THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

September 30, 2019

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2019

As Secretary of the Navy, I recognize the importance of managing the Department of the Navy (DON) risks and maintaining effective internal controls to comply with Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The DON conducted its risk and internal control assessment in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office (GAO) publication GAO-14-704G, *Standards for Internal Control in the Federal Government*. Based on the results of this assessment, the DON can provide the following assurance levels as of 30 September 2019:

- Internal Controls over Operations (ICO) – Reasonable Assurance, except for nine ICO material weaknesses (MWs) identified and two significant deficiencies.
- Internal Control over Financial Reporting (ICOFR) – No Assurance, due to twelve MWs identified.
- Internal Controls over Financial Systems (ICOFS) – No Assurance, due to three MWs identified.
- Entity-Level Controls (ELCs), including fraud controls – Reasonable Assurance, except for one MW identified.

Additionally, the annex of classified and Special Access Programs (SAP) MWs has been forwarded through special access to the Office of the Secretary of Defense SAP Classified Office.

The "Internal Control Evaluation" section provides specific information on the DON ICO assessment. Based on the results of the assessment, as of the date of this memorandum, the DON can provide reasonable assurance, except for the nine MWs reported in the "Operational Material Weaknesses" section, that internal controls over operations and compliance were operating effectively as of 30 September 2019.

The "Internal Control Evaluation" section also provides specific information on the DON ICOFR assessment. Based on the results of the assessment, the DON cannot provide reasonable assurance controls were operating effectively due to the MWs reported in the "Financial Reporting Material Weaknesses" section as of 30 September 2019 in accordance with OMB Circular No. A-123, Appendix A.

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2019

The DON conducted a limited internal review of the effectiveness of internal controls over the financial systems in accordance with the Federal Financial Management Improvement Act of 1996 (FFMIA) (Public Law 104-208) and OMB Circular No. A-123, Appendix D-Significant Deficiencies and Material Weaknesses. The "Internal Control Evaluation: ICOFS" section (pp. 15-17) provides specific information on how the DON conducted the assessment of ICOFS. Based on the results of this assessment, the DON internal controls over financial systems do not fully conform to the objective of FFMIA and OMB Circular No. A-123, Appendix D. Nonconformance was caused by three items detailed in the "Financial Management Systems Material Weaknesses/Nonconformances" section as of 30 September 2019.

The DON assessed ELCs, including fraud controls, in accordance with the Section 10.09 of GAO's, *Standards for Internal Control in the Federal Government* (the "Green Book"), and OMB Circular No. A-123, Fraud Reduction and Data Analytics Act (FRDAA) of 2015, and GAO Fraud Risk Management Framework. Based on the results of the assessment, the DON can provide reasonable assurance, except for one Oversight and Monitoring MW, that ELCs, including fraud controls, are operating effectively as of September 30, 2019. The "Introduction-Entity-Level Control Analysis" section (pp. 7-8) provides specific information describing how the DON conducted the ELC and fraud assessments.

My point of contact for any questions regarding the Statement of Assurance for fiscal year 2019 is Ms. Alaleh Jenkins, who may be reached at (202) 685-6701 or alaleh.jenkins@navy.mil.

Richard V. Spencer

Attachments:
As stated

FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2019
STATEMENT OF ASSURANCE

DEPARTMENT OF THE NAVY

OFFICIAL USE ONLY

Table of Contents

Introduction 1
Internal Control Evaluation: ICO 10
Internal Control Evaluation: ICOFR 12
Internal Control Evaluation: ICOFS 15
Service Provider Oversight 17
Audit Remediation Program 18
Validation 21
Antideficiency Act Violations 21
Overall Assessment of Internal Control 21
- **Basis for Assessment** 21

FY 2019 Significant Accomplishments 23
- **Budget Reform** 23
- **Operating Material & Supplies/Inventory** 25
- **Cross Application SOD Assessment** 26
- **Real Property** 28

Material Weaknesses and Corrective Action Plans 29
- **Operational Material Weaknesses** 29
- **Financial Reporting Material Weaknesses** 51
- **Financial Management Systems Material Weaknesses /Nonconformances** 70

Material Weakness Removal 75
Attachment 1: Points of Contact 83
Attachment 2: Acronym List 84

Introduction

The mission of the Department of the Navy (DON) is to recruit, train, equip and organize to deliver combat ready Naval forces to win conflicts and wars while maintaining security and deterrence through sustained forward presence.

The DON is composed of the following organizations:

- Executive offices in Washington, D.C.;
- Operating forces, including reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security); and
- Base and shore establishments.

DON management evaluated the system of internal controls in effect during the fiscal year (FY), as of the date of this memorandum, in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and Government Accountability Office (GAO) publication GAO-14-704G, *Standards for Internal Control in the Federal Government* (Green Book). 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). The below report constitutes the DON's evaluation of whether the DON's system of internal controls complies with standards prescribed by the Comptroller General.

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

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) (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. The concept of reasonable assurance recognizes: (1) the cost of internal controls should not exceed the benefits expected to be derived; and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Errors or irregularities may 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. Projecting any system evaluation is difficult because changing conditions may alter procedural efficiency or compliance.

In FY 2019, the DON reassessed and consolidated previously reported material weaknesses and significant deficiencies. The consolidations and realignments are part of the Assistant Secretary of the Navy (ASN) (Financial Management and Comptroller) (FM&C) leadership's vision to organize deficiencies around the DON's audit priorities and to aggressively identify root causes of DON-wide deficiencies. The analysis resulted in the realignment and consolidation of certain deficiencies to ensure full remediation of underlying root causes. For further details, See Table 1: Realignment and Consolidation outline of material weaknesses (MWs) FY 2019 updates.

Deficiency Realignment and Consolidation	
Prior Year Material Weakness/Significant Deficiency	**Current Year Alignment**
STARS-FL deficiencies, business process transaction policy, procedures, and documentation issues along with master data issues	Complex Business IT Environment
STARS-FL deficiencies in the areas of Segregation of Duties (SOD), reconciliation, pre-validation edit checks, and other internal controls	
DON has not implemented top-down controls over its complex business Information Technology (IT) environment and does not have an enterprise-wide strategy for managing its financial management systems	
USMC Global Combat Support System (GCSS) Deficiencies	Information Systems Access Controls/SOD
The DoD Information Assurance Accreditation and Certification Process (DIACAP) failed to produce the audit ready control environment	Configuration Management
Feeder System Reconciliations	Interfaces
The Navy has inconsistent procedures to record Journal Vouchers (JVs) and Standard Business Transactions (SBTs)	Financial Reporting
The Navy Enterprise Resource Planning (ERP) system is currently not compliant with the Standard Financial Information Structure (SFIS)	
Comprehensive Accounts Receivable (AR) and Aging Report	
Fund Receipt and Distribution (FRD) Reconciliation Process	
Posting logic does not produce expected financial and budgetary accounting relationships	
Obligations are not timely recorded in the General Ledger	
Ineffective Controls over Statement of Budgetary Resources (SBR) Balances	

Deficiency Realignment and Consolidation	
Prior Year Material Weakness/Significant Deficiency	**Current Year Alignment**
Fund Balance with Treasury (FBwT) Reconciliations	Fund Balance with Treasury
Accounts Payable (AP) Accrual Methodology	Accounts Payable
Operating Materials & Supplies	Operating Materials & Supplies – Remainder Operating Materials & Supplies - Ordnance
Shared Service Provider (SSP) Oversight	Oversight and Monitoring
SD MICP Implementation	
Real Property Existence and Completeness (E&C) and CIP	Property, Plant, and Equipment (PP&E) Valuation *(Real Property E&C resolved)*
General Equipment (GE)	
	GE-Remainder – E&C
Inventory E&C and Valuation	Inventory
Oversight of Third Parties Managing Assets	Property in the Possession of Contractors
Individuals without properly documented authority are approving purchase requests, purchase orders, and certifying invoices for payment	Order-to-Cash
Offline Military Standard Requisitioning and Issue Procedures (MILSTRIP) Requisitions	
Reimbursable Work Order (RWO) Controls	
Naval Shipyard requisitions cannot be reconciled to the general ledger	Procure-to-Pay
Contracts written in support of Building Partner Capacity	Traceability and Supportability of Foreign Military Sales Transactions
Military Pay and Personnel (Controls)	Reassessed to significant deficiency
The DoD does not have a centralized process to maintain, store, and retrieve transportation documentation	Reassessed to control deficiency
Surface Force Incidents	Reassessed to control deficiency

Table 1: Deficiency Realignment and Consolidation Table

DON Internal Control Governance

The DON implemented a comprehensive internal control governance structure to monitor the effectiveness of internal controls, remediation of deficiencies, risks, and to report progress in the annual Statement of Assurance (SOA). Figure 1 illustrates the governance structure and the roles and responsibilities of each governing body:

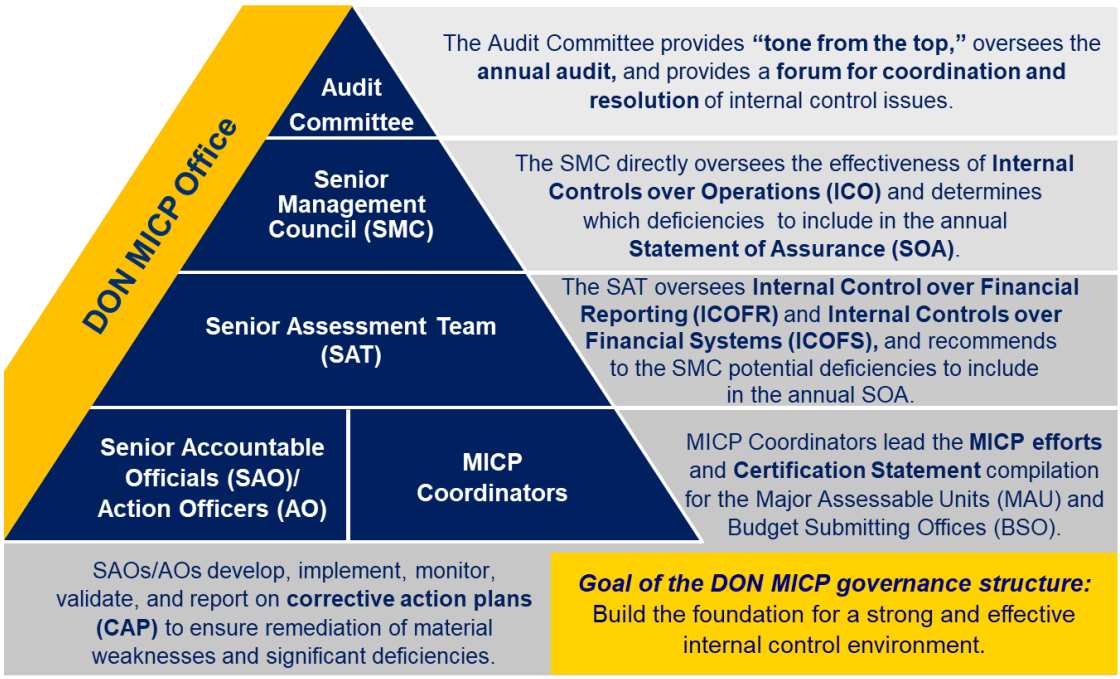

Figure 1: DON Internal Controls Governance Structure

The DON Audit Committee, chaired by the Under Secretary of the Navy, representing the DON's senior-level leadership, provides dedicated oversight of internal control compliance, and oversees the annual audit of financial statements. In FY 2018, the Audit Committee assigned end-to-end process owners (below) to lead the DON's functional business process areas, including policy development, implementation, and compliance. Additionally, process owners resolve deficiencies identified through the Managers' Internal Control Program (MICP) or other programs (e.g., independent public accountant (IPA) Notice of Findings and Recommendations (NFR)).

