



THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

October 14, 2015

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2015

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

I am able to provide a qualified Statement of Assurance (SOA) that operational internal controls of the DON meet the objectives of FMFIA, with the exception of six unresolved material weaknesses described in Tab B. These weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of the date of this memorandum. Other than these material weaknesses, the internal controls were operating effectively.

The DON conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular A-123, Appendix A, Internal Control over Financial Reporting. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a qualified SOA that the internal controls over financial reporting as of June 30, 2015, were operating effectively with the exception of the following: DON – 26 material weaknesses and United States Marine Corps (USMC) – 8 material weaknesses as noted in Tab C.

The DON also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a qualified SOA that the internal controls over the integrated financial management systems as of June 30, 2015, are in compliance with the Federal Financial Management Improvement Act and OMB Circular A-123 Appendix D, with the exception of the following: DON – 17 non-conformance and USMC – 3 non-conformance as noted in Tab C.

A classified annex will be forwarded under separate cover. My point of contact is Mr. Eric Kravchick. He may be reached at (202) 685-6064 or eric.kravchick@navy.mil.

A handwritten signature in black ink, appearing to read "Ray Hebrun", is located in the bottom right corner of the page.

FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2015
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

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TAB A-1

Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted

The Department of the Navy (DON) mission is to maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas. The DON is comprised of the following organizations:

- Executive offices in Washington D.C.
- Operating forces including the Marine Corps, the reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security).
- Shore establishment.

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

The objectives of the system of internal controls of the DON are to provide reasonable assurance of:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.
- Financial information systems are compliant with the Federal Financial Management Information Act (FFMIA) of 1996 (Public Law 104-208).

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 the (1) cost of internal controls should not exceed the benefits expected to be derived and (2) 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 any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

The DON evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of internal controls of the DON, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable

assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Using the following process, the DON evaluated its system of internal controls and maintains sufficient documentation/audit trail to support its evaluation and level of assurance.

a. Management Control Testing

(1) Internal Control over Financial Reporting

The DON establishes the sustainment framework for efforts on Internal Controls over Financial Reporting (ICOFR). This framework consists of five phases which encompass short, medium, and long-term activities necessary to institutionalize and sustain audit readiness. Progression through each phase of the framework will be governed by a checklist that details specific criteria required to demonstrate the transition from one phase to another. The DON's Office of Financial Operations (FMO) will monitor and update key controls and the processes to execute the key controls throughout the phases of sustainment. The DON has spent considerable time preparing for the current Schedule of Budgetary Activities (SBA) audit and is now progressing towards the achievement of audit readiness to support the full financial statement audit to include all principal financial statements: the Balance Sheet, Statement of Budgetary Resources (SBR), Statement of Net Costs (SNC), and Statement of Changes in Net Position (SCNP). In support of this achievement, the following activities continue to be performed, or have been performed:

1. Phase 1: Audit Readiness (FY 2011 – FY 2015)

- a. Performed discovery efforts over the SBA, including Business Process Standardization workshops, to define end-to-end business processes and key controls.
- b. Identify and test key controls and Key Supporting Documents (KSDs) to demonstrate audit readiness and substantiate management assertion.
- c. Identify, develop, and implement Corrective Action Plans (CAPs) to address control deficiencies and audit readiness risks.
- d. Develop process cycle memorandums and process flows to support business events that substantiate an auditable environment.
- e. Facilitate assertion packages, CAPs, testing guidebooks, and testing results.

Outcome

- SBA examination currently being conducted by an Independent Public Accountant (IPA) (Cotton & Co). Examination began in February 2015.

2. Phase 2: Full Financial Statement Audit (FY 2015 – FY 2017)

- a. Continue to assess the readiness of the Balance Sheet, SBR, SNC, and SCNP as the DON moves to full audit readiness for all of the principal financial statements.
- b. Plan and test controls/KSDs to demonstrate audit readiness and substantiate

- management's assertion to expand to the full set of financial statements.
- c. Perform test procedures to establish that the Navy has an effective combination of control activities and supporting documentation that result in financial statements being audit ready, as defined by the criteria established in the Department of Defense (DoD) Financial Improvement and Audit Readiness (FIAR) Guidance.
 - d. Identify findings and recommendations for the improvement of DON internal controls to satisfy audit readiness objectives.
 - e. Assess beginning balances of material line items to iteratively build supportable opening balances.

Outcome

- Full financial statement audit conducted by the IPA will commence October 2017.
3. Phase 3: Remediation and Implementation (FY 2016 – FY 2018; Concurrently with Phase 2)
 - a. Utilize examination results through obtaining Notice of Findings and Recommendations (NFRs).
 - b. Evaluate NFRs to develop and implement CAPs.
 - c. Initiate a risk-based testing pattern (i.e., monthly, quarterly, bi-annually) through continual CAP implementation and testing.
 - d. Conduct Budget Submitting Office (BSO) sustainment workshops.
 - i. CAP development.
 - ii. Knowledge transfer, lessons learned, best practices, training for sample selection, and performance of controls/procedures.

Outcome

- Deliverables will include status on implementation of CAPs and follow-up test results.
4. Phase 4: Post-Examination Testing (FY 2018 and forward)
 - a. Perform annual control testing.
 - b. Refine key controls to ensure continuity from the remediation and implementation environment into operational/ICOFR activities (steady readiness state).
 - c. Utilize a risk-based approach to develop a balanced testing plan that considers workload priorities and extent of testing required (i.e., frequency, volume, etc.).
 - d. Demonstrate a consistent 90% passing rate before transition to steady readiness state/ICOFR.

Outcome

- Deliverables will include refined CAPs (if applicable), steady readiness state plans and transition checklists, and sustainment workshops/training.

5. Phase 5: Steady Readiness State/ICOFR (every 3 years)

- a. Perform control testing every three years.
- b. Utilize a risk-based approach to focus testing on controls and require BSOs to establish and implement additional corrective action to maintain a high level of audit readiness and execute ICOFR.
- c. Monitor processes and systems continually to ensure that controls remain effective.
- d. Update processes and documentation on a recurring basis.

Outcomes

- Achievement of a stable internal control environment is established.
- Deliverables include steady state testing policies and schedule.

The DON continues to make significant audit readiness progress, which is evidenced through FIAR Assessable Unit (AU) assertions/business processes as being audit ready. Assertion efforts attest to the importance that the DON continues to place on internal controls.

The DON's internal control testing approach for each AU is comprised of the following activities:

Step No.	Activity	Description	Owner
1	Determine Control Testing Populations	Identify representative populations via accounting systems of record or applicable BSO level feeder systems.	FMO
2	Identify Control Testing Sample Selections	Utilize the identified population to select a sample using a random number generator.	FMO
3	Execute and Document Control Testing	Perform testing procedures and document testing results.	BSOs/ Shared Service Providers
4	Evaluate and Communicate Testing Results	Perform independent reviews and evaluate testing results.	FMO/ Naval Audit Service (NAVAUDSVC)
5	Develop CAPs	Identify procedures to remediate control deficiencies identified through testing.	FMO
6	Implement and Execute CAPs	Implement CAPs.	FMO/BSOs/ Shared Service Providers

Step No.	Activity	Description	Owner
7	Retest Remediated Internal Controls	Perform testing procedures and document testing results.	BSOs/ Service Providers
8	Summarize and Communicate Testing Results	Perform independent review and evaluate testing results.	FMO

Step 1: Determine Control Testing Populations

FMO will provide distinct BSO sample populations based on materiality for each control activity. The sampling methodology is based on Office of the Under Secretary of Defense (Comptroller) (OUSD (C)) FIAR Guidance, which will be applied to each executed BSO control activity. In addition, to the extent a control activity is executed through greater than one distinct system and/or activity type, a BSO may have multiple sample populations for a single control activity.

Step 2: Identify Control Testing Sample Selections

The selection testing criteria for the operational effectiveness of control activities are determined based on frequency and execution (manual or automated), which adheres to FIAR Guidance. Manual controls with a high frequency are exposed to a greater risk of human error, resulting in a larger sample size. The following table illustrates the DON's control sample sizes that are generally used.

Internal Control Testing Sample Sizes¹

Frequency of Control Performance	Population Size	Total Sample Size
Annual	1	1
Quarterly	4	2
Monthly	12	3
Weekly	52	10
Daily	250	30
Multiple Times per Day	Over 250	45

For automated application controls, a sample size of one is required to test each unique software application. However, to the extent an automated control is configured or enabled locally, a test of one is required for each instance of the application.

BSO sample selections are made using a random number generator. This method is commonly used when items in the testing population are sequentially pre-numbered or when they are represented by line items in a listing.

¹ OUSD (C) FIAR Guidance Section 3, Figure 3-7 dated April 2015

Step 3: Execute and Document Control Testing

Procedures to be performed for testing control activity sample selections will include one or more of the following:

- Re-performance – repeating a sample transaction to assess the application of the key control activity and the consistency of the sample results with those yielded from the original transaction.
- Observation – assessing the effectiveness of the key control activity through observation of the key control activity as it is performed.
- Inspection of Documentation – review of evidential matter to ensure a key control activity is effectively operating as designed.
- Corroborative inquiry supported by observation.
- Corroborative inquiry supported by inspection of documentation.

Upon testing completion, BSOs and shared service providers will deliver their completed testing workbook to FMO via the DON's Audit Response Center (ARC) Tool.

Step 4: Evaluate and Communicate Testing Results

Completed testing is subject to three levels of review:

- First level – BSOs and shared service providers (such as, the Defense Finance and Accounting Service (DFAS) and Defense Logistics Agency (DLA)) conduct reviews at the testing location. The review consists of a detailed analysis of the documented test results and KSDs related to the sample selections by personnel not directly involved in execution of the control activity. Testing exceptions are confirmed with the personnel responsible for performing the control and/or for preparing/retaining the KSD.
- Second level – FMO performs an independent review for compliance with testing procedures and documentation requirements.
- Third level – FMO Program Manager (PM) performs a review to confirm the operating effectiveness of the control activity.

FMO's final determination on the operating effectiveness of the control activity is communicated to the respective BSO within 10 business days of receipt of the testing workbook.

Step 5: Develop Corrective Actions

When internal control testing exceptions are identified, FMO PMs coordinate with the respective BSOs and shared service providers to develop a CAP. The CAP includes the following elements:

- Description of gap/exception.
- Gap/exception root cause.
- Remediation activity – with mitigating detailed steps/tasks to be completed.
- Critical implementation milestone.

- CAP implementation schedule.
- Testing (control and KSD) schedule.
- BSO(s) and shared service providers responsible for CAP implementation.

Step 6: Implement and Execute Corrective Actions

Depending on the exception's execution environment, CAP implementation is managed by a single entity or a hybrid of the following three entities: FMO, shared service providers, and BSOs. All CAP implementation is monitored by the respective assigned FMO PM to ensure the administration and execution remain on schedule.

Step 7: Retest Remediated Internal Controls

FMO PM is responsible for ensuring the remediated KSD and/or control is scheduled for CAP implementation testing and the control operates for a sufficient time period to permit querying an adequate sample size (review table in Step 2 for retesting). BSOs and shared service providers execute the testing procedures by providing FMO completed testing workbooks.

Step 8: Summarize and Communicate Testing Results

FMO's final determination on the operating effectiveness of the control activity is communicated to the respective BSO within 10 business days of receipt of the testing workbook. The FMO PM, in conjunction with FMO Management, will determine if the key control objectives are satisfied.

FMO has created a document repository to track, monitor, and maintain artifacts provided during FIAR efforts. This centralized storage location will allow for the timely retrieval of policies, procedures, and KSDs that the audit readiness team and/or auditors may request. The following parameters were considered when determining the functionality of the document repository library: (1) centralized location, (2) functionality, (3) accessibility, and (4) version control.

Governance and Leadership

FMO continues to communicate a consistent message to the DON enterprise that the sustainment of an audit ready environment is essential to the successful implementation of FIAR initiatives. The DON via FMO uses a "Tone from the Top Strategy" to assist with the delivery of the message to ensure the BSOs and shared service providers remain diligent in their efforts. The following four business activities are executed as methods for emphasizing centralized governance and leadership:

1. Audit Readiness Steering Committee (ARSC)

Through the assessment of alternative committee structures, FMO recommended the ARSC's establishment to serve until the DON achieves an audit-ready state. The ARSC provides the DON with the flexibility and capability to leverage best practices required to achieve an audit ready state as well as determine membership, scope, priorities, and

objectives. DON FIAR is a multi-year enterprise effort to strengthen Navy and Marine Corps business processes and systems to better serve worldwide operations. The program's goal is to produce financial information with greater accuracy, reliability, and accessibility.

2. Functional Segment Leads

FMO FIAR coordinates with functional segment leads to champion DON audit readiness. The individuals are senior executive service-level personnel who bring together the uniformed and civilian financial personnel under their purview to accomplish common FIAR initiatives/objectives. The functional segment leads drive accountability, emphasize the importance of efforts, and engage other internal and external senior leaders to raise awareness and remove obstacles to achieve goals. For example, functional segment leads coordinate with senior leaders to deliver an update to the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) on the Plan of Action and Milestones, which supports DON's overall assertion efforts. It provides a mechanism to trace activities to audit readiness milestones, accurately report progress towards assertion deadlines, and sustain an auditable financial environment.

3. Office Hours

FMO FIAR has weekly office hour sessions that are dedicated to address questions about FIAR execution plans, whether at the enterprise, BSO, business segment, or transaction level. Furthermore, FMO FIAR has periodic meetings to review the complete list of open risks and issues to allow FMO leadership to ask questions, clarify, and ultimately determine the overall impact of all items on the risk and issue logs.

4. Leadership Engagement

To ensure the DON obtains a sustainable business environment a "Tone from the Top" (leadership) message has been sent and is sustained, emphasizing the following:

- Everyone plays a vital role.
- Enforcement of business practices that incorporate a compliant control environment.
- Standardization support of business activities.
- Development of standard process documentation.

(2) Internal Control over Financial Systems

The DON made considerable progress during the FY 2015 reporting period towards improving Internal Controls over Financial Systems. In conjunction with Office of the Secretary of Defense (OSD) and service providers, the DON continues to assess relevant financial system controls to ensure compliance with OMB Circular A-123, Appendix D, and compliance with the FFMIA. The DON understands that Internal Control over Financial Systems (ICOFIS) plays a key role in the auditability of financial statements. Consequently, FY 2015's emphasis was on the following

ICOFS audit readiness supporting efforts to facilitate an auditable financial systems environment:

1. DON Universe of Information Technology (IT) Systems

Building upon the extensive effort to document the flow of financial data through its IT systems, the DON established an inventory of key and ancillary Navy IT systems relevant to its financial statements, including key service provider-owned systems. The DON updated and refined the universe of IT systems for audit readiness providing a single reference for IT systems that drives and directs the focus of resources for internal control of financial systems.

2. Assessments of Key Financial Systems

To assess the key financial systems control environment, in FY 2013, the DON started a multi-phased third party approach to assess controls, develop CAPs and remediate identified deficiencies. Led by third party consulting teams of audit professionals and system owners, these assessments provided a comprehensive view of the effectiveness of IT controls and focused on identifying deficiencies. Going forward, the focus shifted to implementing corrective actions that resolve deficiencies. To date, 665 CAPs have been created of which 34% (226) have been remediated and closed. Five of the first systems subjected to this effort (Funds Administration and Standardized Document Automation System, Navy Standard Integrated Personnel System, Command Financial Management System (Fleet Force Command), Reserve Integrated Management System, and Reserve Headquarters Support System) have remediated all identified deficiencies. While there is work still to be done, these successes provide a roadmap for enhancing the controls of key financial systems.

3. Assessments of Ancillary Systems

While considerable resources were dedicated to the improvement of controls associated with key financial systems, 2015 marked the start of a separate effort to assess the controls of non-key or ancillary systems. These systems constitute financial and asset management systems whose impact on the financial statement fall below established audit thresholds, but still play an important role in the preparation of the Navy's financial statements. These systems are undergoing a self-assessment of their IT controls, which involves a self-guided, workbook approach to assessing controls, and leverages the findings and lessons learned from the third party assessments of key systems. All systems will start self-assessment by August 2015 and complete the effort by August 2017 prior to the full Financial Statement audit.

4. IT Control Governance

The DON continued the work of the Financial Information System Working Group (FISWG), co-chaired by designees from ASN (FM&C) and DON Chief Information Officer (CIO). The FISWG addressed enterprise IT control guidance for National

Institute of Standards and Technology (NIST) Control Families, interface control agreements, funding for IT controls/audit requirements, and the Risk Management Framework (RMF) transition. A product of this effort, ASN (FM&C), Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A)), and Deputy Under Secretary of the Navy/Deputy Chief Management Office issued a joint memorandum entitled, "Auditability of Financial IT Systems and Transition to RMF." This memorandum synchronizes the Navy's transition to RMF and the lessons learned from the IT controls assessments of key financial systems by directing the development of supplemental NIST control guidance. This "best practice" control guidance will be published, and its implementation encouraged across the IT enterprise. Supplemental guidance for the access control family was issued in May 2015 with the four final guides scheduled to be issued by December 2015.

5. Financial System Data Centers

Building upon the effort to consolidate IT data centers, the DON worked to streamline efficient assessment of IT controls for those data centers serving Navy financial systems. FMO collaborated with DON CIO, Space and Naval Warfare Systems Command (SPAWAR), and other regional data center owners to assess data center controls across all relevant hosted financial systems. This effort increased the efficiency and effectiveness of data center control assessments relevant to the full financial audit. As data center consolidation moves forward, it will provide an improved dynamic response to the internal control of financial systems.

6. Service Providers

The DON increased collaboration with shared service providers (i.e., DFAS and DLA), to improve understanding for and documentation of interfaces and interactions between IT Systems, and addressed Complementary User Entity Controls critical to financial reporting.

7. Communications and Training

The Federal Information System Controls Audit Manual (FISCAM) team communicated IT system audit readiness expectations, guidance and status through briefings, workshops, and training. They trained the DON financial system community on the FISCAM and Financial Audit Manual and shared lessons learned from other system assessments.

(3) Internal Control over Non-Financial Operations

The following describes the DON's process for conducting the evaluation of internal controls over non-financial operations, documenting the evaluation process, and supporting its evaluation and level of assurance.

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

Primary responsibility for program execution and reporting resides within a network of 19 Major Assessable Units (MAU), 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. For submission to ASN (FM&C), the DON's MAUs compile internal control certification statements from their subordinate units to support the DON's Annual Statement of Assurance (SOA). The signed certification statements are used as the primary source documents for the SECNAV's determination of reasonable assurance over the effectiveness of the DON's various systems of internal control. MAUs and subordinate Commands are encouraged to focus their Managers' Internal Control (MIC) certification statement on internal controls associated with their chartered functional/operational responsibilities along with their administrative duties.

To complement the culture of self-reporting control deficiencies, the DON's Auditor General (AUDGEN), in collaboration with the Deputy Assistant Secretary of the Navy (Financial Operations (DASN (FO))), reviews audit reports from the Government Accountability Office (GAO), the Department of the Defense Inspector General (DoDIG) and the NAVAUDSVC. Ongoing collaborations with the DON's AUDGEN assist the DON with identifying control deficiencies and utilize a systematic methodology to determine materiality and potential for inclusion in the SOA. The high degree of collaboration and communication between the DASN (FO) MICP administrators and the NAVAUDSVC's Internal Control Division has resulted in a consistent and comprehensive perspective to the DON's internal control posture. For self-reported material weaknesses and those stemming from audit reviews, the DASN (FO) MICP administrators work with the MAUs to develop, document, and monitor corrective actions and milestones in accordance with Department of the Defense Instruction (DoDI) 5010.40 and other applicable guidance.

The DON maintains an audit trail of the evaluation process through the DON SOA tool. The SOA tool is utilized as a centralized repository for organizations at all echelon levels to report internal control deficiencies, track audit findings, capture accomplishments, monitor their planned milestones, and compile certification statements. MAU MICP Coordinators are required to submit their annual certification statements via the DON SOA tool. The tool has the following functions:

- Provides a historical archive of past and present reporting.
- Allows Commands to self-report weaknesses and accomplishments.
- Aids in documenting corrective actions, setting milestones, and tracking progress.
- Serves as a means of communication, allowing units/users to communicate to their respective chains of Command.

In addition, the DON updated the SOA tool with the following features:

- User account is authenticated using Common Access Card.
- User needs to login every 35 days to retain an active account.
- Same user registered in multiple organizations is able to have access to the tool.

The DON mitigates identified internal control deficiencies through CAPs implemented by the MAUs. Annually, ASN (FM&C) distributes a memorandum requiring MAU Senior Accountable Officials (SAO) to provide quarterly statuses on their corrective actions being implemented for the DON's identified material weaknesses and reportable conditions. Applicable SAOs facilitate the efforts for developing and resourcing the necessary corrective actions to correct the deficiency and provide an update to ASN (FM&C) quarterly via the DON's SOA tool and DON Taskers. In addition, to promote assurance and accountability, the DON provides quarterly updates to the OUSD (C) MICP office.

The DON prepared and distributed the MIC Evaluation Checklist to facilitate the implementation of control self-assessments to be utilized as a practical toolset. The evaluation checklist addresses DON general internal controls and provides guidance on how personnel can perform control self-assessments at their respective organizations. The DON conducted periodic reviews of the MIC Evaluation Checklist to ensure a comprehensive checklist is in place that can be utilized as a supplemental internal controls assessment. Upon review, the DON included internal control reporting categories defined by DoDI 5010.40 and updated the checklist to reflect the current MIC environment.

The DON formulated an appointment letter to formalize and standardize the process by requiring DON MIC coordinators and alternates to adhere to applicable laws, regulations, and administrative policies. Per Secretary of the Navy Instruction (SECNAVINST) 5200.35F, the DON performed a MAU annual follow-up to ensure MIC coordinators and alternates are appointed in writing, with the recommendation that appointment letters are retained and readily accessible.

The DON updated SECNAVINST 5200.35 (July 21, 2014), with reference to DoDI 5010.40, May 2013. This update will assist MIC personnel with utilizing tools and methods that foster self-reporting and mitigating strategies to correct identified deficiencies. In addition, to the prescribed format changes, the following were updated or added:

- Concise content-related definitions.
- Chartered stakeholder responsibilities.
- Structured policies/procedures.
- ICOFR/ICOFS sustainment requirements.

In conjunction with the SECNAVINST update, the DON is revising the MIC Manual to align to the updated guidance in the recent updates of the DoDI 5010.40. The MIC Manual's intent will be to specify procedures for implementing an effective internal control program and will serve as management's basis for the DON's SOA. The following were major changes in the MIC Manual:

- Appended ICOFS section to introduction.
- Included statutory, regulatory requirements, and supplemental guidance.
- Updated stakeholder responsibilities, risk assessment, SOA, SOA tool, MIC training, references, acronym list, and key examples.
- Provided detail description of certifications statement and DoDI internal control reporting categories.

