action implementations, which are: train responsible parties, implement manual controls, execute corrective actions, measure, monitor, disseminate, and test performance, identify control test failures, determine cause, and retrain/retest as necessary.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Mr. Dennis Taitano, Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2007

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2013

Current Target Date: 4th Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that the General Equipment segment is ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: General Equipment systems and interfaces are compliant; all required assets are recorded in General Equipment systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Naval Audit Service Audit Report N2009-0016, “Management of Special Tooling and Special Test Equipment at Space and Naval Warfare Systems Command,” dated December 8, 2008.
- Naval Audit Service Audit Report N2009-0026, “Management of Special Tooling and Special Test Equipment at Naval Air Systems Command,” dated April 24, 2009.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the corresponding Work Breakdown Structure (WBS) task number(s) from the June 2010 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Defined Audit-Ready Financial Environment (Integrated Financial Management System) by communicating and distributing Acquire to Retire Audit Readiness (1.3, 1.3.1)
Completed	Identified known weaknesses (1.5)
Completed	Documented effective controls and prioritized control weaknesses (1.7)
Completed	Gap Analysis for the following Commands: BUMED, BUPERS, CNIC, FFC-CPF, NAVSEA, ONR, SPAWAR, SPECWAR (1.8.1 -1.8.8.2)
Completed	Identify and document the individuals who will fulfill the specific roles/responsibilities identified in 1.11. Identify Navy WAWF POCs by command. Identify Navy Program Execution Office POCs (3.1, 3.1.1.2, 3.1.1.2.2).
Completed	Implement system changes for WAWF-DPAS interface. Create DODAAC table, and update receipt and acceptance policy and procedures (3.3.1.1 to 3.3.1.3)

B. Planned Milestones Through Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Implement training through the use of materials development in WBS Task 1.11 and establish positions/reporting Chain of Command, if necessary (3.1.2, 3.1.3)
1 st Qtr, FY 2011	Update Receipt and Acceptance Policy and Procedures (3.3.1.3)

C. Planned Milestones Beyond Fiscal Year 2011:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2012	Update PFAT4A-related Policy and Procedures and train responsible parties for the PFAT4A Process (3.2.1 and 3.2.2)
2 nd Qtr, FY 2012	Complete PFAT4A Manual Controls (3.2.2.5)
1 st Qtr, FY 2013	Execute Physical Inventory Corrective Actions (3.3.2.3)
3 rd Qtr, FY 2012	Execute PFAT4A Corrective Actions and Measure Performance (3.2.3 – 3.2.4)
1 st Qtr, FY 2013	Execute Valuation Corrective Actions and Measure Valuation Controls Effectiveness (3.4.2-3.4.3)
1 st Qtr, FY 2013	Complete Physical Inventory Corrective Action (3.3.2)
1 st Qtr, FY 2013	Measure and Test Physical Inventory Performance (3.3.2.4-3.3.2.5)
1 st Qtr, FY 2013	Train Responsible Parties: Receipt and Acceptance Process and Controls for Manual Controls, Systematic Controls and assign barcodes and marking of incoming equipment (3.3.1.4 to 3.3.1.4.3)
1 st Qtr, FY 2013	Train Responsible Parties: Physical Inventory Process and Controls which includes Baseline Inventory Performance and Annual/Cyclical Inventory Performance (3.3.2.2 to 3.3.2.2.3)
1 st Qtr, FY 2013	Execute Receipt and Acceptance Corrective Actions (3.3.1.5)
1 st Qtr, FY 2013	Measure Receipt and Acceptance Performance (3.3.1.6)
1 st Qtr, FY 2013	Test Receipt and Acceptance Performance (3.3.1.7)
1 st Qtr, FY 2013	Receipt and Acceptance Corrective Action (3.3.1.8)
2 nd Qtr, FY 2013	Mock Audit/Final Testing/Corrective Action (3.6)
2 nd Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using ICOFR guidance, perform tests, analyze and summarize results, and define and report weaknesses, if applicable (4 – 4.4)
3 rd Qtr, FY 2013	Proper Financial Accounting Treatment for Assets (PFAT4A) Corrective Actions (3.2)
3 rd Qtr, FY 2013	Test PFAT4A Performance and complete PFAT4A Corrective Actions (3.2.5, 3.2.6)
3 rd Qtr, FY 2013	Equipment Valuation Corrective Actions (3.4)
3 rd Qtr, FY 2013	Test Valuation Performance and Complete Valuation Corrective Action (3.4.4, 3.4.5)
4 th Qtr, FY 2013	Complete Verification and Validation (V&V) and Management Assertion (5, 6)