End-to-End Process	Process Owner
Acquisition	ASN (Research, Development, and Acquisition) (RD&A)
Audit Response & Accountability	Chief of Naval Operations (CNO) and Commandant of the Marine Corps (CMC)
Contingent Legal Liabilities	Office of General Counsel
Contract Management	ASN (RD&A)
Environmental Liabilities	ASN (Energy, Installations, and Environment) (EI&E)
Budget & Financial Management Reporting	ASN (Financial Management and Comptroller) (FM&C)
Human Resource Reporting	ASN (Manpower and Reserve Affairs) (M&RA)

Inventory – Working Capital Fund (WCF) Supply Chain	CNO and CMC
Logistics & Supply Chain	CNO and CMC
Military Pay (MILPAY)/ Civilian Pay (CIVPAY)	ASN (M&RA)
Operating Materials and Supplies	CNO and CMC
Real Property	ASN (EI&E)

The DON's Senior Management Council (SMC), comprising Senior Executive Service members (SES) and flag officers from each Echelon I command, or major assessable unit (MAU), and is co-chaired by the Principal Deputy ASN (FM&C) and the Director of the Office of the DON Chief Management Officer. The SMC advises the Secretary of the Navy and the Audit Committee on the state of the DON's internal control risk assessment, testing, compliance, corrective action implementation, and reporting.

Additionally, the SMC is responsible for the DON-wide ICO assessment and independently monitoring and validating the effectiveness by:

- Ensuring MAUs conduct annual risk and internal control assessments across all echelons to gauge whether key internal control objectives are understood and met;
- Approving new DON-level MWs or significant deficiencies (SD), coordinating with applicable end-to-end process owners to prioritize deficiencies, and assigning remediation accountability to specific DON senior accountable officials (SAO);
- Monitoring and reviewing the implementation of all MW and SD corrective action plans (CAPs) and determining when sufficient action has been taken to downgrade or close deficiencies; and
- Reporting results and determining the ICO, ICOFR, and ICOFS MWs and SDs reported in the DON SOA.

The Senior Assessment Team (SAT) is the governing body that oversees the assessment of ICOFR and ICOFS. It comprises DON budget submitting offices (BSO) comptrollers (refer to "Internal Control Evaluation: ICOFR" for a list of BSOs). The SAT is co-chaired by the Deputy Assistant Secretary of the Navy (Financial Policy and Systems) and the Deputy Assistant Secretary of the Navy (Financial Operations). The SAT annually assesses the state of the DON's financial risk and internal controls health within ICOFR and ICOFS. The SAT also determines whether new finance-related deficiencies exist and monitors the remediation status of MWs or SDs. While the SAT recommends the approval of new (or closure of existing) MWs or SDs, the SMC is responsible for final approval.

Senior Accountable Officials (SAO) are DON SES members or flag officers that have been assigned a specific deficiency. They are responsible for working with action officers (AOs) to implement CAPs to remediate weaknesses and deficiencies and reporting remediation status to the SMC and SAT.

Investment Review Board

The Investment Review Board (IRB), chaired by the DON Office of the Chief Management Officer (OCMO), provides oversight and guidance to the DON functional area managers (FAM) regarding

the resourcing of DON Defense Business Systems (DBS) and ensures that the DBS review requirements in 10 USC 2222 are met. The DBS FAMs, under the guidance of the IRB, are the Offices of Primary Responsibility (OPR) for Information Technology (IT) Notice of Findings and Recommendations (NFR). The FAMs provide support to the system owners and AOs responsible for remediating IT NFRs issued by the financial statement IPA.

For FY 2019, the Office of Financial Systems and Policy (FMP), with approval from the OCMO, is requiring DBS FAMs to develop a comprehensive Plan of Action and Milestones (POAM) incorporating all known IT findings, including NFRs and any findings arising from the Risk Management Framework (RMF). To execute this requirement, FMP leveraged the IRB to stress the importance of a comprehensive POAM; FMP trained the FAMs to complete effective POAMs. This training helped to ensure that every audit-relevant system had plans in place to proactively mitigate cyber and audit risks.

DON Managers' Internal Control Program

The Department of Defense Instruction 5010.40 established the requirement for Defense components to establish A-123 Internal Control Programs to review, assess, and report on internal controls, as required by FMFIA. The Department of Defense Office of the Chief Management Office (DoD OCMO) and the Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) serve as the internal control program oversight bodies that provide guidance for the annual SOA throughout the fiscal year through trainings, tools, templates, and oversight.

The SECNAV INSTRUCTION 5200.35 series establishes and provides guidance on the DON's MICP, including the requirement for BSOs and MAUs to establish a MICP to evaluate and report on the effectiveness of internal controls throughout their organizations, subordinate organizations, and commands.

The DON's MICP operates in tandem with the DON's other risk management processes and initiatives – Enterprise Risk Management (ERM), the Risk and Opportunity Assessment (ROA), and the IT RMF via the annual SOA.

The DON's Office of Financial Management Operations established the DON MICP Office to: test and monitor the status of DON-wide internal controls and remediation efforts; coordinate the preparation of the DON SOA, support governance activities; provide guidance and information to BSOs and MAUs on requirements, best practices, upcoming dates, and current activities; evaluate deficiencies reported by the BSOs and MAUs; and maintain an information repository and training curriculum.

MICP coordinators are the working-level internal control representatives for their activity. They are responsible for ensuring: risk assessments are completed; controls are designed and operating effectively; deficiencies are identified and reported; corrective actions are developed and executed; and internal control certification assurance statements are prepared.

The DON MICP Office developed the MICP certification statement guidebook to provide consistent guidance on the proper design and operation of MIC programs across the DON.

The DON enhanced the MICP certification statement guidebook for FY 2019 to standardize and enhance the effectiveness of the annual SOA process. In addition to the guidebook, MICP developed

implementation guides specifically for ICO, ICOFR, and ICOFS as supplements. The guide provides comprehensive direction on reporting requirements based on the following elements outlined in OMB Circular No. A-123, including:

- Conducting a top-down integrated risk assessment and controls evaluation approach;
- Developing, implementing, and reporting on internal control testing;
- Identifying an internal control deficiency and developing a CAP;
- Reporting results and remediation status; and
- Preparing a MAU or BSO Certification Statement.

The guidebook provides detailed instructions and templates to facilitate certification statement compilation.

In FY 2019, MICP training was available through locally developed web-based training for on-demand access, including: MICP 101 (MICP Overview); MICP 102 (ICO Lifecycle); and MICP 103 (ICOFR/ICOFS Lifecycle).

Additional on-the-job training and guidance was provided to MAU and BSO MICP coordinators as part of the DON MICP office's customer outreach strategy, which included providing tailored support through dedicated teams assigned to each MAU and BSO. Hands-on sessions were conducted throughout the year via site visits, teleconferences, office calls, and in-person briefings to answer any questions related to specific MAU and BSO MICP deliverables. Additionally, the DON MICP office provided feedback directly to MICP coordinators on how to improve draft deliverables coordinators as they were improving the completeness of their risk assessments and preliminary internal control test plans. The DON MICP Office also held monthly discussions with MAU and BSO MICP coordinators to provide program updates and guidance and to address common issues related to the MICP and the certification statement preparation process.

In FY 2019, the DON introduced the top-down integrated risk assessment and control evaluation approach to further mature and align the DON internal controls and compliance program with OMB A-123 and GAO Green Book mandate. Further explanation of the top-down integrated approach is reflected in the "Risk Assessment" section (p. 8). The DON will continue to expand the scope of its internal control and compliance program as processes mature.

Entity-Level Control Analysis

The Green Book defines entity-level controls (ELC) as controls that have a pervasive effect on an entity's internal control systems. While ELCs are not necessarily controls at the process or transaction level, they enable and support these controls and create a culture that promotes internal controls throughout the DON. The overarching ELCs help set the tone at the top and reinforce the importance of internal controls through published policies, regular risk assessments, and programs to monitor internal controls (e.g., MICP).

In FY 2019, the DON assessed ELCs across 20 MAUs by issuing a comprehensive survey in accordance with the GAO's Green Book. The survey leveraged GAO's Internal Control Management and Evaluation Tool to provide examples of control activities and factors to determine if the GAO Green Book principles are adequately addressed for each component of internal control (i.e., Control Environment, Risk Assessment, Control Activities, Information and Communication,

and Monitoring). MAUs completed the survey from their organization's perspective by identifying the processes, policies, and guidance in place to address each control activity. Additionally, MAUs were asked to identify DON-wide policy on control activity and describe any additional actions taken to further enforce or implement the policy within their organization. The consolidated survey responses were used to assess the DON's adherence to GAO requirements and if policies and directives that support ELCs are socialized and implemented across the enterprise.

Based on the analysis of the consolidated FY 2019 ELC survey, MAU responses indicated that core foundational controls supporting the GAO's Green Book are in place across the organization. Most of the respondents indicated that internal management directives are well-communicated and ELCs exist within the DON's overall internal control environment. However, responses also indicated that opportunities to improve remain in each internal control area.

The survey results provide the DON with an assessment of its FY 2019 ELC environment and build upon the baseline ELC assessment conducted in FY 2018. The DON is conducting a deep dive analysis leveraging FY 2018 results and FY 2019 assessment results to validate and prioritize observations that indicate potential areas for improved internal controls. The DON will work with process owners (i.e., MAUs) to verify if control gaps exist and to develop actionable next steps for remediation. Using the survey as a tool to conduct assessments in subsequent years will inform DON senior leadership on ELC program trends and progress with corrective actions.

Risk Assessment Approach

In addition to the top-down approach and controls evaluation, this year's risk assessment emphasized structured self-reporting (focusing on identifying mission and objective risk, the impact and likelihood of those risks, and mitigation strategies to strengthen internal controls associated with those risks). MAUs and BSOs built on FY 2018 submissions, supplemented by additional input linking the risk to the Business Operations Plan (BOP), and additional input related to fraud risk across all MAUs and BSOs.