In addition, the DON performed the annual Risk and Opportunity Assessment (ROA). DON's organizations submitted their ROA inputs into a web-based repository application tool and NAVAUDSVC, Naval Inspector General (NAVINSGEN), and Inspector General of the Marine Corps who then assessed their inputs. This was the opportunity to assist the DON in identifying the major risk categories within the DON in terms of susceptibility to fraud, waste, and mismanagement, program effectiveness or inefficiency, statutory or regulatory noncompliance, and other areas of importance to senior leadership.

The DON MICP continues to expand, reaching managers and coordinators enterprise-wide. The DON refreshed the MICP by:

- Performing site visits to evaluate the current MIC environment along with a compliance review.
- Providing MAUs with insight into their operational and administrative effectiveness and efficiency of their programs to identify areas that needed further DON's collaboration and improvement.
- Publishing an inaugural MIC newsletter to communicate the toolsets, methodologies, and guidance available for MICP stakeholders to enhance their capabilities.

b. Audit Findings from DoDIG, NAVAUDSVC, and GAO

The findings that are deemed material weaknesses are reported in the table below (Note: There are FY 2015 audit reports related to only contract management – service contracts):

Dates of Reports	Description of Findings	Major Assessable Unit (MAU)	Assessable Unit (AU)	Inspection Entity
7/11/2014	<u>Contract Management – Service Contracts (DoDIG-2014-092)</u> : Contracting personnel did not consistently implement the Federal Acquisition Regulation (FAR) revisions, called interim rule for contracts.	CMC	CMC	DoDIG
		CNO	Naval Sea Systems Command (NAVSEA) Naval Supply Systems Command (NAVSUP)	
7/15/2014	<u>Contract Management – Service Contracts (N2014-0031)</u> : There were internal control weaknesses in the areas of	CNO	Naval Air Systems Command	NAVAUDSVC

Dates of Reports	Description of Findings	Major Assessable Unit (MAU)	Assessable Unit (AU)	Inspection Entity
	requisitioning, independent receipt and acceptance, and general contract oversight that resulted in excessive spending against contracts supporting aircraft program.		(NAVAIR)	
12/23/2014	<u>Contract Management – Service Contracts (N2015-0007)</u> : Documentation supporting a well-defined objective, scope of work, and deliverables was not retained and sufficient oversight was not provided to ensure the purpose of funding was clearly defined in a statement of work prior to accepting funds.	CNO	Naval Facilities Engineering Command (NAVFAC)	NAVAUDSVC
3/20/2015	<u>Contract Management – Service Contracts (DoDIG-2015-095)</u> : Contracting officials delayed competition by using bridge contracts awarded to large business incumbents to provide continuation of services until competitive contracts could be awarded. In addition, contracting officials miscoded the business size in Federal Procurement Data System-Next Generation.	CMC	CMC	DoDIG
4/2/2015	<u>Contract Management – Service Contracts (N2015-0017)</u> : There were not sufficient controls in place to ensure a consistent and disciplined process for acquisition programs.	CNO	NAVSEA	NAVAUDSVC
4/23/2015	<u>Contract Management – Service Contracts (DoDIG-2015-109)</u> : Contracting officials did not: (1) properly designate Contracting Officer's Representatives (COR) (2) verify contractor employees had the proper certifications (3) close out task orders in a timely manner	ASN (RD&A)	Deputy Assistant Secretary of the Navy Acquisition and Procurement (DASN (AP))	DoDIG
4/30/2015	<u>Contract Management – Service Contracts (DoDIG-2015-115)</u> : The contracting officer did not: (1) obtain the required prime contractor's subcontract cost or pricing data in	ASN (RD&A)	DASN (AP)	DoDIG

Dates of Reports	Description of Findings	Major Assessable Unit (MAU)	Assessable Unit (AU)	Inspection Entity
	accordance with FAR (2) address Defense Contract Audit Agency-questioned material costs, as required by FAR and Defense Federal Acquisition Regulation Supplement (DFARS), Procedures, Guidance, and Information.			
5/1/2015	<u>Contract Management – Service Contracts (DoDIG-2015-114)</u> : Navy officials did not consistently comply with requirements for evaluating contractor past performance when registering contracts and preparing Performance Assessment Reports.	CNO	NAVAIR NAVSEA NAVSUP SPAWAR	DoDIG
5/5/2015	<u>Contract Management – Service Contracts (DoDIG-2015-116)</u> : There were internal control weaknesses in implementing appropriate federal regulations and guidelines while managing contracts.	CMC	CMC	DoDIG
5/15/2015	<u>Contract Management – Service Contracts (DoDIG-2015-122)</u> : PMs did not fully implement Navy policy to request waivers and to certify program readiness for Initial Operational Test and Evaluation on the aircraft, Distributed Targeting System, and aircraft programs.	ASN (RD&A)	ASN (RD&A)	DoDIG
5/15/2015	<u>Contract Management – Service Contracts (DoDIG-2015-124)</u> : Contracting personnel did not award service contracts in accordance with FAR related to competition requirements and acquisition planning.	CNO	Naval Special Warfare Command	DoDIG
6/25/2015	<u>Contract Management – Service Contracts (DoDIG-2015-137)</u> : Contracting officers did not have clear guidance when they made commercial item determinations and did not obtain sufficient information (i.e. certified cost or pricing data) when they determined whether the prices were fair and reasonable.	CNO	NAVAIR	DoDIG

c. DON's Anti-Deficiency Act (ADA) Violations

In FY 2015, the DON reported ADA violations to the President through the Director of the OMB, Congress, and the Comptroller General of the United States. The following information supports the DON's ADA violations:

i) Case Number

N13-01

ii) Violation Amount

\$2,524.00

iii) Appropriation and Treasury Appropriation Symbol

Defense Working Capital, Fund, Navy (097X4930)

iv) Type of Violation and United States Code (U.S.C.) Section

- Section 1301 of Title 31 U.S.C., Application
- Section 1341 of Title 31 U.S.C., Limitations on Expending and Obligating Amounts

v) Audit report title, number, date, and agency (if identified by an audit)

Office of the NAVINSGEN

OSC DI-12-3751

NAVINSGEN 201203885

Report of Investigation May 17, 2013 updated June 3, 2013

Fleet Readiness Center Southwest, North Island, CA

Foreign Ball Bearings

vi) Status of planned and completed corrective actions as a result of the ADA violation.

The status of corrective actions is required to be reported until the corrective action is complete and reported as such.

- Naval Supply System Command Global Logistics Support directed its Fleet Logistic Centers (FRCs) contracting offices to forward all future procurements for ball and roller bearings to DLA Aviation for acquisition. DLA Aviation is the proper procurement authority for ball and roller bearings at the FRCs. In addition, a tailored training program was developed for the DLA contracting workforce and the Office of General Counsel lawyers that specifically address foreign source restrictions, such as the Buy American Act, Berry Amendment, Trade Agreements Act, and other restrictions (including ball bearings).
- There is no appropriation available to the DON to make an accounting correction.

TAB A-2

Significant MICP Accomplishments

Significant MICP Accomplishments Achieved During FY 2015

MICP is important to achieving and maintaining proper stewardship of federal resources and to ensure the DON's programs operate efficiently and effectively to achieve desired objectives. SECNAV identified the following mission critical objectives aligned with strategic guidance for DoD:

1. Take Care of Our People – to provide Sailors and Marines with care, both in health and wellness.
2. Maximize Warfighter Readiness and Avoid Hollowness – to remain a naval force fully prepared for a variety of operations.
3. Lead the Nation in Sustainable Energy – to reduce energy consumption through cutting energy usage on bases, with new solar and geothermal technologies providing electricity.
4. Promote Acquisition Excellence and Integrity – to rebuild the acquisition workforce, improve the execution of every program, increase anti-fraud efforts, and leverage strategic sourcing to take advantage of economies of scale.
5. Proliferate Unmanned Systems – to sustain and enhance DON's global presence through continued investment in unmanned systems.
6. Drive Innovative Enterprise Transformation – to provide stronger financial management and increased auditability, including maximization of IT enterprise and management of human capital.

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

1. Take Care of Our People

Organization: CMC

Title: Marine Centered Medical Home

Internal Control Reporting Category: Support Services

Description of Issue: Marines in the operational forces, often cared for in stand-alone unit aid stations, received a lower standard of care than Marines assigned to bases and stations and cared for in Navy Medicine's Branch Medical Clinics. The isolated, stand-alone Battalion Aid Station model created supply, manpower, and facility inefficiencies and redundancies.

Description of Accomplishment: A memorandum of understanding was signed by Deputy Commandant, Marines Installations and Logistics Department, and Bureau of Medicine and Surgery (BUMED) surgeon general authorizing a program integrating the medical home model for United States Marine Corps (USMC) operational forces while in garrison. To date, 14 sites have been trained, with an additional 9 sites planned for later this FY. Contracts have been awarded to establish 3 interim facilities to provide sufficient space for establishment of the Marine Centered Medical Home (MCMH) model of care at 3 additional sites by FY 2016. Five military construction projects have been approved for start in FY 2018 to support permanent improved facilities for some MCMH sites. By FY 2018, CMC anticipates the last of 28 proposed sites will become operational. A standing monthly telephone conference was instituted, involving key on-site personnel, Marine Forces Surgeons, Marine Expeditionary Force Surgeons, and key BUMED stakeholders. This allows for more frequent bi-directional discussions of issues affecting mission and policy accelerating improvements and enhancing collective situational awareness.

Improvements:

- Same high healthcare standard of care in all environments.
- Increased situational awareness of medical issues affecting Marines in the operating forces.
- Improved individual and unit medical readiness.
- More oversight of General Medical Officers by board-certified medical officers.
- Electronic health record and ancillary services improving the operational force's medical sections integration with supporting Military Treatment Facilities (MTFs).
- Standardized communications between healthcare teams and unit leadership, increasing visibility of conditions impacting health or mission readiness and allowing more thorough mitigation and recuperation plans.
- More timely oversight of health care Quality Assurance (QA) in the operating forces.
- Decreased use of MTF emergency departments for non-urgent, non-emergent problems.
- Improved facilities. Reinforced accountability of Privileging Authorities to ensure quality environment of care for the operating forces.
- Increased personnel. Coordinated Marine Centered Medical Home efforts with Bureau of Medicine Medical Home Port. The addition of nurses, clerks, and a behavioral health provider at each site has improved efficiency and quality of care and enhanced the capabilities of the medical teams.

Organization: Naval Investigative Criminal Service (NCIS)

Title: Advanced Adult Sexual Assault Investigator Training

Internal Control Reporting Category: Personnel and Organizational Management

Description of Issue: NCIS needed to implement adult sexual assault investigator training by replacing current training, the Special Victim Unit Investigations Course (SVUIC). A

limited number of seats available to NCIS for each SVUIC training iteration made it difficult to fulfill the mandate of having all investigative personnel trained. Additionally, although portions of the course were determined to be of benefit, overall NCIS did not support all the methodologies taught in the SVUIC, particularly the forensic experiential trauma interview method which is not supported by published research.

Description of Accomplishment: During this reporting period, the NCIS Criminal Investigations and Operations Directorate (Code 23) implemented the Advanced Adult Sexual Assault Investigator Training Program. This program replaced the SVUIC, which was the advanced training used by NCIS special agents and investigators to meet training requirements mandated by DoDI 5505.18 (Investigation of Adult Sexual Assault in the DoD) and the DoDI 5505.19 (Establishment of Special Victim Investigation and Prosecution Capability within the Military Criminal Investigative Organizations).

2. Maximize Warfighter Readiness and Avoid Hollowness

Organization: CMC

Title: Continuous Evaluations Program (CEP)

Internal Control Reporting Category: Intelligence; Security

Description of Issue: During January 2015 the Special Security Office (SSO) conducted a CEP review concurrently when executing a tasker on "Overdue periodic reinvestigations." The tasker required a full review of personnel assigned to the Intelligence Department in Joint Personnel Access System (JPAS) that were granted access to Sensitive Compartmented Information (SCI).

Description of Accomplishment: The CEP review included the following: identify personnel that have a current Personal Security Investigation (PSI), identify and report those personnel whose PSI is out of scope, and identify and remove from JPAS those personnel (military/civilian/contractor) no longer assigned to Headquarter Marine Corps (HQMC).

CEP also ensures that personnel in-access status maintain and report personal status changes that could adversely affect their clearance and access to SCI. The review included a revalidation of a person's need-to-know and a CEP suitability screening.

CEP heavily relies on the trust and confidence of all personnel to report questionable information (to include self-reporting), which may be relevant to a security clearance determination. Those discovered not having reported issues of concern may be reported in JPAS as an "INCIDENT." Additionally, the DON runs an automated "Insider Threat Program," assisted by HQMC Plans, Policies, and Operations (PP&O), which notifies the HQMC SSO when USMC employees worldwide with SCI access are identified during a program testing. CEP includes the review of industrial contracts and contractor, military, and civilian personnel.

3. Lead the Nation in Sustainable Energy

Organization: Assistant Secretary of the Navy (Energy, Installations, and Environment)

Title: Planning, Developing, and Executing Cost-Effective Energy Projects

Internal Control Reporting Category: Procurement and Acquisition

Description of Issue: Energy is critical to the DON's ability to provide the global presence necessary to ensure stability, deter potential adversaries, and present options in times of crisis – wherever and whenever they might arise.

Description of Accomplishment: DON has developed policies for planning, prioritizing, selecting, and executing cost-effective energy projects in accordance with DoD and Federal requirements that include processes for performing and documenting life-cycle costs and standardized methods for estimating project costs and energy savings. SECNAVINST 4101.3 and Office of Naval Operations Instruction (OPNAVINST) 4100.5E were signed in 2012 and establish policy for planning, prioritizing, selecting and executing cost-effective energy projects. DON has planned, developed, and executed energy projects consistent with the guidance contained in those instructions. DON is making great progress in energy and sustainability; the following accomplishments are just a few examples:

- The Renewable Energy Program Office (REPO), working with other stakeholders enabled the award of a 200 megawatt solar energy project that will help meet energy requirements at 14 Navy and Marine Corps installations in California. This is just one of many projects REPO has completed or will complete to achieve the SECNAV goal to generate 1 gigawatt of renewable energy at DON installations by the end of calendar year 2016.
- DON has completed or is working on more than 35 Energy Savings Performance Contracts (ESPC)/Utilities Energy Savings Contracts (UESC) worth over \$1 billion in procurement. The ESPC and UESC projects allow the department to leverage 3rd party financing to make cost-effective energy conservation capital investments to enhance mission support, reduce energy consumption, and lower operation and maintenance costs.
- DON continues to invest in operational energy solutions that will drive down energy consumption for operational forces. These investments are transforming DON operational energy use to improve energy efficiency, improve warfighting effectiveness, and to better protect our sailors and marines.

4. Promote Acquisition Excellence and Integrity

Organization: ASN (FM&C)

Title: Alignment of Quarterly Allocations with Contract Lead Times

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: An increased focus on contracting for goods and services in the DON created longer lead-time requirements. Additionally, stronger financial controls in funds control systems and revised financial operating procedures required funds to be administratively available prior to the commencement of contracting actions.

Description of Accomplishment: Working with OUSD (C) and OMB, a revised quarterly allocation for Operation and Maintenance funds was requested and approved. This allocation provided higher levels of quarterly authority in the second and third quarters of the FY. This increased authority supported the enhanced contracting and strong financial management control processes, ensuring that the DON is able to acquire the proper goods and services in a timely manner at the best value available.

Organization: CMC

Title: Implementation of Construction Identification Internal Controls

Internal Control Reporting Category: Contract Administration

Description of Issue: Marine Corps Systems Command (MCSC) needs to implement construction identification internal controls.

Description of Accomplishment: MCSC identified procedures and internal controls for identification, funding, and contracting of construction and construction related efforts to provide Program Management Integrated Product Teams (IPTs) with procedural guidance for obtaining financial, legal, and acquisition assistance and concurrence prior to initiating any project with any construction element. It developed a process and implemented checkpoints within the funding document approval process to ensure construction efforts are funded appropriately and implemented quarterly training to all funds control personnel on construction work identification. The improved process required property classification determinations from Marine Corps Installations Command (MCICOM) prior to providing any type of legal or fiscal determination. All funding documents with site work or construction require both Comptroller and Deputy Comptroller review and approval. MCSC implemented additional required training to educate the Program Management Office personnel on construction identification. They also created open lines of communication with MCICOM and Systems Command (SYSCOM) on classifying construction/minor construction projects, IPT's classification guides, and bi-weekly telephone conference to discuss upcoming projects.

Organization: CNO

Title: Asset Management/Minor Property Program Process Improvement

Internal Control Reporting Category: Property Management

Description of Issue: Minor property was inventoried at the end of calendar year 2014, utilizing a 100% visual inventory process. This required 2 to 3 weeks of effort for the two command asset managers, who had to locate personnel who held minor property and visually confirm its existence. During the inventory, command personnel were re-trained on the internal control requirements for minor property. It had been sometime since they had last worked with the minor property team. In the past, if personnel holding minor property were out of office, the annual inventory would be delayed until the person returned, and process issues, which may have been non-compliant for months, were only found annually.

Description of Accomplishment: A monthly, versus yearly, inventory method was implemented. Each month 10% of the minor property inventory is sight verified. Over the course of the year, a 100% inventory is completed. The end of year inventory report is completed based on the routine monthly inventories. An additional benefit is that the minor property program is continually visible in the command, as the minor property administrators are interacting with the work force every month. The continuous face to face interaction ensures that the work force knows who the administrators are and shows that the program is healthy, valuable, and of command level importance. The monthly inventory allows process issues or concerns to be elevated in a timely manner versus finding an issue at the end of the year. Personnel out of office no longer hold up the inventory as the person and minor property can be inventoried in a subsequent month. This has resulted in complete accountability of minor property and the identification and reporting of only one missing item. The risk of loss has been significantly reduced, while the assurance around accurate inventory has significantly increased. Process improvement and program awareness is now continuous and iterative.

Organization: CNO

Title: SPAWAR's Defense Acquisition Workforce Improvement Act (DAWIA) Program Achievement of DON DAWIA Goals

Internal Control Reporting Category: Personnel and Organizational Management

Description of Issue: In December 2011, SPAWAR was the lowest ranked among all DON commands for compliance with DON DAWIA goals, with 83.5 % compliance for certification and 48% compliance for continuous learning. In FY 2011, controls were not in place to monitor command performance by career field. There were also no procedures in place to designate Final Approval Authorities and monitor their performance. Experience was not routinely reviewed before granting Level II or III certifications in any career field with certainty. Career Field Managers in the Echelon III commands were often not certified

above Level I in their designated career field, and many times were providing experience, advice, and supervision which did not result in quality acquisition experience suitable for either certification or continuous learning. Key Leadership Positions (KLPs) in every Program Executive Office (PEO) had members designated who were not certified in the designated career field or to the level required. There was no available documentation demonstrating that critical acquisition positions and KLP billets had not been reviewed. Course fulfillments were granted in a haphazard manner with little attention to experiential plus training equivalency.

Description of Accomplishment: SPAWAR increased its Acquisition Workforce (AWF) from 3,600 civilian and military staffs in FY 2011 to over 6,000 in FY 2015. This represents 57% of the total SPAWAR workforce. Supervisors and managers are now required to conduct annual reviews of individual development plans, covering training and experience requirements with target dates for completion.

Additionally, supervisors are held accountable if AWF employees do not obtain required training, certification, and Acquisition Corps membership when required. SPAWAR put into place mandatory supervisory and AWF employee objectives, which were vetted through the DON Office of Civilian Human Resources, Director Acquisition Career Management, and two Human Resources Service Center regional offices. As a result, SPAWAR was the first SYSCOM to comply with DON DAWIA Goals 1 (Certification), 2 (Continuous Learning), and 3 (Acquisition Corps Membership) compliance during FY 2014, despite significant increases in AWF personnel in two Echelon III commands.

In addition, SPAWAR recently reached compliance with DON DAWIA Goals for PM and Deputy PM completion of Defense Acquisition University Course 401/402 within six months of assignment) and 5 (individuals assigned to KLPs are fully qualified). Ensuring SPAWAR's AWF members are in compliance with DON's DAWIA goals significantly reduces the risk of having unqualified personnel in critical acquisition positions and KLP billets.

Organization: Deputy Under Secretary of the Navy (Management)

Title: COR Management Program

Internal Control Reporting Category: Contract Administration

Description of Issue: The COR management program lacked oversight, training, and efficiencies of the COR management program.

Description of Accomplishment: Working with Department of the Navy Assistant for Administration (DON/AA) Human Resources Division and DASN (AP), the Contract Management Division (CMD) has crafted and ensured that COR-related performance objectives are now part of each COR's individual evaluation elements. CMD conducted its first BSO-12 COR Summit in September 2014 and its first training presentation in April

2015. Training materials and courses are now coordinated and aligned with DASN (AP), and DASN (AP) personnel are invited to be guest speakers. CMD routinely ensures that CORs are nominated and appointed through the COR Tracking System. Any issues with COR appointments or training are coordinated and resolved with the respective NAVSUP contracting officer. In January 2015, when there was a turnover of CORs responsible for major contracts, CMD held its first COR transition meeting. These meetings ensure understanding of contract requirements, roles and responsibilities, current issues, and best practices. In January 2015 CMD drafted a new COR Management Internal Operating Procedure (IOP). Still under review, this IOP will serve as the basis for future guides and processes. In May 2015, CMD personnel attended advanced COR training to further improve dissemination of current information to CORs.

Organization: NAVINSGEN

Title: Semi-Annual Review of the Government Commercial Purchase Card (GCPC) Program

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: A semi-annual review of the GCPC Program was conducted for the periods March 20, 2014 through September 19, 2014 and September 20, 2014 through March 19, 2015. The program was found to be in compliance with DON's regulations.

Description of Accomplishment: NAVINSGEN effectively manages the credit risk exposure by reviewing 100% of the transactions monthly to ensure there is no fraud, misuse, or abuse in the GCPC Program.

DON/AA, Contracts Division is in the process of reviewing transcription services and has authorized NAVINSGEN to continue processing transcripts through the current vendor until further guidance is provided regarding transcription services. The current vendor for processing NAVINSGEN's transcripts has a large volume of business on the cardholder account.

5. Proliferate Unmanned Systems

Organization: ASN (RD&A)

Title: Establishment of a Deputy Assistant Secretary of the Navy for Unmanned Systems (DASN (UxS))

Internal Control Reporting Category: Acquisition

Description of Issue: In April 2015, SECNAV announced the reorganization of the DON and appointment of a new DASN (UxS), who will help bring together all the many stakeholders and operators who are currently working on this technology in order to

streamline their efforts. This newly established DASN (UxS) will lead and coordinate DON efforts to achieve documented SECNAV 2015-2020 goals for unmanned systems and will be the DON focal point for Congressional, Industry, OSD, and other external stakeholder engagements on matters related to unmanned systems.

Description of Accomplishment: The provisional DASN (UxS) organization was stood up in July 2015. In addition to the Deputy Assistant Secretary of the Navy (DASN) (a Senior Executive Service position), the organization is staffed with Subject Matter Experts (SMEs) that represent all domains of the Department; air, ground, and sea. This DASN is chartered to coordinate with the requirements communities, resource sponsor (N99) and Deputy Assistant Secretary of the Navy for Research, Development, Test, and Evaluation to identify and resource rapid prototype and experimental initiatives in order to accelerate development and fielding of unmanned systems and associated technologies.

To date the following have been accomplished:

- Drafted a “Rapid Development Cycle” and SECNAVISNT that will serve as the process for identifying breakthrough technologies to advance our warfighting capabilities through rapid fleet introduction.
- Realigned resources to support rapid prototyping initiatives.
- Briefed Congressional representatives on DON realignment and resources.
- Commenced with the development of drafting a roadmap for all unmanned equities and identifying potential impediments to improving the proliferation of unmanned systems across the DON.
- Informed DoD Joint Staff representatives on the path forward for the Navy.
- Commenced drafting a lexicon for Unmanned Systems. This lexicon will baseline, educate, and inform all stakeholders to include industry, university affiliated research centers, Academia, DoD laboratories, other government agencies, and federally funded research and development centers.

6. Drive Innovative Enterprise Transformation

Organization: ASN (FM&C)

Title: Improvements to Material Control by the Triannual Review

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: During a recent audit of the DON Triannual Review process, the DoDIG noted DON BSOs were extracting ad hoc accounting reports from the Standard Accounting and Reporting System versus querying standard DFAS Triannual Review reports. DoDIG found that using non-standard accounting data to perform the Triannual Review was not reliable as an internal control.

Description of Accomplishment: The Triannual Review report was modified to include the required aging information needed to detect obligations overages. The report now provides

standardized and usable information to complete the Triannual Review. These reports will be displayed and archived on the Triannual Review web application for BSOs to reference in the future.

Organization: ASN (FM&C)

Title: Improvements to the Funds Control Process for DON Commands Employing the Navy Enterprise Resource Planning (ERP) Accounting System

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: In recent years, the Office of Budget (FMB) of ASN (FM&C) had noticed intermittent system issues where Navy ERP settings or the Program Budget Information System (PBIS) interface file were incompatible and the PBIS files would reject. A technical solution was required to alert FMB whenever automatic PBIS Interface files for Navy ERP were rejected.

Description of Accomplishment: FMB coordinated with the Navy ERP Program Office to develop a system generated e-mail that would be provided whenever any PBIS file was submitted via the interface. The e-mail alert provided an immediate status of the PBIS-ERP Interface. It also provides FMB and Navy ERP Command managers a positive verification of funds flow when comparing the e-mailed electronic Funding Allocation Document (FAD) to the PBIS-ERP Interface status e-mail. This effort provides another level of automation that supports the DON's SBA audit and the larger Navy audit by ensuring that ERP Commands have received all funding allocations and can verify independently (from detailed system analysis) that they have received the correct number of electronic FAD transmissions from FMB.

Organization: ASN (FM&C)

Title: Refinements to the DON IT Submissions

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: During previous submissions of the Departmental IT data to FMB, some BSO analysts were unintentionally uploading invalid IT data combinations causing Program Budget Information System–Information Technology (PBIS-IT) system data errors. These errors required resolution before the end of the DON review and subsequent upload of DON IT information to the OSD systems. Many of these errors had to be manually resolved which was time consuming for both FMB and BSO analysts. Due to complexities of the IT data required by OSD, IT process participants needed automation to identify errant data combinations.

Description of Accomplishment: The FMB IT support staff had previously developed a PBIS-IT Kiosk to track the completion status of BSO IT submissions to FMB. FMB developed comprehensive error checks that were incorporated into PBIS-IT and displayed in the PBIS-IT Kiosk. The result was that BSOs were able to immediately assess their work progress and accuracy after completing uploads of IT information to PBIS-IT. Because the error filters were also using the latest data formats and combinations from the DoD IT Portfolio Repository at OSD, this ensured BSO data was properly formatted prior to initial review by FMB IT analysts. The PBIS-IT Kiosk also highlights the types and number of data issues for each BSO, enabling quicker resolution of errors by systems users. This has dramatically improved the overall process through better quality data, more time for data analysis by FMB, more time for coordination on questionable program profiles, and improved quality of DON IT information being provided to OSD.

Organization: ASN (FM&C)

Title: Newly Automated Navy Working Capital Fund (NWCF) Budget Exhibits

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: In an effort to become more efficient in exhibit preparation, the Program and Budget Coordination Division automated the NWCF's Source of Revenue (Fund 11A) exhibit and the Summary of Cash Flow (Fund 13C) exhibit.

Description of Accomplishment: FMB developed an automated process that automatically maps the NWCF data into the Fund 11A and Fund 13C exhibits. Additionally, because the data being populated in the exhibits is directly from the DON database, less time had to be invested in manually checking exhibit funding values. This enabled more time for analysts to improve exhibit quality.

Organization: ASN (FM&C)

Title: Navy Transaction Universe

Internal Control Reporting Category: Budget-to-Report

Description of Issue: Prior to FY 2015, the Navy has not had a methodology of holistically analyzing detailed accounting transactions from disparate General Fund accounting systems. This prevented Navy leadership from making decisions about all financial data, instead requiring decisions by accounting system or by groupings of DON BSO Commands by legacy accounting system or by Navy ERP system usage.

Description of Accomplishment: As of March 17, 2015, the Navy has successfully completed the design and testing phases of a project called the Navy Transaction Universe, which integrates accounting transactions from General Fund accounting systems with

financial consolidation and close data to provide a holistic view of the Navy's accounting and reporting environments. This will enable the development of new business intelligence and internal control procedures to ensure tighter internal control over financial reporting and the financial statements. The data generated from this project is already providing unprecedented visibility into the Navy's business operations, and is supporting the DoDIG audit of the FY 2015 SBA being performed by an IPA.

Organization: ASN (FM&C)

Title: Government Travel Charge Card (GTCC) Rebate Improvements

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: The DON GTCC Team identified that approximately 50% of the DON's GTCCs did not receive a rebate when one was earned.

Description of Accomplishment: The DON GTCC Team was instrumental in reengineering the GTCC Rebate process. A significant discrepancy was uncovered that showed a \$34 million underpayment across the DoD, \$7.28 million within the DON and \$2.19 million within the USMC. Action was taken to recover refund payments valued at \$34 million, and a standard rebate refund guide was developed to mitigate future occurrences. The DON GTCC accomplished the following:

- Standardized how GTCC Rebates are calculated and reported across the DoD and Federal Agencies.
- Compliance with the Charge Card Abuse Prevention Act of 2012 that requires rebates be monitored for accuracy and properly recorded as a receipt of the agency.
- Ensured all accounts receive the GTCC rebates they earned.

Organization: ASN (FM&C)

Title: DON MICP Upgrades

Internal Control Reporting Category: Communication, and Comptroller and Resource Management

Description of Issue: The DON MICP needed an upgrade to re-align itself with the intent of FMFIA and OMB Circular A-123.

Description of Accomplishment: During the FY 2015 SOA reporting period the DON MIC Coordinators reviewed all literature governing the program and developed an overarching strategy to re-align itself with the governance structure. This strategy was approved by the DASN (FO) and has begun its implementation. A major step forward will be the creation of a Navy-wide Senior Management Council; a board of senior leaders that oversee the MICP,

determine agency level material weaknesses, and ensure weaknesses are resolved promptly and accurately. The Navy Senior Management Council will begin in the 1st quarter of FY 2016.

The MIC Coordinators hosted office hours MAU that set forward-looking expectations to improve the MICP at all levels of management. The office hours provided an in-depth discussion on the intent of the MICP, implemented a robust four step process to determine non-financial operational material weaknesses, and provided guidance on how to determine the reported level of assurance for certification statements.

The DON MIC Manual was updated to reflect current regulatory and corporate guidance. This was the first revision of the document since 2008. The revised MIC Manual provides definitive steps to perform risk assessments, internal control assessments, and business process documentation; it also provides templates for organizations to use when documenting their MICP.

Organization: ASN (FM&C)

Title: FMO West Region Provided-By-Client (PBC) Standard Operating Procedure (SOP)

Internal Control Reporting Category: Comptroller and Resource Management

Description of Issue: Standardized audit response effort at the Headquarters (HQ) and region level was required.

Description of Accomplishment: FMO supported the development of the HQ PBC SOP and fully developed a region specific SOP. The overall goal of the SOP tools are to standardize the audit response efforts, facilitate consistent and effective communication, simplify and prevent incorrect PBC requests and KSD submissions, and provide step by step guidance for current and incoming FMO-5 personnel. The SOP is a living document and will be updated and refined throughout the SBA audit. The SOP consists of the following:

- SOP business rules, process guidelines, and notional timelines
- Data Dictionary to provide detailed descriptions of each process step in the PBC coordination process and includes action officers, process and process step descriptions, templates, tools, and business rules
- Process Maps
- PBC Validation Checklists:
 - a. Validation Checklist used when FMO-5 receives new PBCs. The checklist contains descriptions of how to validate PBC information within the ARC Tool, how to modify the Excel file, how to draft emails to send to the BSOs, and how to update the ARC Tool for routing to the BSO.
 - b. IT BSO Response Checklist used to perform a QA of IT PBCs before routing to FMO-1

- c. Financial BSO Response Checklist used to perform QA of financial PBCs before routing to FMO-5 Audit Response HQ
- d. PBC Management Checklist used to determine the samples received pertaining to BSOs

- PBC Tracker to provide the status of each PBC request from DON BSO Commands

The SOP has been a success; FMO-5 has fielded 3,140 PBCs and responded to 2,699.

Organization: ASN (FM&C)

Title: Evaluation, Prioritization, and Remediation (EPR) Program Implementation

Internal Control Reporting Category: Budget-to-Report

Description of Issue: DoD, DON, and shared service provider FM deficiencies are negatively impacting DON's ability to produce clean financial statements.

Description of Accomplishment: FMO has established the EPR Program to build a centralized capability to manage and track the remediation of deficiencies across the DON toward generating clean financial statements while focusing resources to the highest priority issues. Through DON-wide collaboration efforts, the EPR Program is facilitating coordination with key stakeholders to establish greater accountability and visibility throughout CAP development and implementation. Initial efforts have been focused on consolidating remediation efforts across the DON to build one central repository for identified deficiencies and CAPs. FMO Leadership will communicate the prioritization of key remediation activities throughout the organization and will inform the effective use of resources to fix the DON's greatest financial reporting challenges.

To date, the EPR Program has preliminarily identified 1,436 deficiencies and CAPs from IPAs as well as internal and external audit agencies. Of the 1,436 preliminary deficiencies, the EPR Program has determined 1,175 deficiencies have an impact on the financial statements. Currently, the EPR Program is working to identify commonalities in the deficiencies for alignment, consolidation, prioritization, and remediation.

Organization: ASN (FM&C)

Title: BSO Commander Audit Update and Roundtable

Internal Control Reporting Category: Communications

Description of Issue: There was significant value to be earned from organizing periodic meetings between ASN (FM&C), FMO Leadership, BSO Commanders, and other DON senior leadership.

Description of Accomplishment: FMO coordinated with the Office of ASN (FM&C) to organize a quarterly BSO Commander Audit Update and Roundtable. The meeting is divided into halves with a SBA audit update followed by a roundtable with the ASN (FM&C), FMO Leadership, and BSO Commanders. The roundtable serves as a venue to solicit feedback, address concerns, and solidify buy-in from critical BSO Commanders regarding ongoing audit efforts. In an effort to maintain positive momentum and communication, the BSO Audit Update and Roundtable will be held on a quarterly basis.

The inaugural meeting was held on June 11, 2015. Among the DON senior leadership in attendance was the Vice Chief of Naval Operations and ASN (FM&C). The ASN (FM&C) and DASN (FO) addressed the Commanders regarding the SBA audit and its trajectory. In addition, the Deputy Commander for Program & Resources of USMC provided the USMC Audit Perspective. Engagement partners from the IPA were also on hand to provide an update on their SBA audit plan and the status of the audit.

Organization: CMC

Title: Cyber Security Vulnerability Mitigation following the transition to Marine Corp Enterprise Network Non-secure Internet Routing Network (MCEN-N)

Internal Control Reporting Category: IT

Description of Issue: As of June 1, 2014, the transition from the Navy-Marine Corps Intranet to the MCEN-N was completed. As a result, the Administration and Resources Division Information Systems Management Branch (ARIS)/Marine Air-Ground Task Force IT Support Center, HQMC Cyber Security Section was required to address a significant backlog of vulnerabilities leftover from the previous contract provider. ARIS was also required to implement enterprise solution vulnerability management and tracking tools in order to adapt to newly-fielded processes from the Marine Corps Network Operations and Security Center (MCNOSC).

Description of Accomplishment: As part of the ARIS transition plan, BigFix, a Commercial Off-The-Shelf (COTS) application, was implemented to fill the gap left by the withdrawal of proprietary software support. BigFix reduced overall MCEN-N vulnerabilities by 24% (from 30,173 to 22,983) within the first month following full transition to MCEN-N. Constantly working to resolve recently identified vulnerabilities, the ARIS utilized aggressive patching efforts to achieve compliance with all operational directives within MCNOSC-established timelines. Moreover, ARIS fully implemented the Assured Compliance Assessment Solution (ACAS), a scanning tool that more effectively scans for vulnerabilities, enabling more responsive and thus more effective patch management. Finally, ARIS began using the System Center Configuration Manager (SCCM) as an additional patching solution supplied by the MCNOSC.

As a result of these accomplishments, the following improvements were achieved:

- Implementation of the BigFix COTS solution reduced the number of sustained vulnerabilities during the transition to the SCCM enterprise solution.
- Implementation of ACAS allowed for a quick vulnerability assessment that enabled ARIS to more efficiently address vulnerabilities as they arose.

The improvements allowed the Marine Corps to realize the following cost savings:

- The increased responsiveness of vulnerability management tools implemented in the past year significantly improved on-time compliance with operational directives, reducing man-hours spent dealing with systemic inefficiencies. The groundwork laid by the ARIS team during this time period put the section on solid footing for maintaining compliance standards going forward.
- Reduction of computer vulnerabilities reduced the risk of MCEN-N down-time due to security breaches, thus enabling more stable and available classified and unclassified networks.

Organization: CNO

Title: Enhancement of Security Processes to Support Insider Threat Initiative

Internal Control Reporting Category: Communications and/or Intelligence and/or Security

Description of Issue: There was increased Navy security posture due to insider threat challenges.

Description of Accomplishment: Fleet Cyber Command (FCC)/C10F issued TASKORD 14-017, which implemented Navy-wide quarterly privileged user reviews, two-person integrity for data transfer activity, and additional reporting requirements for removable media usage activities. They presented an insider threat awareness and update briefing to all Echelon II Information Assurance Managers (IAMs). FCC/C10F issued Navy Telecommunication Directive 06-14 highlighting Navy network discipline, underscoring responsible practices, warning against risky practices, and emphasizing a connection with insider threat activities. They continued to track and report FCC/C10F SCI privileged users in accordance with DON SSO November 20, 2013 message, "Navy Intelligence SCI Information Assurance (IA) and Security Direction for Insider Threat Mitigation and Oversight of Privileged Users." They also continued to track and report Navy-wide Host Based Security System (HBSS) Electronic Policy Orchestrator Server consolidation which will improve rule management, reporting, and overall responsiveness of HBSS tasking. HBSS is the primary tool to counter an insider threat's use of removal media.

In addition, FCC/C10F supports Office of the Chief of Naval Operations (OPNAV) N2/N6 and the Director Navy Staff in creating and execution of OPNAVINST 5510.165 and consistently contributes to the Navy Insider Threat Board of Governance and the associated working group. FCC/C10F and Navy Cyber Defense Operations Command supported

OPNAV N2/N6 and SPAWAR 5.0 during the six-month insider threat study published in May 2015. The study is titled "U.S. Navy Insider Threat Program Analysis Overview, Summary, and Recommendations." FCC Security Directorate contributes to OPNAV N2/N6 random polygraph program development. As part of a rigorous continuous evaluation program, FCC adjusts polygraph priorities to meet existing requirements and has expanding polygraph examination bandwidth to ensure a robust personnel security program is maintained.

Organization: CNO

Title: Naval Air Warfare Center Weapons Division (NAWCWD) Cyber Security Workforce (CSWF) Agreements

Internal Control Reporting Category: IT

Description of Issue: Development of a CSWF was required.

Description of Accomplishment: The NAWCWD IAM produced a CSWF improvement plan and implementation guide to assist with development of a qualified CSWF. This guide could be used across NAVAIR to improve national development of the CSWF. The purpose of this guide is to identify the processes and procedures that NAWCWD will use to implement and achieve compliance with DoD Directive 8570.01, "IA Training, Certification, and Workforce Management." Other applicable directives are DoD Manual 8570.01-M (IA Workforce Improvement Program) and SECNAV Manual 5329.2 (DON IA Workforce Management Manual).

All command CSWF personnel are required to follow the processes and procedures specified in this guide. The NAWCWD IAM is responsible for developing, implementing, and ensuring compliance. IA supervisors are responsible for the execution of steps presented in the guide. National adoption of the CSWF plan and implementation guide can potentially enable the NAVAIR CSWF to maintain proper certification in order to protect information on cyber networks.

Organization: NAVAUDSVC

Title: Compliance with Generally Accepted Government Auditing Standards (GAGAS)

Internal Control Reporting Category: Personnel and Organizational Management

Description of Issue: GAGAS, issued by the Comptroller General of the United States, are professional standards and guidance that provide a framework for conducting high-quality government audits. GAGAS contain requirements and guidance dealing with ethics, independence, professional judgment, competence, quality control and assurance, field work, and reporting. GAGAS quality control standards require that audit organizations performing

audits in accordance with GAGAS establish a system of quality control that encompasses the audit organization's structure and the policies adopted and procedures established to provide reasonable assurance of complying with applicable standards governing audits and attestation engagements. The internal quality control system should include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied.

In addition, Secretary of the Navy Instruction 7510.7F, "Department of the Navy Internal Audit," requires NAVAUDSVC to perform audits in accordance with GAGAS. When auditors perform their work in compliance with GAGAS, their reports can lead to improved government management, better decision making and oversight, effective and efficient operations, and accountability for resources and results.

Description of Accomplishment: NAVAUDSVC performed two internal quality control reviews related to: (1) workpaper required information and (2) audit documentation and evidence to determine if the organization was adhering to standards. During the review, the quality control teams tested internal controls in these areas. Although minor deficiencies were noted, and subsequently corrected, the quality control teams concluded that the NAVAUDSVC was in compliance with GAGAS related to: (1) workpaper required information and (2) audit documentation and evidence. Quality control reviews are one aspect of the NAVAUDSVC internal quality control system through which we monitor the effectiveness of policies and procedures.

TAB B-1

Operational Material Weaknesses

Uncorrected Material Weaknesses Identified During the Period:

Internal Control Reporting Category	Description of Material Weakness	Targeted Correction Year	Page #
Contract Administration	<u>Execution of Husbanding Contracts – Husbanding Service Providers</u> There are internal control weaknesses within the Navy husbanding and port services process.	FY 2016	B-2-1

Uncorrected Material Weaknesses Identified During Prior Periods:

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Page #
Contract Administration	<u>Contract Management – Service Contracts</u> There are internal control weaknesses in three specific areas within the contract administration process - management oversight, documentation, and quality control.	FY 2012	FY 2015	B-2-2
Communications, Intelligence, and/or Security	<u>Personally Identifiable Information (PII)</u> There is a need to strengthen existing or create new PII safeguarding policies in three key areas: magnetic hard drives, Social Security Number (SSN) usage reduction, and PII awareness training.	FY 2010	FY 2017	B-2-3
Communications, Intelligence, and/or Security	<u>Communications Security (COMSEC)</u> DON procedures and policies for requesting, approving, and documenting the release of COMSEC equipment to contractor's COMSEC equipment accounts supporting DON contracts are insufficient. Internal controls are insufficient to prevent or promptly detect COMSEC equipment accountability and irregularities or compliance.	FY 2006	FY 2015	B-2-4

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Page #
Acquisition	<u>Attenuating Hazardous Noise in Acquisition and Weapon System Design</u> Insufficient processes are in place to effectively mitigate hazardous noise risks posed during the operation and acquisition of major weapon systems.	FY 2010	FY 2017	B-2-5
Procurement and Contract Administration	<u>Earned Value Management (EVM)</u> There is inadequate oversight and application of EVM resulting in the failure of effective implementation and being unable to fully benefit from the process.	FY 2010	FY 2015	B-2-7

Material Weaknesses Corrected During the Period:

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Page #
N/A	N/A	N/A	N/A

TAB B-2

Operational Corrective Action Plans and Milestones

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

1. Execution of Husbanding Contracts – Husbanding Service Providers

Internal Control Reporting Category: Contract Administration

Targeted Correction Date: 3rd Quarter, FY 2016

Description of Material Weakness: The DON business process for acquiring husbanding and port services requires clear oversight, coordination and direction for an all Navy process that pursues a layered defense philosophy. This series of controls builds a codified, integrated repeatable, process with clear governance processes, checks and balances, inspection and feedback processes.

Navy Audit (N2012-IEAAA-0129) by the NAVAUDSVC was conducted on the "Execution of Husbanding Contracts utilized in the 7th Fleet Area of Responsibility." In addition, a follow-on audit, N2014-0048 "Navy Husbanding and Port Services Contracts," was conducted at the request of the SECNAV in order to assess internal controls within the Navy husbanding and port services process. A SECNAV request was made in response to a recent high-profile case involving alleged fraudulent activities.

Detailed CAP: The DON is taking a variety of corrective actions to address identified deficiencies in execution of husbanding contracts.

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
1st Quarter, FY 2016	OPNAV partnering with NAVSUP and NCIS will assess cyber risks associated with the revised husbanding and port services process and how those risks will be mitigated.	CNO	In Progress
1st Quarter, FY 2016	All United States Ships and Military Sealift Command (MSC) units will execute revised Off-Ship Bill Pay Process.	CNO	In Progress
1st Quarter, FY 2016	OPNAV, with Navy Inspector General, NCIS, Fleets, NAVSUP and MSC will implement and institute an integrated validation process to ensure annual evaluation of Fleet operations regarding husbanding and port services.	CNO	In Progress
1st Quarter, FY 2016	OPNAV, with Fleets, NAVSUP and MSC will develop an executive metric dashboard collecting all data associated with the husbanding and port services	CNO	In Progress

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
	process; emphasizing governance, financial, contracting and operational requirements that synthesize the health of husbanding and port services process and enables leadership ability to quickly detect and address instances of fraud, waste and or abuse.		
1st Quarter, FY 2016	OPNAV, with Fleets, NAVSUP and MSC, will provide a comprehensive map of all information systems involved in the husbanding and port services process, outlining the functions, format and integrity of the data.	CNO	In Progress
2nd Quarter, FY 2016	OPNAV, with ASN (FMC) and Fleets, will validate the husbanding and port services process and OSBP for compliance with all FIAR requirements.	CNO	In Progress
2nd Quarter, FY 2016	OPNAV, with ASN (FMC) and Fleets, will implement an executive dashboard driving measurement to validate the husbanding and port services process and OSBP for compliance with all FIAR requirements.	CNO	In Progress
3rd Quarter, FY 2016	OPNAV will complete instruction consisting of all stakeholder roles and responsibilities in the husbanding and port services process.	CNO	In Progress
3rd Quarter, FY 2016	OPNAV, with Naval Education Training Command and Defense Acquisition University, will ensure emergent training conducted during FY 2014 is institutionalized and enduring. This training will encompass Pipeline Schoolhouses, Naval Leadership Ethics Center & Senior Enlisted Academy, Fleet, and Pre-Deployment training.	CNO	In Progress

2. Contract Management – Service Contracts

Internal Control Reporting Category: Contract Administration

Targeted Correction Date: 4th Quarter, FY 2015

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

justification for contract amendments, and procedures and actions to protect the best interests of the Government.