The DON considered internal reviews, audits, and inspections conducted by the Naval Audit Service, Naval Inspector General, Department of Defense Inspector General, and the GAO, as well as NFRs issued by IPAs during the financial statement audit, to identify additional risks. These risks, along with the preliminary risk assessment results, were presented to the SMC and SAT for consideration.

The DON is continuing to mature the MICP risk assessment process by strengthening DON-wide and organization-specific risk identification and bridging any remaining gaps. The DON assessed key financial risks for various end-to-end business processes and aligned DON controls to them. This resulted in stakeholder vetted Risk and Control Matrices (RCM), which were utilized during internal control testing. The DON will continue to develop and refine RCMs in future years.

Fraud Assessment Approach

Large, complex organizations are vulnerable to fraud. A strong "tone at the top" and a system of internal controls over both financial reporting and operations are key mechanisms for preventing fraud. The DON is continually performing a risk-based review and assessment of its system of internal controls on reporting and operations, including fraud risks. ASN (FM&C) is responsible for establishing a DON-wide approach to monitoring and enhancing internal controls. The DON also has

a formal governance structure to integrate the oversight and evaluation of those controls and enhancement efforts.

The DON has entity–and-program-level controls to deter, mitigate and respond to potential fraud. The FY 2019 DON ELC survey responses indicated that an ethical tone has been established at the top of the DON and has been communicated throughout the enterprise through programs such as annual ethics training, leadership communications, DON Employee's Guide to the Standards of Conduct, ethic counselors, etc. The Naval Criminal Investigative Service (NCIS) distributes fraud risk posters and communication materials, and conducts in-person fraud risk trainings at commands to increase fraud risk awareness and understanding.

- **DON MICP Risk Assessment and Internal Control Evaluation**
  As required in DON MICP guidance and templates, MAUs and BSOs were instructed to emphasize fraud risks during their assessments. The risk assessment stressed structured self-reporting focused on identifying mission and objective risk, the impact and likelihood of those risks, and mitigation strategies to strengthen internal controls associated with those risks.
- **Targeted Fraud Risk Assessment**
  Certain MAUs and BSOs were issued pre-populated risk assessments designed to address the fraud risk scenarios identified by OUSD(C). The primary focus was on fraud risks associated with IT systems environment, grants and large contracts, and purchase card transactions.

Performance audits conducted by the Naval Audit Service (NAVAUDSVC) also assess the risk of fraud occurring as outlined in the NAVAUDSVC Handbook, Fraud Risk Matrix, and the Fraud Risk Assessment Checklist. Controls specifically designed to respond to fraud risks and allegations include:

- The Naval Inspector General's (NAVINSGEN) 24/7 hotline to report fraud, waste, abuse, and mismanagement. The results are considered by NAVINSGEN when developing their inspection plans and special studies scope;
- All criminal fraud allegations are directed to NCIS. Allegations can be reported anonymously and reported via multiple channels. NCIS responds to various types of procurement fraud, including product substitution, general procurement fraud (kickbacks), antitrust, cost mischarging, conflict of interest and bribery;
- The NCIS Economic Crimes Department works to safeguard DON acquisition programs that enhance fleet readiness and respond to allegations of corruption, financial fraud, and illegal product substitution;
- The Naval Supply Systems Command (NAVSUP) manages a bank card (purchase card, travel card, fleet card, AIR card, SEA card, and SWIPE SEA card) transaction review program. The bank card program managers monitor potential improper charges identified by card issuers. Suspected instances of misuse or abuse are referred to the employee's supervisor. Penalties for misuse vary, but can include reprimand; admonishment; and/or restitution; and separation from government service; or revocation of the employee's security clearance; and
- NAVAUDSVC audits DON activities and programs to determine if internal controls – such as segregating duties among different people to reduce the risk of error or fraud – are in place and operating as intended. Additionally, NAVAUDSVC supports fraud related investigations

conducted by various agencies, including NCIS, the Acquisition Integrity Office, and the Naval and Marine Corps IGs as requested.

FY 2019 Fraud Control Enhancements

In addition to these controls, the GAO Green Book and the Fraud Risk and Data Analytics Act of 2015 highlight the importance of an entity-level fraud risk management program. In FY 2019, the DON established a fraud risk and data analytics program that will evaluate potential mechanisms to monitor fraud trends and improve fraud prevention, detection and response. In addition to overseeing fraud risk management activities, this new program will serve as the repository of knowledge on fraud risks and controls, manage the fraud risk assessment process, coordinate antifraud activities, and lead or assist with trainings and other fraud-awareness activities.

The new program will also coordinate antifraud initiatives across the DON, such as implementing activities for preventing, detecting, and responding to fraud; monitoring and evaluation; and facilitating communication with management and stakeholders on fraud related issues. As part of fraud risk management, the program will conduct enterprise-wide fraud risk assessments to gather information. This includes data on fraud schemes and trends from monitoring and detection activities. The program will also design and implement fraud awareness initiatives, reporting mechanisms, and control activities to prevent and detect fraud using data analytics.

Other fraud related initiatives in FY 2019 include:

- The DON implemented policy around segregation of duties (SODs) and also implemented the Cross-Application SOD Conflict Report and Continuous Control Monitoring;
- The Office of the Chief Information Officer (OCIO) is implementing IT controls to prevent and detect theft or collusion surrounding tangible assets;
- OCIO is also implementing IT controls that mitigate the risk of unauthorized access to accounting applications; and
- The Office of Naval Research (ONR) incorporated its Grant and Large Contract Fraud Risk Assessment into their annual MICP Risk Assessment process. ONR focused on grants, reporting there are adequate controls in place to identify duplicate invoice submissions and to ensure that grant recipients are expending the grant funding in accordance within the scope of the grant agreement.

Internal Control Evaluation: ICO

The DON management evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the DON's system of operational internal controls complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved with the exception of the nine MWs reported in the "Operational Material Weaknesses" section. This position on reasonable assurance is within the limits described in the introduction paragraph.

Primary responsibility for Internal Controls over Operations (ICO) execution resides within a network of 18 MAUs:

- CNO;
- CMC;

- Office of the General Counsel (OGC);
- Office of the DON Chief Management Officer (OCMO);
- ASN (RD&A);
- ASN (FM&C);
- ASN (EI&E);
- ASN (M&RA);
- Deputy Under Secretary of the Navy (DUSN);
- Office of the Judge Advocate General (OJAG);
- Naval Inspector General (NAVINSGEN);
- Office of Legislative Affairs (OLA);
- Office of Naval Research (ONR);
- Department of the Navy Assistant for Administration (DON/AA);
- Navy Office of Information (CHINFO);
- Naval Audit Service (NAVAUDSVC);
- Naval Criminal Investigative Service (NCIS); and
- Office of Small Business Programs (OSBP).

Each of the DON's 18 MAUs define the assessable units (AU) within their organization based on those most critical to the organization's mission and strategic objectives. The MAUs executed their internal control process which includes risk assessment, control testing, deficiency identification and subsequent corrective actions, and reporting results in their Certification Statement. These Certification Statements and their supporting enclosures are the primary source documents for the determination of reasonable assurance over the effectiveness of the DON's non-financial operations and processes.

ICO MAU Initiatives

MAUs performed testing on several control areas in the FY 2019 cycle. Examples include:

- **Post-award Contract Process Reviews**. Proper documentation in all end-to-end processes and the ability to validate that the correct information is maintained throughout the process is important for audit, particularly within contracting and budget execution.

  The Commander, Naval Supply Systems Command (NAVSUP) requires Navy Field Contracting System activities to conduct post-award reviews of their contract files to assess performance and identify opportunities for improvement. To facilitate the contract file review process, NAVSUP utilizes a web-based Quality Assurance Self-Assessment Program (QASA) to monitor and track the results. When opportunities for improvement are identified, activities provide training to their work force and/or take corrective action to improve their contracting processes.

- **Data Protection:** In today's environment of constant threats and access to sensitive information, it is critical that DON data is protected and secure. Data spillage and leakage are concerns and can be detrimental to the DON's mission, readiness, and lethality.

  Numerous MAUs across the DON tested their compliance with DoD, DON, and unit policies, completion of required training, and access control to data. Because each MAU is

unique, specific testing areas and methodologies were used to assess MAU risk areas. While most tests passed, continued action needs to be taken to further secure data and restrict data access to authorized individuals; the DON Data Protection MW is currently in remediation.

- **Personnel and Organization Management:** Multiple MAUs across the DON tested compliance with DoD, DON, and unit trainings. MAUs performed tests including: sampling employees to validate that they received required trainings; verifying training notifications were forwarded to employees; and verifying reports were produced by training coordinators to identify employees' training gaps. Based on the tests performed by the MAUs, the controls surrounding mandatory training compliance were properly designed and operating effectively.

Physical Security: Several BSOs performed tests to ensure physical access controls were in place. Tests of effectiveness performed included: verifying test logs for secure areas are performed on a recurring basis; verifying personnel can only access designated areas with the proper CAC authorization; and observing the visitor sign-in process. The tests performed by the activities demonstrated that controls surrounding physical access are properly designed and operating effectively.

Internal Control Evaluation: ICOFR

DON management evaluated the system of financial reporting internal controls in accordance with the guidelines identified earlier. The results indicate the DON's system of internal controls does not comply with the requirement to provide reasonable assurance that the objectives mentioned earlier were achieved due to the 12 MWs reported in the "Financial Reporting Material Weaknesses" section.

The DON's assessment of ICOFR includes the following 17 BSOs as assessable units:

- Navy Bureau of Medicine and Surgery (BUMED);
- Bureau of Navy Personnel (BUPERS);
- Commander, Navy Installations Command (CNIC);
- Field Support Activity (FSA);
- Naval Air Systems Command (NAVAIR);
- Naval Sea Systems Command (NAVSEA);
- Naval Supply Systems Command (NAVSUP);
- Naval Intelligence Activity (NIA);
- Navy Systems Management Activity (NSMA)[1];
- Office of Naval Research (ONR);
- Commander, U.S. Pacific Fleet (PACFLT);
- Commander, Navy Reserve Force (RESFOR);
- Naval Information Warfare Systems Command (NAVWAR);

[1] NSMA provides test results to the classified annex and is not included in the unclassified DON Statement of Assurance (SOA).

- Naval Special Warfare Command (SPECWAR)[2];
- Strategic Systems Programs (SSP);
- U.S. Fleet Forces Command (FFC); and
- U.S. Marine Corps (USMC).

In FY 2019, the DON continued to build upon prior year progress in improving ICOFR, maintaining focus on audit objectives and building a robust internal control program enabling mission success and program sustainability. Internal controls are a cornerstone of the DON's audit remediation program and a key input to its many audit-related initiatives.