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

Detailed CAP: The DON is taking a variety of corrective actions to address previously identified deficiencies in contract administration.

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
4th Quarter, FY 2014	<u>Issue Formal DoDI: DoDI 5000.72 (DoD Standard for COR Certification)</u> was released with signature on March 26, 2015. The instruction establishes policies and standards, assigns responsibilities, and provides procedures to certify CORs.	ASN (RD&A)	Complete
4th Quarter, FY 2015	<u>Release SECNAVINST to implement DoD guidance on the COR:</u> The leadership will determine whether or not a SECNAVINST is required for implementing DoDI 5000.72	ASN (RD&A)	In Progress

3. PII

Internal Control Reporting Category: Communications, Intelligence, and/or Security

Targeted Correction Date: 1st Quarter, FY 2017

Description of Material Weakness: The number and impact of PII breaches across the DON is unacceptably high and has remained fairly constant. DON breach report metrics and NAVAUDSVC audit findings demonstrate a need to strengthen existing or create new PII safeguarding policies in three key areas: magnetic hard drives, SSN usage reduction, and PII awareness training. A lack of a comprehensive plan regarding the unnecessary or unlawful collection of SSNs could result in a significant loss or compromise of sensitive PII. While a policy on Data at Rest was issued by the DON CIO in January 2009, it has not been fully

implemented across the DON. Implementation would significantly reduce the number and impact of PII breaches.

Detailed CAP: The following table describes detail corrective actions. The DON will validate CAP implementation through releasing the DON magnetic hard drive disposal policy message, completing updated annual PII awareness training, and completing the DON SSN Usage Reduction Plan in different phases.

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
1st Quarter, FY 2017	Create refresher PII training module for DON use and update annual PII awareness training	DON CIO	In Progress
1st Quarter, FY 2017	Implement Phase III of the SSN Usage Reduction Plan. The final portion of the SSN Usage Reduction Plan, Phase III, will begin 1st quarter, FY 2016. Continued collection of the SSN in memoranda, letters, spreadsheets, hard copy lists, electronic lists, and surveys will require written justification.	DON CIO	In Progress

4. COMSEC

Internal Control Reporting Category: Communications, Intelligence, and/or Security

Targeted Correction Date: 4th Quarter, FY 2015

Description of Material Weakness: DON procedures and policies for requesting, approving, and documenting the release of COMSEC equipment to contractor's COMSEC equipment accounts supporting DON contracts are insufficient. Specifically, instances of incomplete or missing requirements data elements required by OPNAVINST 2221.5C have been identified. Current internal controls are not sufficient to prevent or promptly detect COMSEC equipment accountability and irregularities or non-compliance.

Detailed CAP: The following table describes detail corrective actions. DON will validate CAP implementation through developing and implementing a SECNAVINST that prescribes policy for managing and tracking DON COMSEC equipment accounts supporting DON contracts and implements a uniform equipment request and loan tracking system with standard operation procedures.

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
4th Quarter, FY 2015	<u>Implement SECNAVINST for COMSEC management and tracking:</u> DON CIO has developed a draft SECNAVINST for COMSEC Material Program Implementation. DON will complete additional DON	DON CIO	In Progress

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
	official review of SECNAVINST per direction of DON/AA Directives and Records Management Division. SECNAV will approve and release SECNAVINST on COMSEC Material Program Implementation		

5. Attenuating Hazardous Noise in Acquisition and Weapon System Design

Internal Control Reporting Category: Acquisition

Targeted Correction Date: 1st Quarter, FY 2017

Description of Material Weakness: The noise resulting from the operation of certain weapons systems has been deemed a hazard to the war fighters that operate in and around these weapon systems. DON did not have a sufficient process in place to effectively address mitigating hazardous noise risks posed by major weapon systems. In addition, the audited weapon systems program offices did not fully comply with requirements to mitigate identified noise hazards during the acquisition process. As a result, these conditions may contribute to a hazardous environment of high noise exposure that, according to the Naval Safety Center, ensures permanent hearing loss for Sailors and Marines. There are potential serious consequences for not remedying hazardous noise and most importantly the health and well-being of Service members impacted by hearing loss. Hearing impairment among Service members also leads to mission and economic consequences for DON, including: lost time and decreased productivity, loss of highly-valued personnel through medical disqualification, increased military disability settlements, retraining of replacements, and expenses related to medical treatment.

Detailed CAP: BUMED is responsible for responding to recommendations related to issuing hearing protection and has initiated several efforts related to hearing loss prevention and Hearing Conservation Program management. BUMED's plan of action includes several corrective action efforts, such as establishing a hearing injury reporting mechanism, expanding current inspection processes to incorporate hearing readiness measures of effectiveness, and promoting efforts to develop a fleet signal to focus research initiatives by ASN (RD&A) towards the development of new technologies that inhibit the negative effects of hazardous noise and enhance critical communications. BUMED also plans to engage CNO to determine feasibility of providing training, education, and fitting hearing protective devices at accession points for new recruits and concurrently providing the same touch point for Sailors and Marines during required periodic screenings that are already in service.

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
3rd Quarter, FY 2015	<u>Establish Baseline of Research:</u> A dynamic hearing preservation training kit is in the	BUMED	Complete

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
	design phase. The research component is tied directly into the engineering and acquisition component. Both components are represented on the Hazardous Noise Exposure Mitigation Working Group (HNEMWG) and share similar priorities. Therefore, this targeted correction will be closed and absorbed into the "Establish Baseline and Roadmap for Engineering and Acquisitions.		
1st Quarter, FY 2016	<u>Hearing Injury Reporting</u> : BUMED leverages Enterprise Safety Application Management System (ESAMS) capabilities for hearing injury reporting. Beta testing of ESAMS as the enterprise reporting tool has been completed. ESAMS as the enterprise tracking application is pending developments of risk management information system initiative underway.	BUMED	In Progress
1st Quarter, FY 2016	<u>Expand Current Inspection Processes to Incorporate Hearing Readiness Measure of Effectiveness</u> : The Navy audiology community assists the inspection communities with integrating, maintaining, and complying with hearing conservation program policy and procedures. Work will begin on engaging the relevant institutions responsible for establishing criteria on inspection processes throughout the DON.	BUMED	In Progress
1st Quarter, FY 2016	<u>Establish Baseline and Roadmap for Engineering and Acquisitions</u> : The DON HNEMWG is establishing a central oversight group to mitigate hazardous noise throughout DON organizations, weapon systems, and equipment during the design, engineering, and sustainment processes. A noise-induced hearing loss program has been developed, and updates to MILSTD 1474 are complete and under review. HNEMWG is evaluating a prioritization tool developed by the Defense Safety Oversight Council and BUMED.	BUMED	In Progress
1st Quarter, FY 2017	<u>Establish Audiometric Fitness for Duty Standards</u> : The draft action memo on the evidence-based trigger for audiometric fitness for duty is complete and ready for review. The	BUMED	In Progress

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
	Navy Marine Corps Public Health Center Technical Manual 6260.51-99-2 is being rewritten.		
4th Quarter, FY 2015	Develop a data sharing tool for Defense occupational and environmental Health Readiness System and Medical Readiness Reporting System.	CMC	Complete

6. EVM

Internal Control Reporting Category: Procurement and Contract Administration

Targeted Correction Date: 4th Quarter, FY 2015

Description of Material Weakness: Through a series of audits in previous years, there were systemic weaknesses associated with the implementation and oversight of EVM within DON. While progress has been made to correct EVM weaknesses in DON, the implementation and use of EVM to manage Navy acquisition programs continues to be an internal control weakness within DON, particularly within shipbuilding programs.

DON shipbuilding contractors' EVM systems were mostly noncompliant with DoD guidelines. Shipbuilding PMs and contractors are not using EVM systems to manage major weapons systems procurement actions.

Detailed CAP: Since these material weaknesses continue to exist, DON has been working to address the EVM material internal control weaknesses within shipbuilding programs. The following table describes detail corrective actions. DON will validate CAP implementation through finalizing NAVSEA Instruction for comprehensive EVM compliance, and it will request independent validation of EVM policy compliance by NAVAUDSVC.

Targeted Correction Date	Detail Corrective Actions	Responsible Organization	Status
4th Quarter, FY 2015	Implement recommended changes for centralization of EVM process ownership and consistent EVM support for NAVSEA shipbuilding programs, supervisors of shipbuilding, conversion, and repair (staffing levels, EVM oversight processes, and shipbuilding program office capability and support).	ASN (RD&A)	In Progress
4th Quarter, FY 2015	Attain NAVSEA shipbuilding EVM policy compliance with target level.	ASN (RD&A)	In Progress

TAB C

Financial Reporting/Financial Management System Material Weaknesses/Corrective Actions

Uncorrected Material Weaknesses Identified During the Period:

Internal Control Reporting Category	Description of Material Weakness	Targeted Correction Year	Corrective Action Summary
Budget-to-Report: Financial Statement Compilation and Reporting (FSCR) (Financial System)	Standard Accounting and Reporting System-Field Level (STARS-FL) has numerous deficiencies in the areas of Separation of Duties (SOD), reconciliation, pre-validation edit checks and other internal controls.	4th Quarter, FY 2025	<ul style="list-style-type: none"> • ASN (FM&C) determined that STARS-FL and feeder system material weaknesses cannot be solved in the near-term and require implementation of an audit-ready core financial system for BSOs that use STARS-FL. • STARS to Standard Accounting Budgeting Reporting System (SABRS) Program Management Office began supporting the transition from STARS to SABRS for DON/AA and subordinate 1517 holders effective October 1, 2015. • Remaining STARS-FL BSOs will begin discovery activities to support an analysis of alternatives. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR	Transactions resident in Business Transaction Systems (BTS) cannot be efficiently and accurately reconciled to the Navy General Ledger Accounting Systems (GLAS). Financial management, business process variances and system interface and configuration management issues exist across the various BTS.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • Reconciling approximately 60 BTS feeder systems interfacing with 250 unique data exchanges across seven GLAS. • Developed prioritization methodology based on FIAR established business processes and a top-down risk based approach. • Major Headquarters Activity (MHA) reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR	GLAS posting logic does not produce expected financial and budgetary accounting relationships.	4th Quarter, FY 2016	<ul style="list-style-type: none"> • Analyzed 20 tie points across nine accounting systems; identified and prioritized root cause failures. • Developed remediation actions to correct identified failures. • Remediation of Journal Vouchers to correct tie point failures are on schedule to be completed by September 30, 2016. • MHA reduction will impact ability to achieve required CAP milestones.

Internal Control Reporting Category	Description of Material Weakness	Targeted Correction Year	Corrective Action Summary
Budget-to-Report: FSCR	DON is unable to provide detailed transaction data to support the history of cumulative transactions from inception through FY 2014. Therefore, currently the DON's beginning balances are unsupported.	1st Quarter, FY 2017	<ul style="list-style-type: none"> • Transaction Universe developed for all transactions recorded after October 1, 2014. • Transactions to support beginning balances added continuously. • Beginning balances expected to be materially supported by October 1, 2016. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR	USMC's contracts providing support to building partner capacity cases show the no-year line of accounting, which mistakenly gives the impression the funds do not expire or cancel.	4th Quarter, FY 2015	<ul style="list-style-type: none"> • Developed internal control to update line of accounting; on track to remediate by 4th quarter FY 2015. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: Reimbursable Work Order – Grantor (RWO-G)	There is lack of supporting receipt documentation for MSC liquidations and payments.	1st Quarter, FY 2016	<ul style="list-style-type: none"> • Coordinated with MSC to obtain source documentation. • Plan to reconcile liquidations with DFAS by 1st quarter FY 2016. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: Various Business Segments	The DON is not in compliance with the Improper Payments Information Act (IPIA) of 2002 (as amended). The DON does not have assurances over 1) reconciliation of the payment universe in order to perform program assessments, 2) adequacy of sampling plans, 3) guidance (i.e., SECNAVINST and SECNAV MANUAL), 4) root cause analysis of improper payments and associated CAPs, 5) tracking and recovering overpayments to prevent loss of funds, 6) identification and resolution of Service Provider improper payments, 7) Internal Control Over Improper Payments, and 8) conducting recovery audits.	4th Quarter, FY 2016	<ul style="list-style-type: none"> • Conduct root cause analysis of reportable programs, validate control weaknesses, develop and test CAPs. • Establish permanent IPIA Service Provider Board to address improper payments for Service Provider reportable programs. • Document Internal Controls over Payments, including fraud review, in support of Annual Financial Reporting requirements. • MHA reduction will impact ability to achieve required CAP milestones.
Hire-to-Retire: Military Pay	Outdated military pay and financial management information technology systems lack modern capabilities to support required auditability framework. Current deficiencies require unsustainable manual activities to support auditability. No interoperability between Personnel, Pay, and Financial Management systems; no	4th Quarter, FY 2023	<ul style="list-style-type: none"> • Develop the Integrated Pay and Personnel System-Navy (IPPS-N) and implement on a five-year plan starting in FY 2018. • IPPS-N will be designed to determine pay and entitlements, report ad hoc financial management data, capture and store key supporting documents, respond to changes in legislation, regulation, and policy, allow seamless transition between Active

Internal Control Reporting Category	Description of Material Weakness	Targeted Correction Year	Corrective Action Summary
	support for transaction accounting and reporting.		<p>and Reserve components.</p> <ul style="list-style-type: none"> • IPPS-N will enhance communication and coordination for end-to-end Military Pay and Financial Management business processes. • MHA reduction will impact ability to achieve required CAP milestones.
Various Internal Control Reporting Categories (Financial System)	<p>The DoD Information Assurance Accreditation and Certification Process (DIACAP) failed to produce the audit ready control environment as delineated in the NIST Special Publications and FISCAM. Navy control testing revealed lack of proper design and effectiveness of IT controls across all Financial Systems with regard to policy, procedure, and documentation for:</p> <ul style="list-style-type: none"> • Access Control • Segregation of Duties • Configuration Management • Audit Logging • System Interfaces 	2nd Quarter, FY 2016	<ul style="list-style-type: none"> • DoD's RMF transition is in progress (transition from DIACAP to NIST). • Initiated three phases approach: 1) discovery (complete) – identified 39 key systems, 2) testing (complete) – identified 676 deficiencies, and 3) corrective action plans are in progress (completed corrective actions for 230 of 676 deficiencies and scheduled completion of 85% by March 2016). • MHA reduction will impact ability to achieve required CAP milestones.
Various Internal Control Reporting Categories (Financial System)	Financial system owners lacked standardized and specific control criteria guidance.	1st Quarter, FY 2016	<ul style="list-style-type: none"> • Created supplemental guides to standardize financial system practices to improve and sustain systems controls (7 of 18 (39%) supplemental guides are complete). • Scheduled completion by December 2015. • MHA reduction will impact ability to achieve required CAP milestones.
Various Internal Control Reporting Categories (Financial System)	The DON lacked a governance forum to address financial systems planning and control implementation and management at the Enterprise level.	1st Quarter, FY 2016	<ul style="list-style-type: none"> • Navy chartered the Financial Information System Working Group to support audit readiness and address resolution of enterprise audit related deficiencies. • MHA reduction will impact ability to achieve required CAP milestones.
Various Internal Control Reporting Categories (Financial System)	The Navy ERP system currently has numerous SOD deficiencies. The exact nature and number of the SOD deficiencies is currently being analyzed. In addition, other systems outside of Navy ERP also have numerous SOD deficiencies.	2nd Quarter, FY 2016	<ul style="list-style-type: none"> • CAPs are 34% complete. • Leading a Governance Risk Compliance Project to analyze and correct SOD deficiencies in Navy ERP. • MHA reduction will impact ability to achieve required CAP milestones.

Internal Control Reporting Category	Description of Material Weakness	Targeted Correction Year	Corrective Action Summary
Various Internal Control Reporting Categories (Financial System)	The Standard Financial Information Structure (SFIS) is the part of the DoD Business Enterprise Architecture that deals with financial management, and SFIS is updated regularly. The Navy ERP system is currently not fully compliant with SFIS, as Navy ERP has only implemented 51 of 70 SFIS data elements, leaving 19 data elements to be implemented.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • CAPs are 53% complete. • Working with the Navy ERP PMO and Navy ERP Sustainment Team to plan out when SFIS compliance work will be completed for Navy ERP. • Completed a technical upgrade for 10 of 19 SFIS data elements, leaving 9 data elements to be incorporated into the Navy ERP FY 2017. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR (Financial System)	Interface strategy and design of STARS-FL: Not all interfaces have approved strategy for the application.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • Memorandums of Agreement update; ensure error handling and communication protocol is included and matches interface strategy document. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR (Financial System)	Interface processing procedures – STAR-FL: Memorandums of Agreement do not fully document method to secure data during the transfer of interface files.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • Memorandums of Agreement update; ensure file transfer method clearly identified and matches file type in supporting interface strategy document. • Five of six CAPs closed in FY 2015. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR (Financial System)	Business process transaction data input – STAR-FL: Insufficient policies outlining source documentation, input file data collection, and input preparation and entry into application.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • Policy update in progress to outline how data is authorized and validated, completeness of transactions, audit documentation, and transaction corrections. • Five open CAPs in progress. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR (Financial System)	Business process transaction data processing – STAR-FL: No procedures to document how process errors should be identified, logged, and resolved. Allows for duplicate transactions.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • Policy development for handling error corrections in progress. • Compensating controls have been implemented to edit and manually validate transactions after processing. • Seven open CAPs in progress. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR (Financial System)	Business process transaction data output – STAR-FL: No documentation of key reports used to track processing results.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • Policy development to reflect rationale and impact to financial statement reporting in progress. • MHA reduction will impact ability to achieve required CAP milestones.

Internal Control Reporting Category	Description of Material Weakness	Targeted Correction Year	Corrective Action Summary
Budget-to-Report: FSCR (Financial System)	Business process master data – STARS-FL: Master Data additions, deletions, and changes not properly managed or monitored by data owners; management cannot ensure Master Data is complete and valid.	4th Quarter, FY 2017	<ul style="list-style-type: none"> • Policy development in place to implement system capabilities to validate data accuracy and completeness. • Collaborating across enterprise to implement monitoring capabilities. • Five open CAPs in progress. • MHA reduction will impact ability to achieve required CAP milestones.

Uncorrected Material Weaknesses Identified During Prior Periods:

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
Acquire-to-Retire: General Equipment (GE)	The DON cannot establish and/or support ownership and valuation of GE due to lack of supporting documentation, improper interpretation of guidance, underutilization of the Accountable Property System of Record (APSR), and system limitations. In addition, the DON cannot substantiate that the ASR represents a complete inventory of GE assets. Subsequently, two rounds of testing completed over 18 BSOs.	FY 2007	2nd Quarter, FY 2017	1st Quarter, FY 2009	<ul style="list-style-type: none"> • Implemented 3 tier valuation strategy. On track to assert valuation March 31, 2017. • GE-Remainder asserted 3rd quarter FY 2015. • MHA reduction will impact ability to achieve required CAP milestones.
Acquire-to-Retire: GE	The Marine Corps is reporting an understated amount of GE on the balance sheet that cannot be supported by detailed transactions or capital asset listings.	FY 2008	2nd Quarter, FY 2016	2nd Quarter, FY 2013	<ul style="list-style-type: none"> • Installations and logistics controls and audit readiness team prioritized efforts to assert GE by March 30, 2016. • FISCAM assessment for 10 Tier 1 systems underway; internal control testing to follow to ensure processes are operating effectively. • All USMC

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
					<p>Equipment will be on a property record and values will be reported by end of FY 2015.</p> <ul style="list-style-type: none"> • MHA reduction will impact ability to achieve required CAP milestones.
Acquire-to-Retire: GE	Account discrepancies range from improper equipment nomenclature on account records (i.e., desk top computer listed as laptop, but serial numbers match) to unaccounted gear (the responsible officer is not able to find accountable gear).	FY 2008	2nd Quarter, FY 2016	2nd Quarter, FY 2010	<ul style="list-style-type: none"> • Reconciling accounts in each property account system; Defense Property Accountability System, Asset Tracking for Logistics and Supply System, and Global Combat Support System-Marine Corps (GCSS-MC). • Developed custody chain to document property control below the Responsible Officer level. • MHA reduction will impact ability to achieve required CAP milestones.
Acquire-to-Retire: Real Property (RP)	There are insufficient standardized internal control and supporting documentation requirements, which has a direct impact on the timeliness and accuracy of construction in progress and RP transactions. RP acquisition, inventory, disposal processes, and systems deficiencies result in miscommunication and insufficient support for	FY 2006	1st Quarter, FY 2017	2nd Quarter, FY 2009	<ul style="list-style-type: none"> • Financial management, asset management, and capital improvement communities linked in developing cost to government that populates final DD Form 1354; DD Forms 1354 are now automated. • Two rounds of testing conducted; confirming internal

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	asset ownership and valuation.				<p>control compliance.</p> <ul style="list-style-type: none"> • Phase II testing to begin 1st quarter FY 2016. • FIAR assertion process in place; on track for December 31, 2016 completion. • MHA reduction will impact ability to achieve required CAP milestones.
Acquire-to-Retire: RP	DoD Form 1354 (Transfer and Acceptance of Military Real Property) is improperly prepared and accepted. Internet Naval Facilities Assets Data Store (iNFADS) is updated prior to RP Accountable Officer approval. Costs were split over multiple facilities and not recorded on DoD form 1354. Costs are entered into iNFADS without supporting documentation.	FY 2008	4th Quarter, FY 2015	2nd Quarter, FY 2010	<ul style="list-style-type: none"> • Operating procedures and internal controls are written and implemented. • Real Property Accountability Officer and Assistant Planner hired on full time basis to fix and maintain records. • MHA reduction will impact ability to achieve required CAP milestones.
Plan-to-Stock: Operating Materials and Supplies (OM&S)	The DON cannot demonstrate the ability to consistently perform and document annual physical inventories of OM&S and maintain clear audit trails to permit the tracing of transactions from source documentation to comply with established policy requiring source documentation for the reported OM&S dollar values. Legacy systems lack the ability to capture financial information therefore, the DON has not maintained historical cost data to comply with	FY 2005	4th Quarter, FY 2017	4th Quarter, FY 2011	<ul style="list-style-type: none"> • Ashore Ordnance and Uninstalled Aircraft Engines have been asserted and in sustainment. • Afloat Ordnance examination completed by DoDIG on October 2, 2014. • SECNAVINST 4440.33A issued; outlines accounting and accountability requirements. • Focused on OM&S-Remainder (approximately 30% in discovery). • MHA reduction will

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	Generally Accepted Accounting Principles.				impact ability to achieve required CAP milestones.
Plan-to-Stock: Inventory	The DON cannot maintain accurate Moving Average Cost (MAC) inventory values and clear audit trails by 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. Through discovery efforts DON has identified some problems with the MAC calculations in ERP. There are also current organic processes that do not support the proper valuation of MAC.	FY 2005	4th Quarter, FY 2017	4th Quarter, FY 2011	<ul style="list-style-type: none"> • Valuation and reporting discovery underway. • Corrective actions to automated ERP functions will be developed after discovery. • Valuation and reporting discovery to conclude in 2nd quarter FY 2016. • MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR	The control environment is not designed and/or operating effectively to ensure all business entries (Journal Vouchers (JVs)/Standard Business Transactions (SBTs)) follow a standardized process to support an audit trail.	FY 2013	2nd Quarter, FY 2017	4th Quarter, FY 2013	<ul style="list-style-type: none"> • Developed policy standardizing the definition of JV vs SBT. • Pushed policy to BSOs and DFAS. • FSCR audit testing for JVs and SBTs on-going; deficiencies documented and remediation plans developed. • Sustainment testing results of 90% or better required to remediate this deficiency. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: Contract Vendor Pay (CVP)	The control environment is not designed and/or operating effectively to	FY 2014	3rd Quarter, FY 2016	2nd Quarter, FY 2014	<ul style="list-style-type: none"> • Established methodology to test adherence to 10 day

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	ensure that obligations incurred are posted in the General Leger (GL) accounting system in a timely manner.				<ul style="list-style-type: none"> obligation period. • Promulgated requirement for each command to have two government employees with electronic document access accounts; enable electronic notifications of contract load to be assessed daily. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: CVP	The DON's control environment is not designed and/or operating effectively as individual's without proper authority are approving purchase requests, purchase orders (not requiring a Contracting Officer's Warrant), and certifying invoices for payment.	FY 2014	1st Quarter, FY 2016	2nd Quarter, FY 2014	<ul style="list-style-type: none"> • Revised SECNAVINST 7000.28, "Requirements for Delegation and Appointment Documentation" to be released in October, 2015. • Instruction provides proper use of DD Form 577 and Delegation Authority Letter; enhances documentation retention and supports auditability requirements across DON. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: Military Standard Requisitioning and Issue Procedures (MILSTRIP)	Transactions resident to Naval Shipyard requisition and financial management systems of record cannot be efficiently and accurately reconciled to the GL. Financial	FY 2013	4th Quarter, FY 2017	4th Quarter, FY 2013	<ul style="list-style-type: none"> • Site visits conducted at Shipyards and Regional Maintenance Centers. • Documented baseline for controls, KSDs, and root causes for

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	management business process variances exist at Naval Shipyards and satellite facilities.				<p>MILSTRIP.</p> <ul style="list-style-type: none"> • Developing baselines for CVP, Transportation of Things (ToT), and other assessable units at Shipyards and Regional Maintenance Centers. • BTS to GLAS reconciliation is underway to identify Naval Shipyard requisition posting deficiencies. • Based on identified gaps, remediation plans will be developed by July 31, 2017. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: MILSTRIP	The DON's Service Provider, DFAS, has insufficient controls in place to validate the effectiveness of Visual Inter-fund System Transaction Accountability (VISTA) system functionality for assigning a line of accounting to inter-fund bills that result in MILTRIP obligations or payables and disbursements on the GL.	FY 2013	4th Quarter, FY 2015	4th Quarter, FY 2013	<ul style="list-style-type: none"> • DON relying on DFAS to complete VISTA FISCAM testing in 4th quarter FY 2015; CAP is dependent on FISCAM test results. • Iterative testing approach has pushed schedule to the right. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: MILSTRIP	The internal controls of reconciliation process for unliquidated obligations are not designed to effectively monitor if open MILSTRIP commitments and obligations represent a bona fide need.	FY 2013	4th Quarter, FY 2016	2nd Quarter, FY 2014	<ul style="list-style-type: none"> • DON released updated Triannual Review guidance in May 2015 to all BSOs. • Guidance mandates standardized reporting of

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
					<ul style="list-style-type: none"> unliquidated obligations for all financial transactions. • Determination of increased standardization will be tested during financial statement audit testing reviews. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: MILSTRIP	USMC's Offline Requisitions - The DLA and General Services Administration (GSA) established off-line requisition systems to access and purchase cataloged or GSA schedule products. These systems did not include the necessary interfaces with the Marine Corps supply and financial automated systems therefore, incomplete information resulted in invalid accounting entries and Prompt Payment Act violations.	FY 2009	4th Quarter, FY 2015	2nd Quarter, FY 2010	<ul style="list-style-type: none"> • Approved Defense Logistics Management Standards, Enhanced Procedures for Requisitioning via DoD EMALL, and GSA Internet Ordering. • Implemented nine new policies to address noted deficiency. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: ToT	No effective controls are in place to prevent unauthorized use of Transportation Account Codes (TAC) or prevent unauthorized shipments from occurring. Transportation officers across DoD do not have the capability to determine if the shipping requestor is authorized to use the TAC cited on the shipping	FY 2013	4th Quarter, FY 2017	4 th Quarter, FY 2014	<ul style="list-style-type: none"> • Cargo Movement Operations System (CMOS) is a long term solution to standardize systems and processes across the transportation community. • CMOS, a single DoD shipper system, validates funding availability and authorization of TAC

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	document or validate sufficient funds are available prior to releasing for shipment.				<p>usage.</p> <ul style="list-style-type: none"> • CMOS scheduled for implementation by October 1, 2016. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: ToT	The DoD does not have a centralized process to maintain, store, and retrieve transportation documentation, which are required to support ToT transactions, management evaluation, and future examination/audits. The majority of ToT KSDs are generated by systems/processes not owned by DON and cannot be provided in a timely manner. This issue aligns to valuation, existence/completeness, and presentation and disclosure assertions.	FY 2013	4th Quarter, FY 2017	4 th Quarter, FY 2014	<ul style="list-style-type: none"> • Memorandum of Agreement to be signed by October 31, 2015 outlining interim solution for services to retrieve and share KSDs across the enterprise. • OSD working a long-term solution to centralize repository for all services. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: ToT	Transportation and financial system interfaces do not support exchange of all required transactional data. The majority of ToT systems is owned by transportation service providers and other DoD services and has not been included in DON audit readiness and compliance testing efforts.	FY 2013	1st Quarter, FY 2017	4th Quarter, FY 2014	<ul style="list-style-type: none"> • CMOS implementation will alleviate need for multiple interfaces. • CMOS scheduled for implementation by October 1, 2016. • MHA reduction will impact ability to achieve required CAP milestones.
Order-to-Cash: RWO-P	The DON's control environment is not designed and/or operating effectively to verify undelivered orders and accounts receivables represent valid transactions	FY 2012	4th Quarter, FY 2015	FY 2012	<ul style="list-style-type: none"> • DON released updated Triannual Review guidance in May 2015 to all BSOs. • Guidance mandates standardized

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	that are authorized and approved.				<p>reporting of unliquidated obligations and undelivered orders for all financial transactions.</p> <ul style="list-style-type: none"> • Determination of increased standardization will be tested during financial statement audit testing reviews. • MHA reduction will impact ability to achieve required CAP milestones.
Order-to-Cash: RWO-P	The DON's control environment is not designed and/or operating effectively to verify unfilled reimbursable orders/authorizations are recorded completely and accurately.	FY 2012	4th Quarter, FY 2018	FY 2012	<ul style="list-style-type: none"> • First Phase Invoice Processing Platform (IPP) implementation in FY 2017. • Second Phase IPP implementation in FY 2018. • Provides DON ability to perform Trading Partner reconciliations monthly. • MHA reduction will impact ability to achieve required CAP milestones.
Order-to-Cash: RWO-P	The control environment is not designed and/or operating effectively to verify year-end accruals are accurately posted.	FY 2012	2nd Quarter, FY 2016	FY 2012	<ul style="list-style-type: none"> • Methodologies to estimate and post receivable accruals to be implemented across commands by 2nd quarter FY 2016. • MHA reduction will impact ability to achieve required CAP milestones.
Order-to-Cash: RWO-P	The control environment is not designed and/or operating effectively to verify the amount billed is	FY 2012	4th Quarter, FY 2018	FY 2012	<ul style="list-style-type: none"> • First Phase IPP implementation in FY 2017. • Second Phase IPP

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	valid and accurately recorded based on goods/services provided.				implementation in FY 2018. <ul style="list-style-type: none"> • Provides DON ability to perform electronic receipt and acceptance for goods and services. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: RWO-G	The DON's control environment is not designed and/or operating effectively to verify undelivered orders and accounts receivables represent valid transactions that are authorized and approved.	FY 2012	4th Quarter, FY 2015	FY 2012	<ul style="list-style-type: none"> • DON released updated Triannual Review guidance in May 2015 to all BSOs. • Guidance mandates standardized reporting of unliquidated obligations and undelivered orders for all financial transactions. • Determination of increased standardization will be tested during financial statement audit testing reviews. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: RWO-G	The control environment is not designed and/or operating effectively to validate that recorded obligations are complete and accurate.	FY 2012	4th Quarter, FY 2018	FY 2012	<ul style="list-style-type: none"> • First Phase IPP implementation in FY 2017. • Second Phase IPP implementation in FY 2018. • Provides DON ability to perform Trading Partner reconciliations monthly. • MHA reduction will

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
					impact ability to achieve required CAP milestones.
Procure-to-Pay: RWO-G	The control environment is not designed and/or operating effectively to verify recorded disbursements are valid and accurate.	FY 2012	4th Quarter, FY 2018	FY 2012	<ul style="list-style-type: none"> • First Phase IPP implementation in FY 2017. • Second Phase IPP implementation in FY 2018. • Provides DON ability to perform electronic receipt and acceptance for goods and services. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: RWO-G	The control environment is not designed and/or operating effectively to validate year-end accruals are accurately posted.	FY 2012	2nd Quarter, FY 2016	FY 2012	<ul style="list-style-type: none"> • Methodologies to estimate and post receivable accruals to be implemented across commands by 2nd quarter FY 2016. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: RWO-G	The USMC's obligations are not recorded timely. There is no electronic posting interface with the SABRS when joint contracts are awarded by Navy and external organizations (i.e., Army and Defense Contract Management Agency (DCMA)), which requires manual obligation posting.	FY 2012	4th Quarter, FY 2015	4th Quarter, FY 2013	<ul style="list-style-type: none"> • Offline and Internet Based Ordering Policy to be implemented by 4th quarter FY 2015. • MHA reduction will impact ability to achieve required CAP milestones.
Procure-to-Pay: RWO-G	There is missing or lost receipt and acceptance supporting documentation for the USMC. MCSC PMOs often do not receive delivery confirmation	FY 2012	4th Quarter, FY 2015	4th Quarter, FY 2013	<ul style="list-style-type: none"> • Marine Corps Systems Command implemented process to record expenses for individual disbursements.

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	documentation from DCMA – authorized contracting officers, DoD – Distribution Management Offices, Service-PMOs, Fleet Marine Force (FMF) delivery points, non-FMF delivery points, and interim delivery points.				<ul style="list-style-type: none"> • Alleviates abnormal expenses not recorded prior to voucher posting. • Dependent on OSD/DON assistance to modify Wide Area Workflow-Receipt and Acceptance (WAWF-RA) interface with SABRS. • Target completion date to be determined upon OSD and DON issuance of policy that will require completing agency accounting identifier field in WAWF-RA. • MHA reduction will impact ability to achieve required CAP milestones.
Various Internal Control Reporting Categories (Financial System)	There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for NAVAIR's systems: Maximo, Standard Procurement System (SPS) – NAVAIR, Support Equipment Management System – Support Equipment Resource Management Information System, and Decision Knowledge Programming	FY 2013	4th Quarter, FY 2017	4th Quarter, FY 2014	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 40% complete. • MHA reduction will impact ability to achieve required CAP milestones.

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
Various Internal Control Reporting Categories (Financial System)	<p>for Logistics Analysis and Technical Evaluation.</p> <p>There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for NAVFAC's systems: iNFADS, SPS – NAVFAC, Expeditionary Management Information System, Facilities Information System, and Comprehensive Utilities Information Tracking System.</p>	FY 2013	4th Quarter, FY 2017	4th Quarter, FY 2014	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 5% complete. • Command consolidating effort to establish standard controls across all systems and improve progress. • MHA reduction will impact ability to achieve required CAP milestones.
Various Internal Control Reporting Categories (Financial System)	<p>There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for NAVSEA's systems: SeaPort, SPS – NAVSEA, Standard Labor Data Collection and Distribution Application, Material Access Technology – Mission Funded, and Shipyard Management Information System – Cost Application.</p>	FY 2013	4th Quarter, FY 2017	4th Quarter, FY 2014	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 12% complete. • Resource constraints, particularly at Shipyard limited progress. • MHA reduction will impact ability to achieve required CAP milestones.

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
Various Internal Control Reporting Categories (Financial System)	There are internal control design and operating deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for systems of DON/AA, NAVSUP, Commander, Navy Installations Command (CNIC), Commander, U.S. Pacific Fleet (PACFLT), Special Warfare Command, and Office of Civilian Human Resources: PBIS, Command Financial Management System (CFMS) – CNIC, CFMS – PACFLT, Special Warfare Automated Logistics Information System, Defense Civilian Personnel Data System, and Integrated Technical Item Management and Procurement.	FY 2013	4th Quarter, FY 2017	4th Quarter, FY 2014	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 46% complete. • Systems prioritized for SBA audit have made the most progress, followed by Asset Management and Working Capital Fund systems. Command resource issues are the limiting factor. • MHA reduction will impact ability to achieve required CAP milestones.
Various Internal Control Reporting Categories (Financial System)	There are internal control design and operating effectiveness deficiencies in multiple areas including access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication for SPAWAR's systems: SPS – SPAWAR, Reserve Headquarters Support,	FY 2013	4th Quarter, FY 2017	4th Quarter, FY 2014	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 58% complete. • While resource issues impact progress the command leveraged the early FISCAM experience across other systems.

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
	Reserve Integrated Management System – Financial Management, Navy Standard Integrated Personnel System, Officer Personnel Information System, Navy Enlisted System, Navy ERP, and Navy Reserve Order Writing System.				<ul style="list-style-type: none"> MHA reduction will impact ability to achieve required CAP milestones.
Plan-to-Stock: OM&S (Financial System)	The deficiencies for GCSS-MC span across multiple control categories defined in the GAO FISCAM, including application level general controls, access controls, system interfaces, and configuration management controls.	FY 2014	4th Quarter, FY 2015	3rd Quarter, FY 2015	<ul style="list-style-type: none"> Implementing technical solutions and contingency plan testing, and develop policies and procedures. MHA reduction will impact ability to achieve required CAP milestones.
Budget-to-Report: FSCR (Financial System)	The deficiencies for SABRS span multiple control categories defined in the GAO FISCAM, including application level general controls, business process controls, interface and data management system controls.	FY 2011	1st Quarter, FY 2016	2nd Quarter, FY 2012	<ul style="list-style-type: none"> Implementing technical solutions such as system change request, system integration testing, and system acceptance testing, and updating policies and procedures. MHA reduction will impact ability to achieve required CAP milestones.
Hire-to-Retire: Military Pay (Financial System)	The deficiencies for Marine Corps Total Force System (MCTFS) span across multiple control categories defined in the GAO FISCAM, including application level general controls, business process controls, system interfaces, and data management system controls.	FY 2011	4th Quarter, FY 2015	2nd Quarter, FY 2012	<ul style="list-style-type: none"> Implemented and monitored actions identified in plan of actions and milestones. Requesting and obtaining MCTFS feeder system authorization, updating policies and procedures, and providing adequate training to staff.

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Targeted Correction Year	Original Target Date	Corrective Action Summary
					<ul style="list-style-type: none"> MHA reduction will impact ability to achieve required CAP milestones.

Material Weaknesses Corrected During the Period:

Internal Control Reporting Category	Description of Material Weakness	First Year Reported	Original Target Date	Corrective Action Summary
Budget-to-Report: FSCR (Financial System)	The deficiencies for Defense Departmental Reporting System (DDRS) span across multiple control categories defined in the GAO FISCAM, including application level general controls, business process, interface and data management system controls.	FY 2011	2nd Quarter, FY 2012	In coordination with DDRS management, the Marine Corps remediated all findings as a result of testing performed during the FY 2014 audit.
Budget-to-Report: Fund Balance with Treasury (Financial System)	The deficiencies for Defense Cash Accountability System (DCAS) span across multiple control categories defined in GAO FISCAM, including application level general controls, business process controls, systems interfaces, and data management system controls.	FY 2011	2nd Quarter, FY 2012	In coordination with DCAS management, the Marine Corps remediated all findings as demonstrated through testing performed during the FY 2014 audit.

TAB D

DON Assessment of Internal Control over Acquisition Functions

Objective

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 OSD Acquisition, Technology, and Logistics (AT&L) Guidance. This effort focused on determining whether any deficiencies or material weaknesses exist within DON and associated corrective action plans.

Scope

This assessment defines ASN (RD&A), the Service Acquisition Executive (SAE), as the appropriate entity level for internal control of acquisition functions. Policies, processes, and acquisition activities across the SYSCOMs and PEOs were considered in terms of compliance and execution of established internal controls as stated below.

Assessment Execution

DoD and OMB templates were used as the primary guides for assessing effectiveness of internal controls over acquisition functions. DON implementation of controls established in DoDI 5000.02 "Operation of the Defense Acquisition System" was 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).

Internal Controls

SECNAVINST 5000.2E of September 1, 2011 serves as the fundamental internal control policy for implementation and compliance with statutory and regulatory requirements of DoDI 5000.02. SECNAVINST 5000.2E applies to all acquisition programs, including abbreviated acquisition programs, non-acquisition programs, and rapid deployment capability programs.

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

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

SECNAVINST 5400.15C, issued on December 2, 2011, documents duties and responsibilities of ASN (RD&A), PEOs, Direct Reporting Program Managers (DRPMs), CNO, CMC, and

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 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 FAR and DFARS. The NMCARS is prepared, issued, and maintained pursuant to the authority of SECNAVINST 5400.15 and applies to all DON activities in the same manner and to the same extent as specified in FAR 1.104 and DFARS 201.104.

The ASN (RD&A) Research, Development, and Acquisition Information System (RDAIS) is a live database that provides SECNAV, ASN (RD&A), OPNAV, HQMC, SYSCOMs, PEOs, DRPMs, and the PMs a tool to manage the various ACAT programs with consistent data throughout the chain-of-command. PMs must complete RDAIS updates for ACAT I, II, and III programs on a quarterly basis. RDAIS requires general information regarding program milestones and status and detailed information addressing program assessment, budget information, and metrics.

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:

- Assessing the Performance Measurement Baseline (PMB) adequacy, including identification of risks.
- Achieving a mutual understanding of the PMB and its relationship to EVMS.
- Ensuring tasks are planned and objectively measurable relative to technical progress.
- Attaining agreement on a plan of action to evaluate any identified risks.
- Quantifying the identified risks and incorporate an updated estimate at complete.

Findings

Indicators of practices and activities that facilitate good acquisition outcomes include, but are not limited to, the Naval Capabilities Board (NCB), Resources & 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 IPTs.

The NCB/R3B recommends validation of all war fighting requirements, including key performance parameters and key system attributes. 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 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 Director, NCCA. Differences in estimates are noted, explained, and documented in a memorandum from NCCA to ASN (RD&A).

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

IPTs are an integral part of the defense acquisition process used to maintain continuous and effective communications and to execute programs. IPTs may address a range of issues, such as requirements/capabilities needs, acquisition strategy and execution, financial management, and milestone and decision review preparation. MDAs and PMs are responsible for making decisions and leading execution of their programs through IPTs. IPTs typically include representation from acquisition functional areas, such as program management, cost estimating, budget and financial management, contracting, engineering, test and evaluation, logistics, software development, production/quality control, and safety. DON effectively balances the use of IPTs with the requirement, via SECNAVINST 5000.2E, for PEOs, SYSCOMs, DRPMs, and PMs to ensure separation of functions so the authority to conduct oversight, source selection, and contract negotiations/award does not reside in one person.

Possible Performance Gaps and Corrective Actions

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

Corrective Action: Various efforts and policy/process updates are underway in DON to improve Acquisition program performance and outcomes. Implementation of the new Under Secretary of Defense AT&L Better Buying Power Initiatives continue to emphasize ways to improve the acquisition of products and services by improving efficiencies. Efficiencies include use of should cost analysis, competitive prototyping, open system architectures that enable competition for hardware and software upgrades, acquisition of technical data packages, increased market research, and continued emphasis on increased competition and improving small business participation.

Gap 2 - Contract management and administration.

Corrective Action: DASN (AP) and the DON Commands continue placing greater scrutiny on the requirements and practices for acquiring services through the use of Services Requirements Review Boards (also known as Contracts Courts) and tripwires. There is increased emphasis on improving use of performance based contracting, avoiding duplication of services within the DON, providing increased opportunity for small businesses, and increasing competition. Increased emphasis has been placed on training for those involved in services acquisitions through: required use of Services Acquisition Workshops early in the process, recruitment and training for CORs in their management and surveillance responsibilities after a services contract is awarded, and properly resourcing and establishing oversight organizations for contract management and administration. Additional efforts have been taken to pursue suspensions and debarments to address misconduct and poor performance on DON contracts, including a requirement for referral of contract terminations for default to the DON Acquisition Integrity Office.

The DON continues to execute the Health Assessment process, whereby a thorough review of command level processes for contract administration and requirements generation are reviewed for best practices and areas of improvement and has begun conducting Health Assessment reviews at selected command field activities. Additionally, the DON has made several improvements to the Procurement Performance Management Assessment Program through improved guidance and increased contract management oversight and compliance reviews across the enterprise and with requirements for corrective action and associated training where deficiencies are found.

The following table includes summary of the results of the DON's assessment of acquisition functions:

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
Organizational Alignment and Leadership <ul style="list-style-type: none"> ▪ Aligning Acquisition with Agency Mission and Needs ▪ Commitment 	Streamlined and Effective Management Responsibility for the acquisition of systems shall be decentralized to the maximum extent practicable. The MDA shall provide	Risk Area A Accountability in program execution as directed by the MDA. Credibility in cost and schedule reporting due to contractors/vendors providing unrealistic cost and schedule	SECNAVINST 5430.7Q Section 7.b.(2)(g) Establish policy, procedures and oversight of competition, product and procurement integrity and	ASN (RD&A) has established a DASN (AP) who serves as the DON Competition Advocate General. DASN (AP) is directly responsible and accountable to ASN (RD&A).