The DON's 17 BSOs define the AUs within their organization based on criticality to the BSO's mission and strategic objectives. The BSOs executed their internal control programs and reported results in their certification statement. These certification statements and their supporting enclosures are the primary source documents for the Secretary of the Navy's determination that controls are not in place to provide reasonable assurance over the effectiveness of the DON's financial operations and processes.

In FY 2019, the DON continued its efforts to improve its process documentation. The DON was able to close several NFRs related to deficient Process Cycle Memoranda (PCM). However, the IPA identified other PCMs that require further updates. The DON continues to work with process owners to update PCMs to ensure they contain the content necessary to meet the auditor's expectations.

The DON also continues to evaluate service provider controls through its review of service provider's System and Organization Controls (SOC 1) reports and identify necessary Complementary User Entity Controls (CUEC). The DON is working with process owners' internal lexicon to implement CUECs in its end-to-end processes.

ICOFR DON-Wide Initiatives

In FY 2019, the DON conducted a limited assessment of the design and effectiveness of ICOFR. Following guidance from OUSD(C), the DON evaluated each business process, performed an assessment of the respective controls, and identified the status of ongoing corrective actions. The scope of testing included CIVPAY, MILPAY, and the E&C financial statement assertions for aircraft, satellites and vessels. The DON conducted its internal control testing in accordance with the GAO's Financial Audit Manual (FAM) and Generally Accepted Government Auditing Standards (GAGAS), which require the DON to obtain sufficient evidence to support findings and conclusions.

Based on the control testing performed in FY 2019, the DON noted the following:

- **CIVPAY Summary:** The DON tested CIVPAY controls over time and attendance and personnel actions using a population of new hires and separated employees. In addition, the DON tested CIVPAY reconciliations related to timekeeping, personnel and payroll data, and accounting. CIVPAY controls over the accuracy and timeliness of personnel actions were operating effectively. However, the DON identified design and effectiveness deficiencies for some controls. The DON issued a report to key CIVPAY stakeholders that provides limited assurance and that included recommendations to address these

[2] SPECWAR reports ICOFR and ICOFS through the United States Special Operations Command SOA and is not required to report results to the DON at this time.

deficiencies. The DON will continue to improve the control environment and test key CIVPAY controls in future years.

- **MILPAY Summary**: The DON tested MILPAY controls over personnel actions using a population of new hires and separated service members. In addition, the DON tested MILPAY personnel and payroll data and accounting reconciliations. MILPAY controls over the validity and accuracy of military personnel actions were operating effectively but related accounting controls could be improved. The DON issued a report to key MILPAY stakeholders that provides limited assurance and included recommendations to address these deficiencies. The DON developed an analysis to reassess the ICOFR MILPAY MW to a SD, and will continue to improve the control environment and test key MILPAY controls in future years.

- **Property Plant & Equipment Summary**: The DON tested selected existence and completeness controls over the following major asset classes: aircraft, satellites and vessels. Based on the test work performed, the DON determined the controls were effective, but noted deficiencies in the physical inventory process over aircraft. The DON issued a report to key stakeholders that provides reasonable assurance with recommendations to address deficiencies over aircraft. The DON will continue to improve the control environment.

ICOFR BSO Initiatives

BSOs implemented a variety of test plans and methodologies tailored to the controls being tested. Test plans identified relevant stakeholders, documentation, or transactions to be reviewed, and the mechanisms by which testing would occur. Control gaps included: an inability to locate required documentation; a lack of established policies and procedures to document processes; insufficient maintenance and retention of documents; and untimely approval of financial transactions recorded into the accounting system.

Additional examples of testing initiatives being performed at BSOs include:

- **Reimbursable Work Order (RWO):** Even though an RWO MW exists, multiple BSOs performed RWO testing for both grantor and performer processes.
  - Grantor testing focused on: ensuring the goods and/or services being procured and the period of performance are consistent with limitations of the assigned Treasury account number; and validating funding documents were properly authorized. NAVWAR tested 47 samples each to verify Treasury appropriation information and validate funding document information and, in each case, 47 samples were confirmed.
  - Performer testing focused on verifying that the Authorizing Official was performing adequate reviews to ensure the Performance Work Statement could be delivered as described, and the orders were accepted properly. NAVWAR conducted multiple test in this area and the WCF performer testing had a 100% success rate.

- **Operating Materials and Supplies (OM&S):** Several BSOs executed test plans to validate E&C of their OM&S. NAVWAR performed quarterly testing in this area as part of a book-to-floor inventory. The testing identified items that did not match the official records,

including items not being stored in the correct location and amounts that did not match the official records. Testing through the periods did show improvement in results.

- **Funds Receipt and Distribution:** Several BSOs compared the amounts of funds received recorded in their financial systems to source Funds Allocation Documents. Both NAVSEA and NAVWAR performed testing during the year with 100% success reported.
- **Transportation of People (TOP):** Multiple BSOs performed testing to ensure travel requests include the appropriate data and align with the mission of the Command prior to approval. BSOs also tested to ensure proper segregation of duties; the Field Support Agency conducted quarterly testing with an over 80% success rate. The US Marine Corps conducted testing to validate that approving officials had received required training with positive results.
- **Contract Vendor Pay (CVP):** Several BSOs developed and executed test plans to validate contract/modification data, payment requests, and receipt and acceptance of goods and services. Commands also validated the financial data on contracts and contract modifications with the Bureau of Medicine specifically showing results of over 90%.

Internal Control Evaluation: ICOFS

DON management evaluated ICOFS in accordance with DON Enterprise CIO IT Control Standards; National Institute of Standards and Technology (NIST) 800-53 Rev 4, "Security and Privacy Controls for Federal Information Systems and Organizations," and OMB Circular A-123 guidance. OMB Circular A-123 defines IT controls as both IT General Controls (ITGCs) and Business Process Application Controls (BPACs). ITGCs are the pervasive controls at the IT Infrastructure level. System Owners are responsible for identifying and implementing (at minimum) the key controls as required by DON Enterprise CIO IT Control Standard.

In FY 2018, DON was issued an IT NFR, IT-NFR-2018-Enterprise-001 for the DON's governance over their continuous monitoring program. As a result of this finding, the DON validated key controls that the BSOs and system owners should test during their A-123 ICOFS testing. In the DON's ongoing pursuit of auditability, it is imperative that system owners are continuously validating their internal controls to ensure they are functioning properly so deficiencies are identified and remediated in a timely manner.

The results indicated the DON's system of internal control does not provide reasonable assurance due to the three nonconformance's reported in the "Financial Management Systems Material Weaknesses/ Nonconformance's" section (Appendix D). The DON's assessment of ICOFS includes the 17BSO as assessable units listed in the "Internal Control Evaluation: ICOFR" section.

During the FY 2019 reporting period, the DON made considerable progress toward improving ICOFS. In conjunction with OUSD(C) and service providers, the DON continues to assess relevant financial system security controls. These include security controls applied to systems during the RMF/FM Overlay process to operate within the Navy IT environment and to ensure compliance with the OMB Circular No. A-123, FMFIA and FFMIA, Financial Improvement and Audit Remediation guidance, and NIST 800-53 Rev 4. The following remediation efforts are underway.

ICOFS DON-Wide Initiatives

The DON is conducting two entity-wide ICOFS initiatives: (1) Specifying an IT control governance framework published in the Enterprise IT Control Standards and; (2) maintaining an inventory of financially relevant IT systems and their financial significance. Below are the highlights and focus areas for FY 2019:

- **Financial Management (FM) Overlay:** The DON updated the FM Overlay in FY 2019 to address enterprise-wide MWs on system interfaces. The updates include the addition of interface-related controls and supplemental requirements such as interface control agreements and configuring data filters. The updated Navy FM Overlay was also deployed to the Enterprise Mission Assurance Support System (eMASS) for the implementation and use by system owners.
- **Enterprise Continuous Monitoring Program (ECMP):** The ECMP focuses on assessing the IT control posture of its financially relevant systems. Leveraging the DON's Enterprise IT Control Standards, the ECMP team performed assessments on financially relevant systems to prepare for the transition to RMF and future financial statement audits. In FY 2019, the DON ECMP team assessed the Decision Knowledge Programming for Logistics Analysis and Technical Evaluation (DECKPLATE) system against the DON Enterprise IT Control Standards control families of Audit and Accountability, Access Control, and Configuration Management. The DON ECMP team tested more than 100 controls, which resulted in the creation of additional CAPs for the system. These CAPs will strengthen DECKPLATE's internal control environment within RMF process. 110 controls across the DON IT Control Standards, Federal Information System Controls Audit Manual (FISCAM) areas Security Management, Access Controls, Configuration Management, Segregation of Duties, Interfaces and Contingency Planning were assessed.

Budget Submitting Office/System Owner Initiatives

BSOs and system owners undergo several assessments, validations, and remediation activities for audit response and internal control compliance. Specifically, FY 2019 efforts focused on IT NFR remediation and validation, systems transition to the RMF, and EMCPs, summarized below:

- **IT NFR Remediation and Validation:** The DON works with system stakeholders to understand and identify the root cause of the deficiencies, as well as provide guidance on various NIST and DON IT Control Standards, in the development of CAPs for remediation. DON-wide CAPs are continuously monitored to address deficiency remediation where the root cause affects several systems within the DON IT environment. IT NFR validation provides reasonable assurance that controls designed by system stakeholders address the deficiencies identified by the IPA.
- **Financial Management Improvements to the FM Overlay:** The Overlay was updated to include additional controls and requirements to address enterprise-wide deficiencies. Management is developing a strategy and procedures for the DON roll-out and implementation of the recently released DoD FM Overlay. This Overlay version will be utilized across the entire DoD enterprise and establish an ITGC baseline for all audit-relevant information systems.

- **ICOFS MICP Assessments:** During FY 2019, the DON performed MICP assessments for the two financially relevant systems documented below. The assessment team reviewed the applications' compliance against FISCAM business process application controls, NIST 800-53 Rev 4, and OMB Circular A-123. The DON issued observations for financially relevant systems that were not compliant or only partially compliant with one or more requirements or BPACs. In addition, the DON assessed effectiveness of ITGCs for five MILPAY and CIVPAY systems in the Defense Civilian Personnel Data System (DCPDS); Supervisors Deck (SUPDESK); Defense MilPay Office (DMO); Navy Reserve Order Writing System (NROWS); and Defense Joint Military Pay System-Active Component/Reserve Component (DJMS-AC/RC). While additional applications will be assessed, the following DON system assessments were completed by the end of FY 2019:
    - SUPDESKs' Naval Sea Systems Command (NAVSEA);
    - NROWS Naval Information Warfare Systems Command (NAVWAR);
    - DMO;
    - DJMS-AC/RC; and
    - DCPDS

Service Provider Oversight

The DON provided oversight of third-party shared service providers (SSP) that process, store, and transmit DON financial data. DON enforces oversight by formal written agreements (e.g., Memoranda of Understanding, Memoranda of Working Agreement, Service Level Agreements) that document the roles and responsibilities between the DON and its SSPs.

SSPs may provide reasonable assurance regarding systems, processes, and controls used to support DON operations through SOC 1 assessment reports. Annually, the DON obtains SOC 1 reports to review and document potential risks to ICOFR and ICOFS. The DON's review of SOC 1 reports is in accordance with OMB Circular No. A-123 and demonstrates the risk assessment and monitoring procedures respective to each report, which include:

- Ensuring the SOC 1 report adequately addresses the relevant internal control objectives;
- Determining the extent and adequacy of internal control testing performed on the operating effectiveness of internal controls throughout a specified period;
- Ensuring the SOC 1 report covers a substantial portion of the fiscal year and bridge or roll forward letters are considered;
- Reviewing the SOC 1 report opinion and determining what impact any internal control deficiencies included in the report have on the related control objectives;
- Evaluating CUECs included in the report to determine that the appropriate controls are in place to support the activities of the service provider;
- Considering Complementary Subservice Organization Controls included in the SOC 1 report and the effectiveness of controls at Subservice Organizations (SSOs).

As part of the FY 2019 evaluation process, the DON reviewed twenty SOC 1 reports. All SOC 1 reports received unmodified audit opinions except four. Three SOC 1 reports from DFAS (Financial Reporting, Transaction Distribution, and Vendor Pay) and one SOC 1 report from Army (Munitions Inventory Management) received modified audit opinions. These services had internal control

exceptions that significantly affected the reliability of the SOC 1 report. Thus, the DON will need to collaborate with process owners in FY 2020 to assess the potential impacts to the DON's end-to-end business processes and mitigate risks related to SSP control exceptions.

As SOC 1 reporting matures, the DON and its independent auditor will determine whether they will rely on SOC 1 reports for use in the financial statement audits. To rely on SOC 1 reports, the DON may be required to design, implement, and monitor the operating effectiveness of CUECs. As such, ITGC CUECs are documented in the DON CUEC Guidebooks, which reflect the system components and overall IT controls performed by DON BSOs. PCMs are updated to document process-level CUECs and reflect the alignment to existing control points, as applicable. The DON's FY 2019 process-level CUEC testing focused on systems associated with the CIVPAY and MILPAY business processes (i.e., Defense Civilian Pay System (DCPS), DCPDS, DMO and DJMS). To date, the DON has tested ITGC CUECs for access controls, configuration management, and security management at applicable BSOs for three third-party SSP systems.

Audit Remediation Program

The Audit Remediation Division provides centralized program management over DON financial NFR tracking, remediation, and reporting. The Division's corrective action plan (CAP) coaches guide SAO and AO through corrective action plan design and implementation to ensure effective and sustainable remediation. During FY 2019, the Evaluate, Prioritize and Remediate (EPR) program processes matured to a stable, standard set of practices that govern all aspects of remediation efforts, including auditor coordination and NFR response, SAO assignment, SAO and AO training, CAP design and implementation, CAP validation, and CAP reporting. The EPR program also improved or implemented the following procedures:

- Enhanced the NFR response process to fully engage end-to-end business process owners across the DON in assessing the factual accuracy, specificity, and actionability of NFRs;
- Continued to develop and test a robust online deficiency and CAP development and tracking tool to enable greater visibility and coordination of deficiency remediation across the DON;
- Progressively rolled out the NFR remediation status reporting methodology and tools across the DON, resulting in greater consistency and comprehension among DON leadership and stakeholders in all reporting forums; and
- Assisted leadership updates to three governance committees monthly, including the Audit Committee, the SMC and the SAT. EPR also coordinates the DON response to monthly Department of Defense data calls on NFR remediation progress.

Following the publication of the distribution of the DON BOP in October 2018, the Secretary of the Navy signed a memorandum entitled "Secretary of the Navy Strategic Guidance for Audit Remediation Efforts." The BOP prioritizes correcting root causes identified during the audit quickly. To support this effort, the memorandum identified six areas as enterprise-wide priorities for remediation and established charter teams under the ASN (FM&C) to address the following areas: Business Systems Consolidation, Financial Reporting, Fund Balance with Treasury, Inventory and Operating Materials and Supplies (OM&S), Real Property, Budgetary Reform and ITGCs. These charter teams report directly to the ASN (FM&C) for weekly meetings to provide updates on progress.

The following defines the six priority areas and their respective scope:

- **Business System Consolidation:** The DON is undergoing a system consolidation effort to reduce the number of accounting systems from several to two (Navy ERP and SABRS), with a desired end state of one accounting system (DON ERP) by FY 2022. This effort will also improve financial management functionality in DON ERP.
- **Fund Balance with Treasury & Financial Reporting:** The DON will move to one standardized general ledger accounting system to streamline and standardize reconciliation processes (including those with Treasury), conduct analytics, produce financial statements, footnotes, and required disclosures. The DON will also implement and utilize Treasury Direct Disbursing (TDD) for all disbursement and collection activities and the development of a revised FBwT reconciliation process utilizing Treasury tools and data.
- **Inventory and OM&S:** The DON will implement and standardize policies and procedures, including monitoring controls, to properly manage and account for item quantity, condition, and location through repeatable processes that can sustain a complete and accurate balance. The effort will focus on establishing strong internal controls through the issuance of policies and procedures and implementation of system changes that will aid in sustaining baseline inventory and valuation balances.
- **Real Property:** The DON will establish a baseline for existence, completeness, rights and obligations, and valuation (including placed in service dates, useful life, and validation of inputs and assumptions) for all Real Property assets. The DON will implement sustainment controls, policies, and processes for acquisitions (including construction in progress, transfers, and donations), dispositions, and periodic inventory.
- **Budgetary Reform:** The DON will improve the transparency and accountability of traditional budgetary processes. To accomplish this, the DON will improve expenditure efficiency and transparency of funds (Process to Improve Expenditure Efficiency (PIEE)), implement Zero Based Budgeting (ZBB), reduce the use of reimbursable agreements and eliminate cross disbursing using Intra-governmental Payment and Collection (IPAC) and implement G-Invoicing and improve the functionality to optimize DON ERP.
- **ITGCs:** The DON will formalize a risk management and internal controls framework where ITGCs and business process controls are in place and operating effectively to increase, tighten and centralize oversight across the DON to ensure confidentiality, integrity and availability of IT systems and data.

The DON developed end-to-end remediation plans for each of the priorities identified in the DON's BOP. Previously reported MWs and significant deficiencies are now addressed by these broader, more integrated remediation plans which are currently underway. Deficiencies were realigned to the corresponding audit priority plans and are presented as MWs in the FY 2019 SOA.

FY 2019 DON MWs Overview

In FY 2019, the DON reassessed and consolidated previously reported MWs and significant deficiencies. The consolidations and realignments are part of the ASN (FM&C) leadership's vision to organize deficiencies around the DON's audit priorities and to better identify root causes of DON-wide deficiencies.

ICO MWs and significant deficiencies are captured in the "Operation Material Weakness" section (pp. 29-50). Consolidated ICOFR MWs are captured in the "Financial Reporting Material Weaknesses" section (pp. 51-69). ICOFS MWs are captured in the "Financial Systems Material Weaknesses" section (pp. 70-74).

Additionally, The DON conducted root-cause analysis on other deficiencies not aligned to audit priorities. The analysis resulted in realigning and consolidating certain deficiencies to ensure full remediation of underlying root causes. See Table 1 on page 2.

The following describes certain MWs that were reassessed or downgraded in FY 2019:

Retention of Transportation Documents Reassessed: The DON reviewed and documented the materiality of the DONs Transportation of Things (ToT) FY 2018 activities. Retention of Transportation Documents MWs (2013-02-ICOFR-MW) in the "Financial Reporting Material Weaknesses" section (p. 68), was reassessed from a MW to a control deficiency.

FMO calculated performance materiality for the General Fund (GF) and DON Working Capital Fund (WCF); the GF and WCF ToT activity for FY 2018 were also calculated. Since ToT activity fell below the performance materiality threshold, the 2013-02-ICOFR-MW was reassessed to a control deficiency.

MILPAY Reassessed: The MILPAY MWs cited a need for improved internal controls to facilitate timely, accurate and properly supported pay and personnel transactions. BUPERS completed corrective actions to address the conditions cited, including:

- Updated MILPAY Standard Operating Procedures to assign roles and responsibilities;
- Revised the oversight and compliance framework for MILPAY functions; and
- Implemented new document retention requirements and standards for MILPAY records.

In FY 2019, the DON tested the design, implementation and operating effectiveness of 15 MILPAY internal controls. While the DON noted some internal control deficiencies, the deficiencies do not rise to the level of a MW.

As part of a review performed in FY 2019, the DON's IPA did not identify a MW associated with MILPAY in the November 2018 audit report. As a result of the implemented corrective actions, the DON reassessed MILPAY and Personnel MW (2015-03-ICOFR-MW) in the "Financial Reporting Material Weakness" section (pp. 66) from a MW to a Significant Deficiency.

Surface Force Incidents Reassessed: Following a tragic increase in surface fleet incidents in the first eight months of FY 2017, the CNO directed a Comprehensive Review (CR) in August 2017 to examine surface fleet operations and incidents at sea that have occurred over the past decade. The Secretary of the Navy initiated an independent Strategic Readiness Review (SRR) in September 2017 to complement the CR; root causes were identified focusing on the culture of operational risk management, training, and department organization.

The Readiness Reform and Oversight Council was established in January 2018 to oversee reforms across the Navy, and has since implemented over 100 recommendations identified through the CR, the SRR, and selected reports by the Government Accountability Office. These accomplishments

have ensured Navy ships are safely operating and have laid a solid foundation for effective operations in future training and mission tasking.

As a result of these accomplishments, the threat to the Navy's mission, resources, and image have all been significantly reduced. As such, the DON has reassessed the Surface Force Incidents MW (2018-01-ICO-MW) in the "Operational Material Weaknesses" section (pp. 50) from a MW to a control deficiency.

Validation

Before an MW or SD is closed or downgraded by the SAT and SMC, the SAO must provide evidentiary artifacts to the DON MICP Office and EPR Program that demonstrate remediation has been accomplished. The MW or SD may then be reviewed by the Naval Audit Service, or the IPA for final validation, depending on the severity of the deficiency. The closure or downgrade recommendation is then discussed by the SAT and SMC, which determine whether further evidence is required to prove the assertion, or whether the deficiency can be closed or downgraded.