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
from Leadership	a single individual with sufficient authority to accomplish MDA approved program objectives.	estimates. Unforeseen technical problems. Price increases for specialty metals.	accountability and viability of the defense industrial base.	
Organizational Alignment and Leadership <ul style="list-style-type: none"> ▪ Aligning Acquisition with Agency Mission and Needs ▪ Commitment from Leadership 	Streamlined and Effective Management Responsibility for the acquisition of systems shall be decentralized to the maximum extent practicable. The MDA shall provide a single individual with sufficient authority to accomplish MDA approved program objectives.	Risk Area A Accountability in program execution as directed by the MDA. Credibility in cost and schedule reporting due to contractors/vendors providing unrealistic cost and schedule estimates. Unforeseen technical problems. Price increases for specialty metals.	SECNAVINST 5430.7Q Section 7.b.(2)(1) Provide oversight to ensure new & upgraded system supportability and sustainment capabilities.	The Secretary of Defense has required that each Military Department Secretary designate a single civilian official, at the Assistant Secretary-level within their Department, as the SAE, with full-time responsibility for all Service acquisition functions. ASN (RD&A), as the DON SAE, is directly responsible and accountable to SECNAV for the execution of responsibilities associated with program development, execution, and sustainment. ASN (RD&A) carries out these responsibilities in conjunction with OPNAV (N4).
Organizational Alignment and Leadership	Streamlined and Effective Management Responsibility for	Risk Area A Accountability in program execution as directed by the MDA.	SECNAVINST 5430.7Q Section 7.b.(2)(s) Supervise PEOs	SECNAVINST 5400.15C assigns responsibility to CNO and CMC for

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
<ul style="list-style-type: none"> ▪ Aligning Acquisition with Agency Mission and Needs ▪ Commitment from Leadership 	<p>the acquisition of systems shall be decentralized to the maximum extent practicable. The MDA shall provide a single individual with sufficient authority to accomplish MDA approved program objectives.</p>	<p>Credibility in cost and schedule reporting due to contractors/vendors providing unrealistic cost and schedule estimates. Unforeseen technical problems. Price increases for specialty metals.</p>	<p>and DRPMs.</p>	<p>determining requirements and establishing the relative priority of those requirements, as well as OT&E. DON requirements determination, review, and approval are accomplished through OPNAV's NCB. Resources, Requirements, and Review Board Annual CSBs provide monitoring and oversight of requirements stability and cost-trade benefits to curtail requirements growth.</p>
<p>Organizational Alignment and Leadership</p> <ul style="list-style-type: none"> ▪ Aligning Acquisition with Agency Mission and Needs ▪ Commitment from Leadership 	<p>Streamlined and Effective Management Responsibility for the acquisition of systems shall be decentralized to the maximum extent practicable. The MDA shall provide a single individual with sufficient authority to accomplish MDA approved program objectives.</p>	<p>Risk Area A Accountability in program execution as directed by the MDA. Credibility in cost and schedule reporting due to contractors/vendor providing unrealistic cost and schedule estimates. Unforeseen technical problems. Price increases for specialty metals.</p>	<p>SECNAVINST 5400.15C Section 4.b. The Secretary of Defense has required that the Secretaries of the Military Departments designate a single civilian official, at the Assistant Secretary-level within each Military Department, as the SAE with full-time</p>	<p>The Secretary of Defense has required that each Military Department Secretary designate a single civilian official, at the Assistant Secretary-level within their Department, as the SAE, with full-time responsibility for all Service acquisition functions. ASN (RD&A) as the DON SAE is directly responsible and accountable to</p>

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
			responsibility for all Service acquisition functions. ASN (RD&A) is the Naval Acquisition Executive (NAE) for DON. The NAE has full responsibility for all DON acquisition programs through PEOs, DRPMs, or SYSCOM Commanders.	SECNAV for the execution of responsibilities associated with program development, execution, and sustainment. ASN (RD&A) carries out these responsibilities in conjunction with OPNAV N4.
Policies and Processes <ul style="list-style-type: none"> ▪ Planning Strategically ▪ Effectively Managing the Acquisition Process ▪ Promoting Successful Outcomes of Major Projects 	Collaboration The DoD acquisition, capability needs, financial communities, and operational users shall maintain continuous and effective communications with each other by using IPTs. Teaming among warfighters, users, developers, acquirers, technologists, testers, budgeters, and sustainers shall begin during capability needs	Risk Area C Delays in getting the program executed and possible cancellation.	SECNAVINST 5000.2E Section 1.11.3 The Two-Pass/Six-Gate review process will be implemented in an integrated, collaborative environment that includes participation by appropriate elements from the Office of the SECNAV, OPNAV, HQMC, and activities involved in developing Joint Capabilities Integration and	The Two-Pass/Six-Gate process will be implemented in an integrated and collaborative environment that includes participation by SECNAV, OPNAV, HQMC, and activities involved in developing JCIDS and acquisition documents.

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
	<p>definition. MDAs and PMs are responsible for making decisions and leading execution of their programs and are accountable for results. (Reference Department of Defense Directive (DoDD) 5000.01, E1.2.)</p>		<p>Development System (JCIDS) and acquisition documents. The process applies to all pre-Major Defense Acquisition Program (MDAP) programs, all MDAP (ACAT I) programs, all pre-Major Automated Information System (MAIS) programs, all MAIS (ACAT IA) programs, and selected ACAT II programs, as determined by CNO (N8) or Deputy Commandant, Combat Development and Integration (CD&I) and ASN (RD&A). The Gate Reviews themselves and Service milestone PDMs or Program Reviews (PRs) should be combined when appropriate, as determined by the SECNAV, CNO,</p>	

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
			CMC, or designee. If Gate Reviews and PDMs or PRs are combined, the acquisition requirements of DoDI 5000.02 and National Defense Authorization Act (NDAA) (section 332), and this instruction, including statutory and regulatory documentation, shall be satisfied and an Acquisition Decision Memorandum shall be issued by the MDA. Gate Reviews satisfy the Program Support Review risk assessment requirement of DoDI 5000.02.	
Policies and Processes <ul style="list-style-type: none"> ▪ Planning Strategically ▪ Effectively Managing the Acquisition Process ▪ Promoting Successful Outcomes of 	Collaboration The DoD acquisition, capability needs, financial communities, and operational users shall maintain continuous and effective communications	Risk Area C Delays in getting the program executed or possible cancellation.	SECNAVINST 5000.2E Section 1.11.4.4.2 Principal members are Vice Chief of Naval Operations (VCNO), Assistant Commandant Marine Corps (ACMC), ASN (RD&A), ASN	Principal members of Gate Reviews include, but are not limited to, VCNO, ACMC, ASN (RD&A), ASN (FM&C), Director Naval Nuclear Propulsion Program, as required, Principal Military Deputy Assistant Secretary of

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
Major Projects	with each other by using IPTs. Teaming among warfighters, users, developers, acquirers, technologists, testers, budgeters, and sustainers shall begin during capability needs definition. MDAs and PMs are responsible for making decisions and leading execution of their programs and are accountable for results. (Reference. DoDD 5000.01, E1.2.)		(FM&C), Director Naval Nuclear Propulsion Program, as required, Principal Deputy ASN (RD&A), Deputy Chief of Naval Operations (DCNO) (N1, N2, N3/N5, N4, N6, N8), Deputy Commandant for Programs and Resources (Deputy Commandant for Programs & Resources), Deputy Commandant CD&I, Warfare Enterprise Lead and/or Deputy, United States Fleet Forces (USFF)/Marine Forces Command (MARFORCOM), and cognizant SYSCOM Commander. The Chair shall determine the final membership for each Gate review. However, the principal members may request	the Navy, DCNO (N1 Manpower and Training, N2 Intelligence, N3/5 Information and Strategy, N4 Fleet Readiness and Logistics, N6 Communication Networks, N8 Integration of Capabilities and Resources), Deputy Commandant for Programs and Resources, Deputy Commandant CD&I, Warfare Enterprise Lead or Deputy, USFF/MARFORCOM, and cognizant SYSCOM Commander.

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
			attendance by other relevant commands. These members may include DON CIO, Commander, Naval Reserve, HQMC (including the Deputy Commandant for Aviation, Deputy Commandant for Manpower and Reserve Affairs (Deputy Commandant for M&RA), Director Intelligence, Deputy Commandant for PP&O, Deputy Commandant for Installations and Logistics, Director C4/CIO), and cognizant PEO. Attendance is limited to Principal or Deputy at the Flag/General Officer/SES-level plus one.	

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
Human Capital <ul style="list-style-type: none"> ▪ Valuing and Investing in the Acquisition Workforce ▪ Strategic Human Capital Planning ▪ Acquiring, Developing, and Retaining Talent ▪ Creating Results-Oriented Organizational Cultures 	Professional Workforce The DoD shall maintain a fully proficient acquisition, technology, and logistics workforce that is flexible and highly skilled across a range of management, technical, and business disciplines. To ensure this, the OUSD AT&L shall establish education, training, and experience standards for each acquisition position based on the level of complexity of duties carried out in that position. (Reference. DoDD 5000.01, E1.19.)	Risk Area BQ Insufficiently trained/skilled workforce required to develop, plan, structure, execute, manage, and sustain acquisition programs.	NDA 2008, Section 852 Direct the establishment of the Defense Acquisition Workforce Development Fund.	DAWIA requirements are specified for each billet and monitored by competency leaders.

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
<p>Human Capital</p> <ul style="list-style-type: none"> ▪ Valuing and Investing in the Acquisition Workforce ▪ Strategic Human Capital Planning ▪ Acquiring, Developing, and Retaining Talent ▪ Creating Results-Oriented Organizational Cultures 	<p>Professional Workforce</p> <p>The DoD shall maintain a fully proficient acquisition, technology, and logistics workforce that is flexible and highly skilled across a range of management, technical, and business disciplines. To ensure this, the OUSD AT&L shall establish education, training, and experience standards for each acquisition position based on the level of complexity of duties carried out in that position. (Reference DoDD 5000.01, E1.19.)</p>	<p>Risk Area BQ</p> <p>Insufficiently trained/skilled workforce required to develop, plan, structure, execute, manage, and sustain Acquisition programs.</p>	<p>Defense Acquisition Workforce Development Fund, dated 28 Jan 2008</p> <p>This fund is to provide funds in addition to other funds available for recruitment, training, and retention to ensure the acquisition workforce has the personnel and skills to perform its mission, provide oversight of contractor performance, and ensure the DON receives the best value for the expenditure of public resources.</p>	<p>DAWIA requirements are specified for each billet and monitored by competency leaders.</p>

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
Human Capital <ul style="list-style-type: none"> ▪ Valuing and Investing in the Acquisition Workforce ▪ Strategic Human Capital Planning ▪ Acquiring, Developing, and Retaining Talent ▪ Creating Results-Oriented Organizational Cultures 	Professional Workforce The DoD shall maintain a fully proficient acquisition, technology, and logistics workforce that is flexible and highly skilled across a range of management, technical, and business disciplines. To ensure this, the OUSD AT&L shall establish education, training, and experience standards for each acquisition position based on the level of complexity of duties carried out in that position. (Reference DoDD 5000.01, E1.19).	Risk Area BQ Insufficiently trained/skilled workforce required to develop, plan, structure, execute, manage, and sustain acquisition programs.	Recruitment Utilization of the various programs to bring in and retain a qualified workforce and training (i.e., Naval Acquisition Intern Program, Wounded Warrior Program, DON Journeyman Internship, and Naval Shipyard Apprenticeship.	DAWIA requirements are specified for each billet and monitored by competency leaders.
Information Management & Stewardship <ul style="list-style-type: none"> ▪ Identifying Data and Technology that Support Acquisition Management 	IA Acquisition managers shall address IA requirements for (1) all weapon systems, (2) command, control, communications, intelligence,	Risk Area V Low - Potential for some areas to be overlooked due to the complexity and number of standards and policies. Also, potential for inconsistencies across the policies. This is	SECNAVINST 5000.2E This instruction is to provide mandatory procedures for DON implementation of: DoDD 5000.01, DoDI 5000.02,	SETRs: designated TA works with the program team during design, maturation, and evolving life cycle phases by guiding the team through the standards, objectives, policies, and processes. Through the SETR

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
<p>Decisions</p> <ul style="list-style-type: none"> ▪ Safeguarding the Integrity of Operations and Data 	<p>surveillance, and reconnaissance systems, and computers, and (3) IT programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including National Security Systems (NSS), appears in DoDD 8500.01E (Ref. DoDD 5000.01, E1.9).</p>	<p>being minimized via early and continued engagement throughout the life cycle of technical authority (TA) and by SMEs via the Naval Systems Engineering Technical Review (SETR) process (Chief Systems Engineer (CHSENG)).</p>	<p>Chairman of the Joint Chiefs Staff Instruction (CJCSI) 3170.01G, and Manual for the Operation of the Joint Capabilities Integration and Development System for major and non-major defense acquisition programs and major and non-major IT acquisition programs.</p>	<p>process, TAs validate that the problem solving methods have occurred, technical risks have been identified, mitigation plans are in place and implemented, and monitoring of technical risks is on-going (CHSENG).</p>
<p>Information Management & Stewardship</p> <ul style="list-style-type: none"> ▪ Identifying Data and Technology that Support Acquisition Management Decisions ▪ Safeguarding the Integrity of Operations and Data 	<p>IA Acquisition managers shall address IA requirements for (1) all weapon systems, (2) command, control, communications, intelligence, surveillance, and reconnaissance systems, and computers, and (3) IT programs that depend on external information sources or provide information to other DoD systems.</p>	<p>Risk Area W Requirements may not be clearly articulated in the request for proposals. Resource constraints/competing resources. Unavailability of expertise within the Program Office (NAVSEA).</p>	<p>SECNAVINST 5000.2E Section 2.4.6.4 IA requirements shall be identified and included in the design, acquisition, installation, operation, upgrade, and replacement of all DON information systems per section 2224 of title 10, U.S.C., OMB Circular A-130, and reference (a). PMs shall develop an acquisition IA strategy and</p>	<p>IA Strategy (at Milestone A, Program Initiation for Ships, Milestone B, Milestone C, Full Rate Production Decision Review (FRPDR) or equivalent) is prepared by PM and approved by DON CIO (ACAT I/IA/II) Command Information Operations (ACAT III/IV) (CHSENG).</p>

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
	DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Reference DoDD 5000.01, E1.9).		summarize the acquisition IA strategy in the program's overall acquisition strategy.	
Information Management & Stewardship <ul style="list-style-type: none"> ▪ Identifying Data and Technology that Support Acquisition Management Decisions ▪ Safeguarding the Integrity of Operations and Data 	IA Acquisition managers shall address IA requirements for all (1) weapon systems, (2) command, control, communications, intelligence, surveillance, and reconnaissance systems, and (3) IT programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Reference DoDD 5000.01, E1.9).	Risk Area X Improperly implementing standards and objectives could result in loss or release of relevant data/information.	SECNAVINST 5000.2E Section 3.4 IA PMs are responsible for ensuring that security requirements are addressed as part of the acquisition program. The PM shall develop, procure, and manage information systems, throughout the life cycle of the program, using appropriate DoD approved IA controls and processes.	Clinger-Cohen Act compliance (all IT - including NSS programs) (at Milestone A, Program Initiation for Ships, Milestone B, Milestone C, FRPDR or equivalent) is prepared by PM and approved by DoD CIO (ACAT IA), DON CIO (ACAT I/IA/II), Command IO (ACAT III/IV). (CHSENG)

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
Information Management & Stewardship <ul style="list-style-type: none"> ▪ Identifying Data and Technology that Support Acquisition Management Decisions ▪ Safeguarding the Integrity of Operations and Data 	IA Acquisition managers shall address IA requirements for all (1) weapon systems, (2) command, control, communications, intelligence, surveillance, and reconnaissance systems, and computers, and (3) IT programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Reference DoDD 5000.01, E1.9).	Risk Area X Improperly implementing standards and objectives could result in loss or release of relevant data/information.	CJCSI 6212.01F This instruction is to: <ol style="list-style-type: none"> (1) Establish policies and procedures for developing, coordinating, reviewing, and approving IT and NSS interoperability and supportability (I&S) needs. (2) Establish procedures to perform I&S certification of JCIDS ACAT programs/systems (3) Establish procedures to perform I&S certification of Information Support Plans (ISPs) and tailored ISPs for all ACAT, non-ACAT and fielded programs/systems (4) Define the five elements of the Net-Ready Key Performance Parameter (NR-KPP). (5) Provide 	Information Support Plan (Milestone A, Program Initiation for Ships, Milestone B, and Milestone C, FRPDR or equivalent) is prepared by PM and approved by PEO/SYSCOM/DRPM or designee.

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
			<p>guidance for NR-KPP development and assessment.</p> <p>(6) Establish procedures for the Joint Interoperability Test Command Joint Interoperability Test Certification.</p> <p>(7) Add the requirement from Joint Requirements Oversight Council Memorandum 010-08, 14 January 2008, "Approval to Incorporate Data and Service Exposure Criteria" into the I&S certification process" for reporting of data and service exposure information as part of I&S submissions.</p>	
Information Management & Stewardship <ul style="list-style-type: none"> ▪ Identifying Data and Technology that Support 	IA Acquisition managers shall address IA requirements for all (1) weapon systems, (2) command, control,	Risk Area X Improperly implementing standards and objectives could result in loss or release of relevant data/information.	DON CIO Platform IT Policy Memorandum This memorandum is to establish the DON IA Platform Information	MDA at Acquisition Review Boards for Milestones A, B, C and FRPDR (as applicable) (NAVSEA).

Cornerstones	Control Environment (What are the standards or objectives that set the tone or provide the discipline and structure?)	Risk Assessment (What are the relevant risks to properly implementing the standards or objectives?)	Control Activities (What are the policies and procedures that help ensure the necessary actions are taken to address risks?)	Monitoring (What monitoring activities or separate evaluations are in place to assess performance over time?)
<p>Acquisition Management Decisions</p> <ul style="list-style-type: none"> ▪ Safeguarding the Integrity of Operations and Data 	<p>communications, intelligence, surveillance, and reconnaissance systems, and computers, and (3) IT programs that depend on external information sources or provide information to other DoD systems. DoD policy for IA of IT, including NSS, appears in DoDD 8500.01E (Reference DoDD 5000.01, E1.9).</p>		<p>Technology (PIT) and to establish guidance for implementing the DON Platform IT IA Guidance. This instruction manual advises the whole DON on process implementation to ensure that PIT systems have appropriate IA capabilities and that the IA objectives are documented and validated. This document also provides policy and guidance for incorporating IA into PIT for the DON.</p>	

Attachment 1: Points of Contact

The DON points of contact for the MICP and issues dealing with material weaknesses reported in the DON's FY 2015 FMFIA Statement of Assurance are:

- Ms. Karen Fenstermacher, DASN (FO). Ms. Fenstermacher may be reached at (202) 685-6701, or by email at karen.fenstermacher@navy.mil.
- Mr. Eric Kravchick, ASN (FM&C)/FMO. Mr. Kravchick may be reached at (202) 685-6064 or by email at eric.kravchick@navy.mil.
- Ms. Yolanda Bryan, ASN (FM&C)/FMO. Ms. Bryan may be reached at (202) 685-6714, or by email at yolanda.bryan@navy.mil.
- Mr. Jason Bennett, ASN (FM&C)/FMO. Mr. Bennett may be reached at (202) 433-9261, or by email at jason.d.bennett1@navy.mil.

Attachment 2: Acronym List

Acronym	Term
ACAS	Assured Compliance Assessment Solution
ACAT	Acquisition Category
ACMC	Assistant Commandant Marine Corps
ADA	Anti-Deficiency Act
APSR	Accountable Property System of Record
ARC	Audit Response Center
ARIS	Administration and Resources Division Information Systems Management Branch
ARSC	Audit Readiness Steering Committee
ASN (FM&C)	Assistant Secretary of the Navy (Financial Management & Comptroller)
ASN (RD&A)	Assistant Secretary of the Navy (Research, Development & Acquisition)
ASR	Accounting System of Record
AT&L	Acquisition, Technology, and Logistics
AU	Assessable Unit
AUDGEN	Auditor General
AWF	Acquisition Workforce
BSO	Budget Submitting Office
BTS	Business Transaction Systems
BUMED	Bureau of Medicine and Surgery
CAP	Corrective Action Plan
CD&I	Combat Development and Integration
CEP	Continuous Evaluations Program
CFMS	Command Financial Management System
CHSENG	Chief Systems Engineer
CIO	Chief Information Officer
CJCSI	Chairman of the Joint Chiefs Staff Instruction
CMC	Commandant of the Marine Corps
CMD	Contract Management Division
CMOS	Cargo Movement Operations System
CNIC	Commander, Navy Installations Command
CNO	Chief of Naval Operations
COMOPTEVFOR	Commander, Operational Test and Evaluation Force
COMSEC	Communication Security
COR	Contracting Officer's Representative
COTS	Commercial Off-The-Shelf
CSB	Configuration Steering Board
CSWF	Cyber Security Workforce

Acronym	Term
CVP	Contract and Vendor Pay
DASN	Deputy Assistant Secretary of the Navy
DASN (AP)	Deputy Assistant Secretary of the Navy (Acquisition and Procurement)
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)
DASN (UxS)	Deputy Assistant Secretary of the Navy (Unmanned Systems)
DAWIA	Defense Acquisition Workforce Improvement Act
DCAS	Defense Cash Accountability System
DCMA	Defense Contract Management Agency
DCNO	Deputy Chief of Naval Operations
DDRS	Defense Departmental Reporting System
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Services
DIACAP	Department of Defense Information Assurance Accreditation and Certification Process
DLA	Defense Logistics Agency
DLMS	Defense Logistics Management Standards
DoD	Department of Defense
DoDD	Department of Defense Directive
DoDI	Department of the Defense Instruction
DoDIG	Department of the Defense Inspector General
DON	Department of the Navy
DON/AA	Department of the Navy, Assistant for Administration
DRPM	Direct Reporting Program Manager
EPR	Evaluation, Prioritization, and Remediation
ERP	Enterprise Resource Planning
ESAMS	Enterprise Safety Application Management System
ESPC	Energy Savings Performance Contracts
EVM	Earned Value Management
EVMS	Earned Value Management System
FAD	Funding Allocation Document
FAR	Federal Acquisition Regulation
FCC	Fleet Cyber Command
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FISCAM	Federal Information System Controls Audit Manual
FISWG	Financial Information System Working Group
FMB	Office of Budget
FMF	Fleet Marine Force
FMFIA	Federal Managers' Financial Integrity Act