Antideficiency Act Violations

The DON reported one Antideficiency Act (ADA) violation for FY 2019. N17-01 (Berry Amendment) was submitted to Congress on 07 May 2019.

Overall Assessment of Internal Control

Basis for Assessment

- **Control Environment:** The DON has established a governance process designed to strengthen tone-at-the-top and management commitment. Guidance, training, and other communications are building a strong foundation for the MICP community and stakeholders across the organization. The results of the DON's ELC assessment further shows that entity-wide controls supporting the DON's control environment are in place and operating effectively. More specifically, MAU responses confirmed the DON has established a tone-at-the-top on ethical values and standards of conduct.

  Risk Assessment: The DON is developing its programs and governance to implement a framework that comprehensively reviews risk assessments across the organization; this will determine the Department's risk profile and drive management decisions. MAU responses obtained in the DON's ELC assessment indicate the need to strengthen controls surrounding defining risk tolerances and responses to risk. The DON has developed an Integrated Risk Management (IRM) Strategy that lays the foundation required to accomplish a culture of agility and respond to risk. The DON's IRM will provide risk transparency and early identification of future readiness concerns. Additionally, the DON has established a fraud risk and data analytics program that will serve as the repository of knowledge on fraud risks and controls, manage the fraud risk assessment process, coordinate antifraud activities, and lead or assist with trainings and other fraud-awareness activities.

- **Control Activities:** The DON recognizes the identification, execution, and assessment of control activities require significant improvement, as demonstrated by the DON's portfolio of MWs. The results of the DON's ELC assessment demonstrates the need to strengthen

control activities across the DON. This component of internal control contained the highest percentage of MAU responses that indicated a lack of controls. The DON will further analyze the results of the ELC assessment and coordinate with applicable process owners to develop and monitor existing corrective actions related to MWs (i.e., Information Systems Access Controls/SODs. Using the survey as a tool to conduct assessments in subsequent years will inform DON senior leadership on ELC program trends and progress with corrective actions.

- **Information and Communication:** The DON will continue to improve its comprehensive assessment of reported information through the established oversight committees to inform measurements of priorities and mission objectives. The DON is providing from senior leaders through MICP coordinators using monthly meetings, guidance, training, and outreach. However, the DON's assessment of ELC survey results indicate the need to distribute reportable metrics throughout the organization, supporting regular assessments and progress against strategic goals. The DON will further analyze the results of the ELC assessment and coordinate with applicable process owners to ensure necessary measures are put into place to oversee the dissemination of information throughout the organization.

- **Monitoring:** The DON has designed and implemented a governance framework for monitoring key business and IT system initiatives through the Audit Committee, SMC, SAT, and Financial Information Systems Working Group. Additionally, the DON has designed internal controls over key financial reporting and budgeting processes to monitor compliance with regulatory and financial requirements. The results of the DON's assessment of ELCs further supports that the DON has established activities to monitor the internal control system and remediate identified internal control deficiencies on a timely basis. However, MAU responses also indicate potential areas for improvement related to ongoing monitoring of the design and operating effectiveness of the internal control system. The DON will continue to assess this area and strengthen control activities through MICP initiatives. Additional tests of operating effectiveness and analysis will be conducted over Monitoring control activities in FY 2020.

- **Overall Evaluation**: As evidenced by the portfolio of MWs, there is significant remediation required across the DON; however, the overall system of controls will improve as the DON MICP and the initiatives described above continue to mature. The DON is confident that the continued improvement in each of the internal control elements will result in an overall system of internal controls that is operating effectively. The DON's ELC assessment program will monitor the progress of corrective actions and inform DON leadership on the status of the ELC environment.

FY 2019 Significant Accomplishments

Budget Reform

Title of Accomplishment
Budget Reform
Description of Issue
The DON is committed to moving its funds to where they will be executed. To accomplish this, the DON is working on improving its budget process to align with the National Defense Strategy, improve management of funds, and reducing expenditure of funds through reimbursable agreements.
Description of Accomplishment
The DON is successfully improving the transparency and visibility of funds by implementing the tracking of de-obligations after expiration to identify trends and common issues (i.e., Process to Improve Expenditure Efficiency (PIEE) effort) and developing a Zero-Based Budget (ZBB) approach to attempt to strengthen the link between strategic documents and how funds are spent. The following accomplishments have been implemented for PIEE and ZBB efforts: (PIEE) • Published guidance requiring monthly BSO reporting of de-obligations after expiration • Posted monthly DD1002 de-obligation report and BSO response data to PBISweb • Created Monthly Executive Dashboard to provide FM leadership access to the status of DON summary de-obligations and BSO explanations • Automated a PIEE tool which serves as a repository and generator of automated reports and charts for data analysis • Established a transactional report using NBIS to ERP BSOs, to assist in the completion of the data call after the month end close-out. (ZBB) • Investment Review: ASN(RD&A) reviewed all DON investment funding, which included over 1,200 lines of budget data and $70B (FY 2020)/$366B (FY 2020-FY 2024 FYDP). This review looked at funds flow, testing and procurement efficiencies, and potential opportunities to accelerate, reduce, or terminate programs to maximize effectiveness of acquisition resources. In addition, ASN (FM&C) supported the investment review process within FMB2 division. To support the investment review process, FMB2 analysts assembled 10 years of DON investment budget execution data, by appropriation and line item, from DD1002 execution reports. Collected information for each line item included 1st year obligation or expenditure (for RDTEN) data, and obligations/expenditure data at the start of their expiration period. Computed were historical execution averages (10-year average, 5-year average, and a 5 year weighted average that weighs most current execution more heavily). This created for FMB2 leadership (and each FMB analyst) a single historic snapshot by line item for the entire investment portfolio. This review identified at least 20 PEO or MDAP errors within PBIS database. Additionally, the 10-yr execution analysis will be used for the DON 21 investment appropriations execution review and summer budget review.

- O&M Reviews: ASN (FM&C) reviewed over 50 line items of O&M funding with the 7 largest BSOs (NAVSEA, NAVAIR, NAVWAR, FFC, PACFLT, CNIC, USMC) worth $56B (FY 2021)/$232B (FY 2021-FY 2025 FYDP). Briefs and analysis will continue for remaining BSOs during FMB's summer budget review.

- POM21 Review: Programmers tagged funding to the NDS. N80 and FMB issued guidance to tag results of the ZBB review in PBIS; tagging is also aligned to OUSD(C) reform categories. To date, programmers have realigned over $64B in FY 2021-FY 2025 FYDP as part of POM21. Reviews and data tagging will continue through completion of the POM and FMB's summer budget review.

Operating Material & Supplies/Inventory

Title of Accomplishment
Operating Material & Supplies/Inventory - Increased material visibility and readiness
Description of Issue
Decentralized organizational constructs, a complex IT environment and operational infrastructure pose challenges in ensuring appropriate accountability and Navy-wide visibility into the inventory of material purchased and managed by the Navy.
Description of Accomplishment
The Navy has undertaken a comprehensive effort to begin to identify and properly account for all Navy material in order to ensure proper accountability and Navy-wide visibility. The effort is focused on identifying all Navy material, properly classifying, and determining the appropriate disposition of the material found – either for entry into Navy-wide system for global visibility for disposal through Defense Logistics Agency (DLA). Efforts are underway at select Navy sites with Department-wide roll out scheduled for Quarter 1 of FY 2020. To date, the Navy has identified $504 million worth of material in shadow inventory thereby: • Adding $167 million to the Navy supply chain thus providing Department-wide visibility. • Filling over 3,400 requisitions worth $36.6 million with material found. • Screening a further $337 million worth of material for either disposal or future use. Specifically in support of aviation readiness (and included in the totals above) the Navy has: • Filled 188 Issue Priority Group-1 requisitions. • Added 243 parts to the supply system in support of future use.

Cross Application SOD Assessment

Title of Accomplishment
Cross Application SOD Assessment
Description of Issue
Segregation of duties conflicts across financially significant applications were not identified or considered when provisioning access.
Description of Accomplishment
In FY 2019, the FMP initiated an assessment of 30 financially significant DON applications. This assessment included: confirming systems to target; obtaining and reviewing user role extracts and role definitions; mapping roles to business functions; identifying users with access to multiple systems; and identifying potential cross application SOD conflicts based on users with roles in more than one system. For this assessment, an analysis was performed to identify users with access to multiple systems. Of the 30 financially significant applications assessed, 17 were selected for analysis based on risk, financial materiality and presence of audit findings. The team mapped system roles for selected systems to function IDs in order to determine which users had potential cross application SOD conflicts. A cross application SOD conflict report was generated for all 17 applications. Navy ERP was the first system to review their cross application SOD conflict report on 1/30/2019 with SYSCOMs including: NAVSUP; NAVSEA; NAVAIR; NAVWAR and System Owners from Standard Procurement System (SPS) NAVWAR, Standard Labor Data Collection and Distribution Application (SLDCADA); Fund Administration and Standardized Document Automation (FASTDATA); SPS NAVFAC; SPS NAVSUP; and SPS NAVSEA. Navy ERP Cross Application SOD Effort: • Assisted in remediation activities by creating a cross application SOD conflict report and accompanying analysis for systems with FY 2017/FY 2018 Cross Application SOD NFRs. • Analyzed initial Navy ERP user list of 69,821 users and removed 69,738 users with BASIC access, display only users, users without access to other systems, and users without cross application SODs, to come to a population of 83 users with potential cross application SODs. • Created Navy ERP Conflict Report with 184 potential cross application SOD conflicts with 83 users to be used by relevant organizational managers. • Refined Navy ERP Conflict Report with cross application SODs from the original list of 83 users on 1/30/2019, to 21 users on 4/17/2019, to a final count of four users on 5/22/2019. Refinement was made during validation of 83 users with applicable Navy SYSCOMs and System Owners, which included reviewing user role mapping to function IDs to ensure conflicts were mapped to correct roles. • Enabled creation of an automated SOD tool that allows time-consuming and labor-intensive reviews of large user lists to be automated - streamlining the cumbersome review of user lists and mapping of roles to function IDs to determine potential cross application SODs. Labor-intensive tasks saved with the use of the automated tool include compiling user lists and running a decentralized python script to create a conflict report. With the automated tool,

once a user report of the 17 systems is uploaded into the tool, an output of a conflict report for that system could take as little as five minutes. Previously, this task could take days or weeks to compile and cleanse user reports, run a script, and map system user roles to function IDs.

- Collected and obtained evidence for 21 newly identified users with potential cross application SODs. Documented concurrence of conflicts identified from SYSCOMs and System Owners.

- Reduced population from 21 users to four users with potential cross application SODs, which facilitated high-risk users being potential candidates for Access Violation Management (AVM) – which automates SOD controls monitoring through SAP. The analysis of the Navy ERP Conflict Report provides a baseline for future cross application SOD analysis.