Acronym	Term
FMO	Office of Financial Operations
FRC	Fleet Logistic Center
FRPDR	Full Rate Production Decision Review
FSCR	Financial Statement Compilation and Reporting
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GCPC	Government Commercial Purchase Card
GCSS-MC	Global Combat Support System-Marine Corps
GE	General Equipment
GL	General Ledger
GLAS	General Ledger Accounting Systems
GSA	General Services Administration
GTCC	Government Travel Charge Card
HBSS	Host Based Security System
HNEMWG	Hazardous Noise Exposure Mitigation Working Group
HQ	Headquarters
HQMC	Headquarters Marine Corps
I&S	Interoperability and Supportability
IA	Information Assurance
IAM	Information Assurance Manager
IBR	Integrated Baseline Review
ICE	Independent Cost Estimate
ICOFR	Internal Control Over Financial Reporting
ICOFS	Internal Control Over Financial Systems
iNFADS	Internet Naval Facilities Assets Data Store
IOP	Internal Operating Procedure
IPA	Independent Public Accountant
IPIA	Improper Payments Information Act
IPP	Invoice Processing Platform
IPPS-N	Integrated Pay and Personnel System-Navy
IPT	Integrated Product Team
ISP	Information Support Plan
IT	Information Technology
JCIDS	Joint Capabilities Integration and Development System
JPAS	Joint Personnel Access System
JV	Journal Voucher
KLP	Key Leadership Position

Acronym	Term
KSD	Key Supporting Document
MAC	Moving Average Cost
MAIS	Major Automated Information System
MARFORCOM	Marine Forces Command
MAU	Major Assessable Unit
MCEN-N	Marine Corps Enterprise Network Non-secure Internet Routing Network
MCICOM	Marine Corps Installations Command
MCMH	Marine Centered Medical Home
MCNOSC	Marine Corps Network Operations and Security Center
MCSC	Marine Corps Systems Command
MCTFS	Marine Corps Total Force System
MDA	Milestone Decision Authority
MDAP	Major Defense Acquisition Program
MHA	Major Headquarters Activity
MIC	Managers' Internal Control
MICP	Managers' Internal Control Program
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MSC	Military Sealift Command
MTF	Military Treatment Facility
NAE	Naval Acquisition Executive
NAVAIR	Naval Air Systems Command
NAVAUDSVC	Naval Audit Service
NAVFAC	Naval Facilities Engineering Command
NAVINGEN	Naval Inspector General
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
NAWCWD	Naval Air Warfare Center Weapons Division
NCB	Naval Capabilities Board
NCCA	Naval Center for Cost Analysis
NCIS	Naval Criminal Investigative Service
NDAA	National Defense Authorization Act
NFR	Notice of Findings and Recommendations
NIST	National Institute of Standards and Technology
NMCARS	Navy Marine Corps Acquisition Regulation Supplement
NR-KPP	Net-Ready Key Performance Parameter
NSS	National Security Systems
NWCF	Navy Working Capital Fund
OM&S	Operating Material and Supplies

Acronym	Term
OMB	Office of Management and Budget
OPNAV	Office of the Chief of Naval Operations
OPNAVINST	Office of Naval Operations Instruction
OSD	Office of the Secretary of Defense
OT&E	Operational Test and Evaluation
OUSD (C)	Office of the Under Secretary of Defense (Comptroller)
PACFLT	Commander, U.S. Pacific Fleet
PBC	Provided-by-Client
PBIS	Program Budget Information System
PBIS-IT	Program Budget Information System-Information Technology
PCO	Procurement Contracting Officer
PDM	Program Decision Meeting
PEO	Program Executive Office
PII	Personally Identifiable Information
PIT	Platform Information Technology
PM	Program Manager
PMB	Performance Measurement Baseline
PMO	Project Management Office
PP&O	Plans, Policies and Operations
PR	Program Review
PSI	Personal Security Investigation
QA	Quality Assurance
R3B	Resources & Requirements Review Board
RDAIS	Research, Development, and Acquisition Information System
REPO	Renewable Energy Program Office
RMF	Risk Management Framework
ROA	Risk and Opportunity Assessment
RP	Real Property
RWO-G	Reimbursable Work Order – Grantor
RWO-P	Reimbursable Work Order – Performer
SABRS	Standard Accounting, Budgeting, and Reporting System
SAE	Service Acquisition Executive
SAO	Senior Accountable Official
SBA	Schedule of Budgetary Activity
SBR	Statement of Budgetary Resources
SBT	Standard Business Transaction
SCCM	System Center Configuration Manager
SCI	Sensitive Compartmented Information

Acronym	Term
SCNP	Statement of Changes in Net Position
SCR	System Change Request
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SETR	Systems Engineering Technical Review
SFIS	Standard Financial Information Structure
SME	Subject Matter Expert
SNC	Statement of Net Cost
SOA	Statement of Assurance
SOD	Separation of Duties
SOP	Standard Operating Procedure
SPAWAR	Space and Naval Warfare Systems Command
SPS	Standard Procurement System
SSN	Social Security Number
SSO	Special Security Office
STARS-FL	Standard Accounting and Reporting System-Field Level
SVUIC	Special Victim Unit Investigations Course
SYSCOM	Systems Command
TAC	Transportation Account Code
ToT	Transportation of Things
U.S.C.	United States Code
UESC	Utilities Energy Savings Contracts
UNSECNAV	Under Secretary of the Navy
USFF	United States Fleet Forces
USMC	United States Marine Corps
VCNO	Vice Chief of Naval Operations
VISTA	Visual Inter-fund System Transaction Accountability
WAWF-RA	Wide Area Workflow – Receipt and Acceptance

FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT
STATEMENT OF ASSURANCE
FY 2015



DEPARTMENT OF THE NAVY



ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON DC 20350-1000

EXECUTIVE SUMMARY

From: Assistant Secretary of the Navy (Financial Management and Comptroller)
To: Secretary of the Navy

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1. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires each executive agency to submit a Statement of Assurance (SOA) to the President and Congress providing an assessment of internal control systems and a plan for correcting any identified material weaknesses. The Department of the Navy (DON) Fiscal Year 2015 SOA provides a "Qualified Assurance" that internal controls over non-financial operations, financial reporting, and financial systems are operating effectively and efficiently to safeguard against waste, fraud, and mismanagement of limited resources with the exception of material weaknesses identified in Tabs B and C.

2. The SOA is comprised of Tabs A through D:

a. Tab A-1 provides the process to evaluate internal controls and maintain sufficient documentation to support its evaluation and level of assurance. This tab includes:

- Management control testing on internal control over financial reporting, financial systems, and non-financial operations.
- Audit findings that further support DON-level identified material weaknesses.
- Anti-Deficiency Act violations.

b. Tab A-2 provides DON Major Assessable Unit (MAU) level significant accomplishments achieved in the execution of the Managers' Internal Control (MIC) Program for the FY 2015 SOA reporting period, 1 July 2014 to 30 June 2015. The following table shows the most significant MIC Program accomplishments reported by MAUs in the Secretary of the Navy defined critical mission objective categories:

1) Take Care of Our People

Accomplishment	MAU
Marine Centered Medical Home	CMC
Advanced Adult Sexual Assault Investigator Training	NCIS

2) Maintain Warfighter Readiness and Avoid Hollowness

Accomplishment	MAU
Continuous Evaluations Program	CMC

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3) Lead the Nation in Sustainable Energy

Accomplishment	MAU
Planning, Developing, and Executing Cost-Effective Energy Projects	ASN (EI&E)

4) Promote Acquisition Excellence and Integrity

Accomplishment	MAU
Alignment of Quarterly Allocations with Contract Lead Times	ASN (FM&C)
Implementation of Construction Identification Internal Controls	CMC
Asset Management/Minor Property Program Process Improvement	CNO
Space and Naval Warfare Systems Command Defense Acquisition Workforce Improvement Act (DAWIA) Program Achievement of DON DAWIA Goals	CNO
Contracting Officer Representative Management Program	DUSN (M)
Semi-Annual Review of the Government Commercial Purchase Card Program	NAVINSGEN

5) Proliferate Unmanned Systems

Accomplishment	MAU
Establishment of a Deputy Assistant Secretary of the Navy for Unmanned Systems	ASN (RD&A)

6) Drive Innovative Enterprise Transformation

Accomplishment	MAU
Improvements to Material Control by the Triannual Review	ASN (FM&C)
Improvements to the Funds Control Process for DON Commands Employing the Navy Enterprise Resource Planning (ERP) Accounting System	ASN (FM&C)
Refinements to DON Information Technology Submissions	ASN (FM&C)
Newly Automated Navy Working Capital Fund Budget Exhibits	ASN (FM&C)
Navy Transaction Universe	ASN (FM&C)
Government Travel Charge Card Rebate Improvements	ASN (FM&C)
DON MIC Program Upgrades	ASN (FM&C)
FMO-5 West Region Provided-By-Client Standard Operating Procedures	ASN (FM&C)
Evaluation, Prioritization, and Remediation Program Implementation	ASN (FM&C)
BSO Commander Audit Update and Roundtable	ASN (FM&C)
Cyber Security Vulnerability Mitigation following the transition to Marine Corps Enterprise Network Non-Secure Internet Routing Network	CMC
Enhancement of Security Processes to Support Insider Threat Initiative	CNO
Naval Air Warfare Center Weapons Division Cyber Security Workforce Agreements	CNO
Compliance with Generally Accepted Government Auditing Standards	NAVAUDSVC

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c. Tabs B-1 and B-2 provide a summary of non-financial operational material weaknesses and detailed Corrective Action Plans (CAPs).

1. Execution of Husbanding Contracts – Husbanding Service Providers

- Internal Control Reporting Category: Contract Administration
- Deficiency: Navy Audit (N2012-IEAAA-0129) by the Naval Audit Service (NAVAUDSVC) was conducted on the "Execution of Husbanding Contracts utilized in the 7th Fleet Area of Responsibility." Additionally, a follow-on audit, N2014-0048 "Navy Husbanding and Port Services Contracts," was conducted at the request of the Secretary of the Navy (SECNAV) in order to assess internal controls within the Navy husbanding and port services process. A SECNAV request was made in response to a recent high-profile case involving alleged fraudulent activities.
- CAP Status: 14 of 23 CAPs complete.
- Remaining CAPs:
 - The Office of the Chief of Naval Operations (OPNAV) partnering with Naval Supply Systems Command (NAVSUP) and Naval Criminal Investigative Service (NCIS) will assess cyber risks associated with the revised husbanding and port services process and how those risks will be mitigated.
 - All United States Ships and Military Sealift Command (MSC) units will execute revised off-ship bill pay process.
 - OPNAV, with Navy Inspector General, NCIS, Fleets, NAVSUP and MSC will implement and institute an integrated validation process to ensure annual evaluation of Fleet operations regarding husbanding and port services.
 - OPNAV, with Fleets, NAVSUP and MSC will develop an executive metric dashboard collecting all data associated with the husbanding and port services process; emphasizing governance, financial, contracting and operational requirements that synthesize the health of husbanding and port services process and enables leadership ability to quickly detect and address instances of fraud, waste and or abuse.
 - OPNAV, with Fleets, NAVSUP and MSC, will provide a comprehensive map of all information systems involved in the husbanding and port services process, outlining the functions, format and integrity of the data.
 - OPNAV, with ASN (FMC) and Fleets, will validate the husbanding and port services process and off-ship bill pay process for compliance with all Financial Improvement and Audit Readiness (FIAR) requirements.
 - OPNAV, with ASN (FMC) and Fleets, will implement an executive dashboard driving measurement to validate the husbanding and port services process and OSBP for compliance with all FIAR requirements.
 - OPNAV will complete instruction consisting of all stakeholder roles and responsibilities in the husbanding and port services process.
 - OPNAV, with Naval Education Training Command and Defense Acquisition University, will ensure emergent training conducted during FY 2014 is institutionalized and enduring. This training will encompass Pipeline Schoolhouses, Naval Leadership Ethics Center & Senior Enlisted Academy, Fleet, and Pre-Deployment training.
- Validation Indicators: Corrective actions are certified upon completion and reviewed through verification, subsequent audit, inspection, quality assurance review, or management control review.

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- Senior Accountable Official: Rear Admiral Grafton Chase, OPNAV N41R Logistics Programs & Corporate Operations.

2. Contract Management – Service Contracts

- Internal Control Reporting Category: Contract Administration
- Deficiency: There are internal control weaknesses in three specific areas within the contract administration process: management oversight, documentation, and quality control.
- CAP Status: 10 of 11 CAPs complete.
- Remaining CAP: Release SECNAVINST to implement DoD guidance on the contracting officer's representative.
- Validation Indicator: Improved administrative and mission performance with greater accountability and specific measurements to be determined in the proposed contracting officer's representative tool.
- Senior Accountable Official: Mr. Elliott Branch, Deputy Assistant Secretary of the Navy for Acquisitions and Procurement.

3. Personally Identifiable Information (PII)

- Internal Control Reporting Category: Communications, Intelligence, and Security
- Deficiency: There is a need to strengthen existing or create new PII safeguarding policies in three key areas: magnetic hard drives, Social Security Number (SSN) usage reduction, and PII awareness training.
- CAP Status: 3 of 5 CAPs complete.
- Remaining CAPs:
 - Create refresher PII training module for DON use and update annual PII awareness training.
 - Implement phase III of the SSN usage reduction plan.
- Validation Indicators:
 - Decline in the number of high risk breaches related to SSNs.
 - Increase in the total number of DON personnel who have completed annual PII awareness training.
- Senior Accountable Official: Mr. John A. Zangardi, Acting DON CIO.

4. Communications Security (COMSEC)

- Internal Control Reporting Category: Communications, Intelligence, and Security
- Deficiency: DON procedures and policies for requesting, approving, and documenting the release of COMSEC equipment to contractor's COMSEC equipment accounts supporting DON contracts are insufficient. Internal controls are insufficient to prevent or promptly detect COMSEC equipment accountability and irregularities or compliance.
- CAP Status: 0 of 1 CAP complete.
- Remaining CAP: Implement SECNAVINST for COMSEC management and tracking.
- Validation Indicator: Decrease in incidents of non-accountability, non-compliance or irregularities in requests, approvals, and documentation in the release of COMSEC equipment to contractors.

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- Senior Accountable Official: Mr. John A. Zangardi, Acting DON CIO.

5. Attenuating Hazardous Noise in Acquisition and Weapon System Design

- Internal Control Reporting Category: Acquisition
- Deficiency: The NAVAUDSVC found the Department of the Navy (DON) did not have sufficient processes in place to effectively mitigate hazardous noise risks posed by major weapon systems. Although several DON organizations made significant individual efforts to mitigate exposure to hazardous noise with some collaboration between organizations, there was no requirement, structure, or formal process for coordinating these efforts across the department.
- CAP Status: 4 of 8 CAPs complete.
- Remaining CAPs:
 - Hearing Injury Reporting.
 - Expand Current Inspection Processes to Incorporate Hearing Readiness Measure of Effectiveness.
 - Establish Baseline and Roadmap for Engineering and Acquisitions.
 - Establish Audiometric Fitness for Duty Standards.
- Validation Indicator: Establish hearing readiness measures of effectiveness standards, hearing injury reporting requirements, and compliance.
- Senior Accountable Official: Ms. Lisa St. Andre, Deputy Chief for Resource Management and Comptroller, Bureau of Medicine and Surgery.

6. Earned Value Management (EVM)

- Internal Control Reporting Category: Acquisition
- Deficiency: Through a series of audits in previous years, the NAVAUDSVC identified systemic weaknesses associated with the implementation and oversight of EVM within DON. While progress has been made to correct EVM weaknesses in DON, the implementation and use of EVM to manage Navy acquisition programs continues to be an internal control weakness within DON, particularly within shipbuilding programs.
- CAP Status: 12 of 14 CAPs complete.
- Remaining CAPs:
 - Implement recommended changes for centralization of EVM process ownership and consistent EVM support for NAVSEA shipbuilding programs.
 - Attain NAVSEA shipbuilding EVM policy compliance with target level.
- Validation Indicators:
 - Meeting established targets including 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.
- Senior Accountable Official: Ms. BJ White-Olson, Deputy Assistant Secretary of the Navy for Management and Budget.

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d. Tab C provides uncorrected and corrected material weaknesses and summary CAPs for financial reporting and financial systems.

Uncorrected Material Weaknesses Identified During the Period

Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
Budget-to-Report	Financial Statement Compilation and Reporting (FSCR) (Financial Systems)	Standard Accounting and Reporting System-Field Level (STARS-FL) has numerous deficiencies in the areas of Separation of Duties (SOD), reconciliation, pre-validation edit checks and other internal controls (Navy).	<ul style="list-style-type: none"> • ASN (FM&C) determined that STARS-FL and feeder system material weaknesses are not solvable in the near-term and require implementation of an audit ready core financial system for BSOs that use STARS-FL. • STARS to SABRS Program Management Office began supporting the transition from STARS to SABRS for DON/AA and subordinate 1517 holders effective October 1, 2015. • Remaining STARS-FL BSOs will begin discovery and transition activities to enable migration by the end of FY 2016. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Dr. Robin Farley, robin.farley1@navy.mil
Budget-to-Report	FSCR	Transactions resident in Business Transaction Systems (BTS) cannot be efficiently and accurately reconciled to the Navy General Ledger Accounting System (GLAS) (Navy).	<ul style="list-style-type: none"> • Reconciling approximately 60 BTS feeder systems interfacing with 250 unique data exchanges across seven GLAS. • Developed prioritization methodology based on FIAR established business processes and a top-down risk based approach. • Estimated completion date is September 30, 2017. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Kyle Fugate, kyle.fugate@navy.mil

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
Budget-to-Report	FSCR	GLAS posting logic does not produce expected financial and budgetary accounting relationships (Navy).	<ul style="list-style-type: none"> • Analyzed 20 tie points across nine accounting systems; identified and prioritized root cause failures. • Developed remediation actions to correct identified failures. • Remediation of Journal Vouchers to correct tie point failures are on schedule to be completed by September 30, 2016. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Kyle Fugate, kyle.fugate@navy.mil
Budget-to-Report	FSCR	DON is unable to provide detailed transaction data to support the history of cumulative transactions from inception through FY 2014 (Navy).	<ul style="list-style-type: none"> • Transaction Universe developed for all transactions recorded after October 1, 2014. • Transactions to support beginning balances added continuously. • Beginning balances expected to be materially supported by October 1, 2016. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Eric Kravchick, eric.kravchick@navy.mil
Budget-to-Report	FSCR	Contracts for Building Partner Capacity (BPC) with no-year line of accounting (USMC).	<ul style="list-style-type: none"> • Developed internal control to update line of accounting; on track to remediate by 4th Quarter FY15. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Procure-to-Pay	Reimbursable Work Order – Grantor (RWO-G)	Lack of supporting receipt documentation for liquidations and payments (USMC).	<ul style="list-style-type: none"> • Coordinated with MSC to obtain source documentation. • Plan to reconcile liquidations with DFAS by 1st Quarter FY16. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Procure-to-Pay	Various Business Segments	The DON is not in compliance with the Improper Payments Information Act (IPIA) of 2002 (as amended). The DON does not have assurances over 1) reconciliation of the payment universe in order to perform	<ul style="list-style-type: none"> • Conduct root cause analysis of reportable programs, validate control weaknesses, develop and test CAPs. • Establish permanent IPIA Service Provider Board to address improper payments for Service Provider reportable programs.

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
		<p>program assessments, 2) adequacy of sampling plans, 3) guidance (i.e., SECNAVINST and SECNAVMANUAL), 4) root cause analysis of improper payments and associated CAPs, 5) tracking and recovering overpayments to prevent loss of funds, 6) identification and resolution of Service Provider improper payments, 7) Internal Control Over Improper Payments, and 8) conducting recovery audits (Navy).</p>	<ul style="list-style-type: none"> Document Internal Controls over Payments, including fraud review, in support of Annual Financial Reporting requirements. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ed Burke, edward.a.burke@navy.mil
Hire-to-Retire	Military Pay	<p>Outdated military pay and financial management information technology systems lack modern capabilities to support required auditability framework. Current deficiencies require unsustainable manual activities to support auditability. No interoperability between Personnel, Pay, and Financial Management systems; no support for transaction accounting and reporting (Navy).</p>	<ul style="list-style-type: none"> Develop the Integrated Pay and Personnel System-Navy (IPPS-N) and implement on a five-year plan starting in FY18. IPPS-N will be designed to determine pay and entitlements, report ad hoc financial management data, capture and store key supporting documents, respond to changes in legislation, regulation, and policy, allow seamless transition between Active and Reserve components. IPPS-N will enhance communication and coordination for end-to-end Military Pay and Financial Management business processes. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Melissa Brach, melissa.brach@navy.mil
Various Internal Control Reporting Categories	Various Business Segments (Financial Systems)	<p>The DoD Information Assurance Accreditation and Certification Process (DIACAP) failed to produce the audit ready control environment as delineated in the National Institute of Standards and Technology (NIST) Special Publications and Financial Information System Controls Audit Manual (FISCAM). Navy control testing revealed lack of proper design and effectiveness of IT controls</p>	<ul style="list-style-type: none"> DoD's Risk Management Framework (RMF) transition is in progress (transition from DIACAP to NIST). Initiated three phases approach: (i) discovery (complete) – identified 39 key systems, (ii) testing (complete) – identified 676 deficiencies, and (iii) corrective action plans are in progress (completed corrective actions for 230 of 676 deficiencies and scheduled completion of 85% by March 2016). MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Beppe,

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
		across all Financial Systems with regard to policy, procedure and documentation for (Navy): <ul style="list-style-type: none"> • Access Control • Segregation of Duties • Configuration Management • Audit Logging • System Interfaces 	chad.a.beppe@navy.mil / Danny Chae, danny.chae@navy.mil
Various Internal Control Reporting Categories	Various Business Segments (Financial Systems)	Financial system owners lacked standardized and specific control criteria guidance (Navy).	<ul style="list-style-type: none"> • Created supplemental guides to standardize financial system practices to improve and sustain systems controls (7 of 18 (39%) supplemental guides are complete). • Scheduled completion by December 2015. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Beppe, chad.a.beppe@navy.mil / Danny Chae, danny.chae@navy.mil
Various Internal Control Reporting Categories	Various Business Segments (Financial Systems)	The Navy lacked a governance forum to address financial systems planning and control implementation and management at the Enterprise level (Navy).	<ul style="list-style-type: none"> • Navy chartered the Financial Information System Working Group to support audit readiness and address resolution of enterprise audit related deficiencies. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Beppe, chad.a.beppe@navy.mil / Danny Chae, danny.chae@navy.mil
Various Internal Control Reporting Categories	Various Business Segments (Financial Systems)	The Navy ERP system currently has numerous SOD deficiencies. The exact nature and number of the SOD deficiencies is currently being analyzed. In addition, other systems outside of Navy ERP also have numerous SOD deficiencies (Navy).	<ul style="list-style-type: none"> • CAPs are 34% complete. • Leading a Governance Risk Compliance Project to analyze and correct SOD deficiencies in Navy ERP. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Beppe, chad.a.beppe@navy.mil / Danny Chae, danny.chae@navy.mil
Various Internal Control Reporting Categories	Various Business Segments (Financial Systems)	The Standard Financial Information Structure (SFIS) is the part of the DoD Business Enterprise Architecture that deals with financial management, and SFIS is	<ul style="list-style-type: none"> • CAPs are 53% complete. • Working with the Navy ERP PMO and Navy ERP Sustainment Team to plan out when SFIS compliance work will be completed for Navy ERP. • Completed a technical upgrade for 10 of