Real Property

Title of Accomplishment
Real Property Existence and Completeness
Description of Issue
The Navy's independent auditor found issues with the existence and completeness of Real Property during their audit. The IPA noted the DON does not have adequate procedures to verify the existence and completeness of financially reportable buildings and structures recorded in the Navy's Accountable Property System of Record (APSR), the internet Navy Facility Asset Data Store (iNFADS).
Description of Accomplishment
During FY 2019, the Navy revised policies including guidance to record all assets on a Navy installation in the Navy's ASPR regardless of ownership, apply asset tags and location information, and establish an accountability threshold of $15,000. The Navy delivered training to 450 field personnel on the new policies and the fence-to-fence inventory procedures to be executed by March 31, 2019. In November 2018, the Navy began a five-month complete floor-to-book and book-to-floor physical inventory of all accountable real property assets on Navy installations. In total, over 115,000 real property assets at 71 locations were validated and approximately 5,900 existence, 7,600 completeness and 6,100 data errors were detected and corrected in the APSR. Some of the assets lost and found during the inventory were a direct result of policy changes. The results of the physical inventory identified an error rate of 17%. Correcting these errors improved the completeness, existence, and accuracy of the Navy's balance sheet for General Property Plant & Equipment (PP&E). At the completion of the fence-to-fence inventory the Installation Commanding Officer certified completion of the effort and corrections to the APSR. At the conclusion of the physical inventory, the Navy conducted a root cause analysis of the Navy identified errors and any potential exceptions noted by the IPA. The root cause identified a lack of detailed roles and responsibilities for acquisition and disposal activities, a need to define the process for utilities asset identification and management, and additional training for new policies and procedures. The IPA testing during FY 2019 confirmed correcting the E&C/MW for major asset classes with minor exceptions.

Material Weaknesses and Corrective Action Plans

Operational Material Weaknesses

The following table lists the MWs and two significant deficiencies in ICO incorporates changes from the weaknesses reported in the FY 2018 DON SOA.

	Effectiveness of Internal Controls over Operations (FMFIA Section 2)						
	Statement of Assurance: Modified Assurance						
Reporting Category	**FY 2019 Beginning Balance**	**New**	**Re-categorized**	**Resolved**	**Downgraded**	**Reassessed**	**FY 2019 Ending Balance**
Comptroller and Resource Management	1	-	-	-	-	-	1
Contract Administration	1	-	-	-	-	-	1
Security	1	-	(1)	-	-	-	-
Manufacturing, Maintenance, and Repair	1	-	(1)	-	-	-	-
Personnel and Organizational Management	2	-	-	-	-	-	2
Force Readiness	1	-	-	-	-	(1)	-
Information Technology	1	-	-	-	-	-	1
Multiple Reporting Categories	1	-	3*	-	-	-	4
Total ICO MWs	**9**	-	1	-	-	(1)	**9**

*Count includes MW previously included as ICOFR MW in 2018 SOA.

	Effectiveness of Internal Controls over Operations (FMFIA Section 2)						
	Statement of Assurance: Modified Assurance						
Reporting Category	**FY 2019 Beginning Balance**	**New**	**Re-categorized**	**Resolved**	**Downgraded**	**Reassessed**	**FY 2019 Ending Balance**
Acquisitions	1	-	-	-	-	-	1
Security	1	-	-	-	-	-	1
Total ICO Significant Deficiencies	**2**	-	-	-	-	-	**2**

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	**Title of Material Weakness**	**First Year Reported**	**FY 2018 Targeted Correction Date**	**Revised Targeted Correction Date**	**Page #**
Multiple	Depot Level Maintenance	FY 2016	Q4 FY 2020	Q3 FY 2025	31
Personnel and Organizational Management	Military Pay and Personnel	FY 2016	Q1 FY 2023	Q1 FY 2023	35
Comptroller and Resource Management	DON Oversight and Management of Improper Payments	FY 2015	Q1 FY 2019	Q2 FY 2020	37
Contract Administration	Execution of Husbanding Contracts – Husbanding Service Providers	FY 2016	Q2 FY 2019	Q1 FY 2022	39
Multiple	Data Protection	FY 2017	Q1 FY 2020	Q1 FY 2020	41
Information Technology	Complex Business IT Environment	FY 2018	Q4 FY 2020	Q1 FY 2022	42
Multiple	Property in the Possession of Contractors	FY 2018	Q3 FY 2021	Q4 FY 2021	43
Personnel and Organizational Management	Submission of Criminal Subject Fingerprint Cards and Reporting Disposition of Criminal Charges	FY 2018	Q3 FY 2020	Q3 FY 2021	44
Multiple	Oversight and Monitoring	FY 2016	Q4 FY 2019	Q4 FY 2020	45

Uncorrected Significant Deficiencies Identified During Prior Periods					
Internal Control Reporting Category	**Title of Material Weakness**	**First Year Reported**	**FY 2018 Targeted Correction Date**	**Revised Targeted Correction Date**	**Page #**
Acquisitions	Hazardous Noise	FY 2017	Q1 FY 2022	Q1 FY 2022	48
Security	Protection of Controlled Unclassified Information	FY 2017	Q3 FY 2020	Q3 FY 2020	49

Material Weaknesses Reassessed During the Period			
Internal Control Reporting Category	**Title of Material Weakness**	**Targeted Correction Year**	**Page #**
Force Readiness	Surface Force Incidents	FY 2020	50

Uncorrected Material Weaknesses Identified During Prior Periods

Title of Material Weakness	
Depot Level Maintenance (2016-01-ICO-MW)	
Description of Material Weakness	
Ship Depot Maintenance (SDM): Multiple audits and studies identified a wide range of control issues that cumulatively create a MW in SDM budgeting. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance. Navy has over-executed the enacted SDM budget (Budget Line Item 1B4B) every year for seven consecutive years by a total of $5.7B, including $629M in FY 2016, requiring annual reprogramming or supplemental funding requests to Congress. This over-execution of funding has been accompanied by longer than expected depot maintenance durations, increased overhead costs, and reduced operational availability. Aircraft Depot Maintenance (ADM): Multiple audits and studies identified a wide range of control issues that cumulatively create MWs in ADM budgeting. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance. FY 2017 and prior year losses have been incurred due to unplanned increases in maintenance costs. Internal reviews have identified planned throughput as exceeding available capacity and deficiencies in Workload Standards (WLS) that do not accurately capture the required amount of repair.	
Internal Control Reporting Category	
Manufacturing, Maintenance, and Repair, Comptroller and Resource Management	
Targeted Correction Date	
Q3 FY 2025	
CAP Milestones	**Status**
Ship Depot Maintenance (SDM)	
Identified Obstacles to Execution Performance. NAVSEA completed execution and planning summits in FY 2017 and FY 2019 to identify and address obstacles to improve delivery of ships and submarines. Subsequently Navy identified a range of efforts to improve processes to facilitate on-time performance. All MAUs associated with the SDM budgeting MW attended these summits to provide input to changes.	Completed
Identified variance between Execution Year Guidance (EYG) and President's Budget and develop mitigations. The Office of the Chief of Naval Operations (OPNAV), with the assistance of NAVSEA, will identify differentials in EYG relative to President's Budget (PB), and the basis of the differences. Fleets, OPNAV and NAVSEA will review the causes for growth to identify necessary refinements to the Planning, Programming, or Budgeting process.	Completed

Established President's Budget as the baseline for execution year variance tracking. Navy Financial Management and Budget (FMB) has revised OPNAVINST 7130.8, "Guidance for the Execution of Funds for Ship Maintenance," to direct the use of the OP-30S exhibits provided in support of the President's Budget. For example PB18 for FY 2018 inductions, as the baseline for execution year variance tracking. All changes will be communicated by the BSOs as changes from the OP-30S baseline and documented within variance tracking tools as directed in the revised OPNAVINST 7130.8.	Completed
Conducted Senior Leader Quarterly Execution Reviews Previously, review of ship depot maintenance occurred in the Ship Maintenance Executive Council forum and the Fleet Commanders Readiness Council. In 2018, Navy initiated Performance to Plan (P2P) to drive improvement through analytics-based metrics. This forum is chaired by the Vice Chief of Naval Operations (VCNO), is focused on readiness, with emphasis on maintenance issues. Three separate P2P initiatives address aspects of ship depot maintenance. The surface P2P forum addresses workload planning, cost, and duration forecasting, as well as type commander lines of effort. The undersea enterprise P2P addresses supply constraints to Submarine, Nuclear Powered (SSN) surge readiness as well as depot maintenance throughput, and the Naval Shipyards P2P will address capacity and throughput.	Completed
Improve Planning to Programming Accuracy. Studies conducted during FY 2016 and FY 2017 identified that input parameters used in the development of Ship Depot Maintenance requirements are outdated or inaccurate to actual performance, specifically notional workloads for CNO availabilities and programming risk factors. In February 2017, NAVSEA hosted a planning summit to determine causes and corrective actions for these inaccuracies. NAVSEA updated notional work cost via technical foundation papers and continues to review return data for identification of trends in class maintenance plans. For Program Objective Memorandum (POM) 20, NAVSEA adopted a programming adjustment using an algorithm to calculate the projected end cost, vice the previous programming factor which was determined by more intuitive means. Based on current progress, improved planning is anticipated to be completed and implemented in association with POM20/ FY 2020 budget development. Analysis of the impact of these improved planning factors will not be fully accomplished until the completion of work initiated in FY 2020.	Q3 FY 2020

Integrated Depot Maintenance in AUs MICP. Stakeholder AUs (U.S. Fleet Forces Command (USFF), U.S. Pacific Fleet (PACFLT), NAVSEA) will ensure depot maintenance internal controls are incorporated into their local ICO programs and included in their annual certification statement submission to CNO. In addition to identifying controls aligned to the ship depot maintenance plan in the President's Budget and supporting documentation, as modified by Congress, key echelon II/III stakeholders in the SDM MW (USFF, PACFLT, NAVSEA, U.S. Navy Type Commands [TYCOMs]) will formalize and institutionalize the lessons learned from P2P efforts and the planning and execution summits into internal controls.	Completed
SDM MIC Reviews. OPNAV, in conjunction with fleets, NAVSEA and FMB will establish a program of periodic visits to maintenance management and maintenance execution activities to review progress towards milestones discussed above, including reviews of internal controls and testing.	Q1 FY 2022
Formalize Budget Decisions. OPNAV, in coordination with FMB, will formally document results of financial decisions resolved during POM and DON budget development. This documentation will be used by subordinate AUs as a baseline for ship depot maintenance resource allocation and for testing of internal controls of expenditures from the SDM account (BLI 1B4B). Initial guidance will apply to PB/FY 2021 decisions submitted to Congress in Q1 FY 2020.	Q3 FY 2020
Enhancement of maintenance model for planning, analysis, and budget development. a. To promote consistency, OPNAV will make modifications to the ship maintenance model to facilitate subordinate activity use of model inputs with appropriate controls and provide direction on appropriate use. b. OPNAV will develop a strategy to integrate the legacy ship maintenance model to a contemporary modelling functionality and environment, leveraging existing corporate efforts where feasible.	Q2 FY 2020
Provide Updated Guidance on Use of Ship Depot Maintenance Funding OPNAV, in coordination with FMB, with input from BSOs, will provide updated guidance on the use of maintenance related Operations and Maintenance, Navy (OMN) accounts to clarify authorized ship depot maintenance expenses and to promote auditability. Initial guidance will apply to PB/FY 2021 decisions submitted to Congress in Q1 FY 2020.	Q3 FY 2020
Continue Quarterly Execution Reviews pending completion of all scheduled FY 2022 Shipyard Depot Maintenance periods. Reviews will be conducted through P2P forum or successor forums.	Q3 FY 2025
Conduct validation efforts commencing in FY 2025.	Q3 FY 2025