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
		updated regularly. The Navy ERP system is currently not fully compliant with SFIS, as Navy ERP has only implemented 51 of 70 SFIS data elements, leaving 19 data elements to be implemented (Navy).	<p>19 SFIS data elements, leaving 9 data elements to be incorporated into the Navy ERP FY17.</p> <ul style="list-style-type: none"> • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Bepple, chad.a.bepple@navy.mil / Danny Chae, danny.chae@navy.mil
Budget-to-Report	FSCR (Financial Systems)	Interface strategy and design of STARS-FL: Not all interfaces have approved strategy for the application (Navy).	<ul style="list-style-type: none"> • Memorandums of Agreement update; ensure error handling and communication protocol is included and matches interface strategy document. • No target completion date identified. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Bepple, chad.a.bepple@navy.mil / Fransisco Rivera-Hernandez, fransisco.r.riverahernandez.civ@mail.mil
Budget-to-Report	FSCR (Financial Systems)	Interface processing procedures – STAR-FL: Memorandums of Agreement do not fully document method to secure data during the transfer of interface files (Navy).	<ul style="list-style-type: none"> • Memorandums of Agreement update; ensure file transfer method clearly identified and matches file type in supporting interface strategy document. • Five of six CAPS closed in FY15. • No target completion date identified. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Bepple, chad.a.bepple@navy.mil / Fransisco Rivera-Hernandez, fransisco.r.riverahernandez.civ@mail.mil
Budget-to-Report	FSCR (Financial Systems)	Business process transaction data input – STAR-FL: Insufficient policies outlining source documentation, input file data collection, and input preparation and entry into application (Navy).	<ul style="list-style-type: none"> • Policy update in progress to outline how data is authorized and validated, completeness of transactions, audit documentation, and transaction corrections. • Five open CAPS in progress. • No target completion date identified. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Bepple, chad.a.bepple@navy.mil / Fransisco Rivera-Hernandez, fransisco.r.riverahernandez.civ@mail.mil

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
Budget-to-Report	FSCR (Financial Systems)	Business process transaction data processing – STAR-FL: No procedures to document how process errors should be identified, logged, and resolved. Allows for duplicate transactions (Navy).	<ul style="list-style-type: none"> • Policy development for handling error corrections in progress. • Compensating controls have been implemented to edit and manually validate transactions after processing. • Seven open CAPS in progress. • No target completion date identified. • MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact:</u> Chad Bepple, chad.a.beppe@navy.mil / Fransisco Rivera-Hernandez, fransisco.r.riverahernandez.civ@mail.mil</p>
Budget-to-Report	FSCR (Financial Systems)	Business process transaction data output – STAR-FL: No documentation of key reports used to track processing results (Navy).	<ul style="list-style-type: none"> • Policy development to reflect rationale and impact to financial statement reporting in progress. • No target completion date identified. • MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact:</u> Chad Bepple, chad.a.beppe@navy.mil / Fransisco Rivera-Hernandez, fransisco.r.riverahernandez.civ@mail.mil</p>
Budget-to-Report	FSCR (Financial Systems)	Business process master data – STARS-FL: Master Data additions, deletions, and changes not properly managed or monitored by data owners; management cannot ensure Master Data is complete and valid (Navy).	<ul style="list-style-type: none"> • Policy development in place to implement system capabilities to validate data accuracy and completeness. • Collaborating across enterprise to implement monitoring capabilities. • Five open CAPS in progress. • No target completion date identified. • MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact:</u> Chad Bepple, chad.a.beppe@navy.mil / Fransisco Rivera-Hernandez, fransisco.r.riverahernandez.civ@mail.mil</p>

Uncorrected Material Weaknesses Identified During Prior Periods

Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
Acquire-to-Retire	General Equipment (GE)	Originally no support for ownership and valuation of GE; subsequently two rounds of testing completed across 18 BSOs (Navy).	<ul style="list-style-type: none"> • Implemented 3 tier valuation strategy. On track to assert valuation March 31, 2017. • GE-Remainder asserted Q3 FY15. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Eric Kravchick, eric.kravchick@navy.mil
Acquire-to-Retire	GE	Report of an understated amount of GE on the balance sheet (United States Marine Corps (USMC)).	<ul style="list-style-type: none"> • Installations and logistics Controls and Audit Readiness Team prioritized efforts to assert GE by March 30, 2016. • FISCAM assessment for 10 Tier 1 systems underway; internal control testing to follow to ensure processes are operating effectively. • All USMC Equipment will be on a property record and values will be reported by end of FY15. • Target completion date is end of 2nd Quarter FY16. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Acquire-to-Retire	GE	Account discrepancies range from improper equipment nomenclature on account records to unaccounted gear (USMC).	<ul style="list-style-type: none"> • Reconciling accounts in each property account system; DPAS, ATLASS, and GCSS-MC. • Developed custody chain to document property control below the Responsible Officer level. • Target completion date is end of 2nd Quarter FY16. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Acquire-to-Retire	Real Property (RP)	Insufficient standardized internal control and supporting documentation requirements for RP (Navy).	<ul style="list-style-type: none"> • Financial management, asset management, and capital improvement communities linked in developing cost to government that populates final DD Form 1354; DD Forms 1354 are now

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
			<p>automated.</p> <ul style="list-style-type: none"> • Two rounds of testing conducted; confirming internal control compliance. • Phase II testing to begin 1st Quarter FY16. • FIAR assertion process in place; on track for December 31, 2016 completion. • MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact:</u> Eric Kravchick, eric.kravchick@navy.mil</p>
Acquire-to-Retire	RP	Improper preparation and acceptance of DD 1354 (Transfer and Acceptance of Military RP) (USMC).	<ul style="list-style-type: none"> • Operating procedures and internal controls are written and implemented. • Real Property Accountability Officer and Assistant Planner hired on full time basis to fix and maintain records. • Target completion date is end of 4th Quarter FY15. • MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil</p>
Plan-to-Stock	Operating Materials and Supplies (OM&S)	No consistent performance and documentation of annual physical inventories of OM&S (Navy).	<ul style="list-style-type: none"> • Ashore Ordnance and Uninstalled Aircraft Engines have been asserted and in sustainment. • Afloat Ordnance examination completed by DoDIG on October 2, 2014. • SENAVINST 4440.33A issued; outlines accounting and accountability requirements. • Focused on OM&S-Remainder (approximately 30% in discovery). • MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact:</u> Eric Kravchick, eric.kravchick@navy.mil</p>
Plan-to-Stock	Inventory	No maintenance of accurate Moving Average Cost (MAC) inventory values (Navy).	<ul style="list-style-type: none"> • Valuation and reporting discovery underway. • Corrective actions to automated ERP functions will be developed after discovery. • Valuation and reporting discovery to conclude in 2nd Quarter FY16. • MHA reduction will impact ability to

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
			achieve required CAP milestones. <u>Point of Contact:</u> Eric Kravchick, eric.kravchick@navy.mil
Budget-to-Report	FSCR	No control effectiveness for all business entries (Journal Vouchers (JVs) and Standard Business Transactions (SBTs)) (Navy).	<ul style="list-style-type: none"> • Developed policy standardizing the definition of JV vs SBT. • Pushed policy to BSOs and DFAS. • FSCR audit testing for JV and SBTs ongoing; deficiencies documented and remediation plans developed. • Sustainment testing results of 90% or better required to remediate this deficiency. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Kyle Fugate, kyle.fugate@navy.mil
Procure-to-Pay	Contract Vendor Pay (CVP)	Untimely posting of obligations in general ledger accounting system (Navy).	<ul style="list-style-type: none"> • Established methodology to test adherence to 10 day obligation period. • Promulgated requirement for each command to have two government employees with EDA accounts; enable electronic notifications of contract load to be assessed daily. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Yolanda Bryan, yolanda.bryan@navy.mil
Procure-to-Pay	CVP	Purchase request, purchase orders, and certifying invoice payments approved by individuals without proper authority (Navy).	<ul style="list-style-type: none"> • Revised SECNAVINST 7000.28, "Requirements for Delegation and Appointment Documentation" to be released in October, 2015. • Instruction provides proper use of DD Form 577 and Delegation Authority Letter; enhances documentation retention and supports auditability requirements across DON. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ed Burke, edward.a.burke@navy.mil
Procure-to-Pay	Military Standard Requisitioning Issue Procedures	No efficient and accurate reconciliation between Naval Shipyard requisition, financial management systems, and general ledger (Navy).	<ul style="list-style-type: none"> • Site visits conducted at Shipyards and Regional Maintenance Centers. • Documented baseline for controls, KSDs, and root causes for MILSTRIP. • Developing baselines for CVP, ToT, and

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
	(MILSTRIP)		<p>other assessable units at Shipyards and Regional Maintenance Centers.</p> <ul style="list-style-type: none"> • BTS to GLAS reconciliation is underway to identify Naval Shipyard requisition posting deficiencies. • Based on identified gaps, remediation plans will be developed by July 31, 2017. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Yolanda Bryan, yolanda.bryan@navy.mil / Kyle Fugate, kyle.fugate@navy.mil
Procure-to-Pay	MILSTRIP	Insufficient controls to validate Visual Inter-fund System Transaction Accountability (VISTA) system functionality (Navy).	<ul style="list-style-type: none"> • DON relying on DFAS to complete VISTA FISCAM testing in 4th Quarter FY15; CAP is dependent on FISCAM test results. • Iterative testing approach has pushed schedule to the right. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Aminda Schatz (DFAS), aminda.schatz@dfas.mil
Procure-to-Pay	MILSTRIP	Ineffective reconciliation process for unliquidated obligations (Navy).	<ul style="list-style-type: none"> • DON released updated Triannual Review guidance in May 2015 to all BSOs. • Guidance mandates standardized reporting of unliquidated obligations for all financial transactions. • Determination of increased standardization will be tested during financial statement audit testing reviews. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Charles White, charles.e.white@navy.mil
Procure-to-Pay	MILSTRIP	Incomplete information in offline requisition systems (USMC).	<ul style="list-style-type: none"> • Approved Defense Logistics Management Standards, Enhanced Procedures for Requisitioning via DoD EMALL, and GSA Internet Ordering. • Implemented nine new policies to address noted deficiency. • Target completion date is 4th Quarter FY15. • MHA reduction will impact ability to

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
			achieve required CAP milestones. Point of Contact: Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Procure-to-Pay	Transportation of Things (ToT)	No effective controls to prevent unauthorized use of transportation account codes or unauthorized shipments (Navy).	<ul style="list-style-type: none"> • Cargo Movement Operations System (CMOS) is a long term solution to standardize systems and processes across the transportation community. • CMOS, a single DoD shipper system, validates funding availability and authorization of Transportation Account Code usage. • CMOS scheduled for implementation by October 1, 2016. • MHA reduction will impact ability to achieve required CAP milestones. Point of Contact: Aaron Avant, aaron.avant@navy.mil
Procure-to-Pay	ToT	No centralized process to maintain transportation documents (Navy).	<ul style="list-style-type: none"> • Memorandum of Agreement to be signed by October 31, 2015 outlining interim solution for services to retrieve and share KSDs across the enterprise. • OSD working a long-term solution to centralize repository for all services. • MHA reduction will impact ability to achieve required CAP milestones. Point of Contact: Aaron Avant, aaron.avant@navy.mil
Procure-to-Pay	ToT	No support for exchange of all required transactional data in transportation and financial system interfaces (Navy).	<ul style="list-style-type: none"> • CMOS implementation will alleviate need for multiple interfaces. • CMOS scheduled for implementation by October 1, 2016. • MHA reduction will impact ability to achieve required CAP milestones. Point of Contact: Aaron Avant, aaron.avant@navy.mil
Order-to-Cash	Reimbursable Work Order – Performer (RWO-P)	No verification of undelivered orders and accounts receivable with valid transactions (Navy).	<ul style="list-style-type: none"> • DON released updated Triannual Review guidance in May 2015 to all BSOs. • Guidance mandates standardized reporting of unliquidated obligations and undelivered orders for all financial transactions. • Determination of increased standardization will be tested during

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
			financial statement audit testing reviews. <ul style="list-style-type: none"> MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Charles White, charles.e.white@navy.mil
Order-to-Cash	RWO-P	Insufficient controls to verify unfilled reimbursable orders/authorizations with complete and accurate record (Navy).	<ul style="list-style-type: none"> First Phase Invoice Processing Platform implementation in FY17. Second Phase Invoice Processing Platform implementation in FY18. Provides DON ability to perform Trading Partner reconciliations monthly. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Dr. Michael Parker, michael.parker@navy.mil
Order-to-Cash	RWO-P	Inaccurate posting of year-end accruals (Navy).	<ul style="list-style-type: none"> Methodologies to estimate and post receivable accruals to be implemented across commands by 2nd Quarter FY16. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Kyle Fugate, kyle.fugate@navy.mil / Eric Kravchick, eric.kravchick@navy.mil
Order-to-Cash	RWO-P	No internal controls to verify the amount billed with valid and accurate records (Navy).	<ul style="list-style-type: none"> First Phase Invoice Processing Platform implementation in FY17. Second Phase Invoice processing Platform implementation in FY18. Provides DON ability to perform electronic receipt and acceptance for goods and services. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Dr. Michael Parker, michael.parker@navy.mil
Procure-to-Pay	RWO-G	Insufficient controls to verify undelivered orders and accounts receivable with valid transactions (Navy).	<ul style="list-style-type: none"> DON released updated Triannual Review guidance in May 2015 to all BSOs. Guidance mandates standardized reporting of unliquidated obligations and undelivered orders for all financial transactions. Determination of increased standardization will be tested during financial statement audit testing reviews.

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
			<ul style="list-style-type: none"> MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Charles White, charles.e.white@navy.mil
Procure-to-Pay	RWO-G	No complete and accurate record of obligations (Navy).	<ul style="list-style-type: none"> First Phase Invoice Processing Platform implementation in FY17. Second Phase Invoice Processing Platform implementation in FY18. Provides DON ability to perform Trading Partner reconciliations monthly. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Dr. Michael Parker, michael.parker@navy.mil
Procure-to-Pay	RWO-G	No valid and accurate record of disbursements (Navy).	<ul style="list-style-type: none"> First Phase Invoice Processing Platform implementation in FY17. Second Phase Invoice Processing Platform implementation in FY18. Provides DON ability to perform electronic receipt and acceptance for goods and services. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Dr. Michael Parker, michael.parker@navy.mil
Procure-to-Pay	RWO-G	Inaccurate posting of year-end accruals (Navy).	<ul style="list-style-type: none"> Methodologies to estimate and post receivable accruals to be implemented across commands by 2nd Quarter FY16. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Kyle Fugate, kyle.fugate@navy.mil / Eric Kravchick, eric.kravchick@navy.mil
Procure-to-Pay	RWO-G	No timely record of obligations (USMC).	<ul style="list-style-type: none"> Offline and Internet Based Ordering Policy to be implemented by 4th Quarter FY15. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Procure-to-Pay	RWO-G	Missing or lost receipt and acceptance supporting documentation (USMC).	<ul style="list-style-type: none"> Marine Corps Systems Command implemented process to record expenses for individual disbursements.

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
			<ul style="list-style-type: none"> • Alleviates abnormal expenses not recorded prior to voucher posting. • Dependent on OSD/DON assistance to modify WAWF-RA interface with SABRS. • Target completion date to be determined upon OSD and DON issuance of policy that will require completing AAI field in WAWF-RA. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Various Business Processes	Various Business Segments (Financial Systems)	<p>(1) <u>Maximo</u>: No policies and procedures, no monitoring of changes to the Maximo, and no identification of sensitive transactions.</p> <p>(2) <u>Support Equipment Management System – Support Equipment Resource Management Information System</u>: No documentation for approval of configuration changes, no policies and procedures, no monitoring of sensitive accounts, no evidence of audit log review, and no removal of inactive accounts in a timely manner.</p> <p>(3) <u>Standard Procurement System (SPS) - Naval Air Systems Command</u>: No policies and procedures, inefficient account management process, no periodic review of accounts, and no segregation of duties processes.</p> <p>(4) <u>Decision Knowledge Programming for Logistics Analysis and Technical Evaluation</u>: No existence of audit log review, change request forms, policies and procedures, periodic access reviews, access</p>	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 40% complete. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Beppe, chad.a.beppe@navy.mil / Danny Chae, danny.chae@navy.mil

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
		requests and authorizations (Navy).	
Various Business Processes	Various Business Segments (Financial Systems)	<p><u>Expeditionary Management Information System, Facilities Information System, Internet Naval Facilities Assets Data Store, SPS- Naval Facilities Engineering Command, and Comprehensive Utilities Information Tracking System:</u> Internal control design and operating effectiveness deficiencies in multiple areas of access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication (Navy).</p>	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 5% complete. • Command consolidating effort to establish standard controls across all systems and improve progress. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Bepple, chad.a.bepple@navy.mil / Danny Chae, danny.chae@navy.mil
Various Business Processes	Various Business Segments (Financial Systems)	<p><u>SeaPort, Standard Labor Data Collection and Distribution Application, SPS- Naval Sea Systems Command, Material Access Technology – Mission Funded, and Shipyard Management Information System – Cost Application:</u> Internal control design and operating effectiveness deficiencies in multiple areas of access controls, configuration management, system and information integrity, audit and accountability, system and service acquisition, and identification and authentication (Navy).</p>	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 12% complete. • Resource constraints, particularly at Shipyard limited progress. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Chad Bepple, chad.a.bepple@navy.mil / Danny Chae, danny.chae@navy.mil
Various Business Processes	Various Business Segments	<p>(1) <u>Integrated Technical Item Management and Procurement:</u> No policies and procedures, no audit log review, and no documentation for approval of configuration changes. (2) <u>Command Financial Management System (CFMS) -</u></p>	<ul style="list-style-type: none"> • Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. • CAPs are 46% complete. • Systems prioritized for SBA audit have made the most progress, followed by Asset Management and Working Capital

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
		<p><u>Commander, Navy Installations Command</u>: Ineffectiveness in application security plan, retention of data, security management plan, formal risk assessment document, required training, and policies and procedures.</p> <p>(3) <u>Program Budget Information System</u>: Ineffectiveness in areas of access control management, audit log, and policies and procedures for configuration management, segregation of duties, and interfaces.</p> <p>(4) <u>CFMS - Commander, U.S. Pacific Fleet</u>: No policies and procedures, no audit log review, and no documentation for approval of configuration changes.</p> <p>(5) <u>Special Warfare Automated Logistics Information System</u>: No policies and procedures, no audit log review, and no documentation for approval of configuration changes.</p> <p>(6) <u>Defense Civilian Personnel Data System</u>: Ineffectiveness in areas of risk assessment, access control management, policies and procedures, storage location, security, and monitoring of interfaces (Navy).</p>	<p>Fund systems. Command resource issues are the limiting factor.</p> <ul style="list-style-type: none"> MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact</u>: Chad Bepple, chad.a.bepple@navy.mil / Danny Chae, danny.chae@navy.mil</p>
Various Business Processes	Various Business Segments	<p>(1) <u>SPS - Space and Naval Warfare Systems Command</u>: Weaknesses in areas of termination process, access authorization documentation process, reviewing/recertifying user access process, and management and documentation of system accounts.</p> <p>(2) <u>Officer Personnel Information System</u>: Ineffectiveness of areas of</p>	<ul style="list-style-type: none"> Agreed-upon process changes, updates to policies and procedures to reflect process changes, and implementation of process changes. CAPs are 58% complete. While resource issues impact progress the command leveraged the early FISCAM experience across other systems. MHA reduction will impact ability to achieve required CAP milestones. <p><u>Point of Contact</u>: Chad Bepple,</p>

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
		<p>physical security access controls, application security, change management, interface policies and procedures, and review over error reconciliation reports.</p> <p>(3) <u>Navy Enlisted System</u>: Weaknesses in areas of user request form, physical security access controls, change management, interface policies and procedures, and business process application.</p> <p>(4) <u>Navy ERP</u>: Weaknesses in areas of physical security access controls, change management, interface policies and procedures, and business process application.</p> <p>(5) <u>Navy Reserve Order Writing System</u>: Weaknesses in areas of application security plan, segregation of duties, system administrator access, configuration management plan, access authorization, and change management process (Navy).</p>	<p>chad.a.bepple@navy.mil / Danny Chae, danny.chae@navy.mil</p>
Plan-to-Stock	OM&S	<p>The deficiencies for Global Combat Support System-Marine Corps span across multiple control categories defined in the Government Accountability Office (GAO) FISCAM, including application level general controls, access controls, system interfaces, and configuration management controls (USMC).</p>	<ul style="list-style-type: none"> • Implementing technical solutions and contingency plan testing, and develop policies and procedures. • Target completion date is end of 4th Quarter FY15. • MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact</u>: Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Budget-to-Report	FSCR	<p>The deficiencies for SABRS span multiple control categories defined in the GAO FISCAM, including application level general controls, business process controls, interface and data management system controls (USMC).</p>	<ul style="list-style-type: none"> • Implementing technical solutions such as system change request, system integration testing, and system acceptance testing, and updating policies and procedures. • Target completion date is end of 1st Quarter FY16. • MHA reduction will impact ability to achieve required CAP milestones.

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Internal Control Reporting Category	Business Segment	Deficiency	CAP Updates
			<u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Hire-to-Retire	Military Pay	The deficiencies for Marine Corps Total Force System (MCTFS) span across multiple control categories defined in the GAO FISCAM, including application level general controls, business process controls, system interfaces, and data management system controls (USMC).	<ul style="list-style-type: none"> Implemented and monitored actions identified in POAM. Requesting and obtaining MCTFS feeder system authorization, updating policies and procedures, and providing adequate training to staff. Target completion date is end of 4th Quarter FY15. MHA reduction will impact ability to achieve required CAP milestones. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil

Material Weaknesses Corrected During the Period

Business Process	Business Segment	Deficiency	CAP Updates
Budget-to-Report	Fund Balance with Treasury	The deficiencies for Defense Cash Accountability System (DCAS) span across multiple control categories defined in GAO FISCAM, including application level general controls, business process controls, systems interfaces, and data management system controls (USMC).	<ul style="list-style-type: none"> In coordination with DCAS management, the Marine Corps remediated all findings as demonstrated through testing performed during the FY 2014 audit. Closed during FY14 SBA Audit. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil
Budget-to-Report	FSCR	The deficiencies for Defense Departmental Reporting System (DDRS) span across multiple control categories defined in the GAO FISCAM, including application level general controls, business process, interface and data management system controls (USMC).	<ul style="list-style-type: none"> In coordination with DDRS management, the Marine Corps remediated all findings as a result of testing performed during the FY 2014 audit. Closed during FY14 SBA Audit. <u>Point of Contact:</u> Ann Cecil McDermott, ann-cecile.mcdermott@usmc.mil

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e. Tab D provides detailed assessment of the effectiveness of Internal Control over Acquisition Functions for the following cornerstones:

- Organizational Alignment and Leadership
- Policies and Processes
- Human Capital
- Information Management and Stewardship