ADM	
Established President's Budget as the baseline for execution year variance tracking. ADM utilizes the PB-61 exhibit to identify Type Model Series (TMS), repair cost estimate and repair source. This exhibit is used as a baseline for execution year variance tracking for ADM. The CHINO tracks airframe events. The Execution Year Engine Schedule (EYES) tracks the engine events.	Completed
Integrated Depot Maintenance in AUs MICP. NAVAIR will ensure depot maintenance considerations are incorporated into the local MICP and included in their annual certification statement submission to CNO.	Completed
Conducted Senior Leader Quarterly Execution Reviews. An Aviation Readiness Executive Council was established Q1 FY 2018 to address challenges with aviation readiness, including ADM. This function was changed to the Naval Aviation Enterprise (NAE) P2P in Q4 FY 2018.	Completed
Semiannual Workload Planning Reviews. Since 2015, Commander, Fleet Readiness Center (COMFRC)/NAVAIR /Commander, Naval Air Force Atlantic have initiated semiannual Workload Planning reviews to improve the accuracy of planned requirements for the upcoming execution year plus one. This also aligns COMFRC resource planning to the anticipated fleet demand. ADM stakeholders will expand scope of reviews to include execution year plus two to provide for improved synchronization with Planning, Performance, Budget (PPB) phases of Planning, Performance, Budget, and Execution (PPBE) process.	Completed
Improved Planning to Programming Accuracy. Multiple reviews and deep dives conducted during FY 2016 and FY 2017 identified that input parameters used in the development of ADM requirements are outdated or inaccurate to actual execution performance, specifically quantities of aircraft required vs. execution and Workload Standards (WLS). Several initiatives are underway to better align the planned aircraft requirements in the budget with execution and to improve the WLS development process and tracking of execution at the Fleet Readiness Centers (FRCs). Based on current progress, improved planning is anticipated to be completed and implemented in association with POM20 budget development. Preliminary assessments will be conducted in FY 2018 based on prior year execution.	Completed
Draft Standard Operating Procedures (SOP) detailing the budgeting process for ADM.	Q2 FY 2020

Title of Material Weakness
Military Pay and Personnel (Operations) (2016-02-ICO-MW)
Description of Material Weakness
The Navy's Manpower Personnel Training and Education (MPT&E) enterprise needs to meet the future needs of the Fleet and Sailors and to mitigate the threat to the Navy's ability to execute future missions vital to national security. Specifically, MPT&E needs to evolve and overcome the following challenges: • An antiquated industrial age service model – including 63 geographically-separated brick and mortar points of entry for Sailors to military Human Resource (HR) services, inconsistent service quality across many locations, limited hours of customer support and lack of visibility of workflow for HR actions. • Lack of timely, searchable, authoritative data – including multiple databases with no application programing interface, data structures that do not reflect analytics needs, and inconsistent analytic capability across the MPT&E Enterprise. • Outdated, duplicative and non-integrated HR and pay systems – including separated personnel and pay capabilities that are not auditable, require many manual workarounds, aging technologies, outdated security and no automation of HR business and pay functions. • Unsustainable HR workforce and infrastructure –supports antiquated manual processes requiring costly "touch labor" and reducing availability for Fleet readiness activities. • Lack of enterprise level data and analytics in order to address fleet manning and readiness issues.
Internal Control Reporting Category
Personnel and Organizational Management
Targeted Correction Date
Q1 FY 2023

CAP Milestones	Status
CNO approval of MPT&E Operating Model.	Completed
Chief of Naval Personnel (CNP) approval of MPT&E Transformation Concept of Operations (CONOPS).	Completed
Naval Education and Training Command (NETC) N3 Street to Fleet Organization Stand-up completed.	Completed
Single Point of Entry (SPOE) Initial Operational Capability (IOC) – My Navy Portal launched.	Completed
CNP approval of A and B level specifications for future state MPT&E Enterprise.	Completed
Talent Acquisition Operations Center Proof of Concept completed.	Completed
Navy Personnel and Pay (NP2) Proof of Concept Completed.	Completed
Established an Authoritative Data Environment 1.5 to enable enterprise level descriptive analytics and reporting capability: will improve data quality and reporting timing across MPT&E enterprise.	Completed
Launched MyNavy Career Center (MNCC): Beta includes self-service, inquiry resolution, shared service capabilities, and transactional HR and pay support to Sailors.	Completed
Establish an Application Programming Interface (API) for authoritative Navy Personnel data and tools to enable a predictive analytics capability to support functional level decisions across MPT&E enterprise.	Q1 FY 2020

IOC: MyNavy Career Center: Includes a modern telephony system integrated with a modern Customer Relations Management system to enable a modern four-tiered service delivery model.	Q1 FY 2020
Establish a core suite of MPT&E Systems, including the implementation of an auditable Commercial off-the-Shelf (COTS) NP2 capability implementing Treasury Direct Deposit. Development of functionality supports Operating Model capability deployments, eliminates dependency on DJMS, and reduces audit risk. The target for NP2 initial operating capability is Q1 FY 2021.	Q1 FY 2021
Design and full implementation of new HR operating model to include the redesign of talent and HR processes to take advantage of the COTS Pers/Pay system and the stand-up of the MNCC.	Q1 FY 2023
External or independent review of the MILPAY deficiency will occur to validate the remediation of the issue. FOC determination will be based on successful validation.	Q1 FY 2023

Title of Material Weakness
DON Oversight and Management of Improper Payments (2015-01-ICO-MW)
Description of Material Weakness
The DON does not have an adequate system of internal controls over the management of improper payments, including written policies and procedures, tone-at-the-top, oversight and management, accountability through reporting, training, etc. Failing to identify payment issues associated with agreements/procurements (e.g., contracts, travel orders) receipt/acceptance of goods and services, and invoices, all of which support the legality and propriety of payments, increases the likelihood that improper payments may go unnoticed. This may result in significant loss of funds if uncollected or unrecognized liabilities for underpayments, and further erodes taxpayer confidence in the stewardship of tax dollars when other external parties identify them (e.g., Department of Defense Inspector General, Government Accountability Office (GAO)).
Internal Control Reporting Category
Comptroller and Resource Management
Targeted Correction Date
Q2 FY 2020

CAP Milestones	Status
Established reporting requirements in writing. Quarterly reporting to Deputy Assistant Secretary of the Navy for Financial Operations (DASN (FO)) was conducted throughout FY 2017, and is scheduled for the foreseeable future.	Completed
Developed and provided training to personnel responsible for conducting post payment reviews and is available for new personnel and as refresher training. Continue to update artifacts on an annual basis or as needed.	Completed
Updated the DON/Defense Finance and Accounting Services (DFAS) Memorandum of Understanding (MOU) and communicated updates to stakeholders. Continue to update artifacts on an annual basis or as needed.	Completed
Post Payment Review procedures were created and reviewed with stakeholders during training that was conducted between February and March 2017. Continue to update artifacts on an annual basis or as needed.	Completed
Updated guidance to reflect current laws, regulations, and policy on 9 May 2017 and communicated updates to stakeholders. Continue to update artifacts on an annual basis or as needed.	Completed
DFAS identified the universe of systems which certified payments and provided the Office of Financial Operations (FMO) with a report on the results. This identification will be re-validated on an annual basis.	Completed
Identified two additional payment programs Military Sealift Command Financial Management System (MSC-FMS) and United States Marine Corps (USMC) Deployable Disbursing System (USMC-DDS)) to review for susceptibility of improper payments as a result of the reconciliation of the universe of systems which certify payments.	Completed
USMC Sampling Plan for the Windows Integrated Automated Travel System (WinIATS) was developed, certified by a statistician, and signed by DASN (FO). Sampling plans for all programs continue to be updated on an annual basis.	Completed

Internal testing of the remediation objectives will be conducted prior to validating remediation of the MW.	Completed
Prepared packages evidencing the effective remediation of the deficiencies and engage the Naval Audit Service (NAVAUDSVC) for review under an Agreed Upon Procedure audit.	Completed
Assess the sufficiency of the Corrective Action Plans to remediate root cause of improper payments.	Q2 FY 2020
Ensure the DON is compliant with the DoD direction for the Government Purchase Card Improper Pay (IP) Program covering all payment programs.	Q2 FY 2020
Continued quarterly oversight briefings for DASN (FO) to track progress on corrective actions of specific improper payments and give update on improper payments rates.	Q2 FY 2020

Title of Material Weakness	
Husbanding Service Provider (HSP) Contract Execution (2015-02-ICO-MW)	
Description of Material Weakness	
Husbanding Service Provider (HSP) contracts directly support a critical Fleet need for ships throughout the world where the DON does not have naval facilities. Maritime Husbanding Support is the provisioning of supplies and services as defined in a performance work statement of the contract in support of U.S. military forces within a port. 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. Naval Audit Service identified deficiencies in the DON business process related to acquiring husbanding and port services, including contract oversight responsibilities of Task Orders (TO), in accordance with acquisition regulations, a lack of separation of responsibilities, and a lack of policy and guidance prescribing oversight.	
Internal Control Reporting Category	
Contract Administration, Personnel and Organizational Management	
Targeted Correction Date	
Q1 FY 2022	
CAP Milestones	**Status**
Required the use of the Wide Area Work Flow (WAWF) and Invoice, Receipt, Acceptance, and Property Transfer (iRAPT) to process payments through Defense Finance and Accounting Service (DFAS).	Completed
Transferred responsibility for placing orders for US ships to Fleet Logistics Center (FLC) Contracting Offices.	Completed
Responsibility for bill paying moved to Electronic Funds Transfer (EFT)/DFAS payment offices to take the process off ships.	Completed
Conducted training to improve auditability/acceptance with all Fleets to ensure personnel performing proper receipt and inspection forward receipts to the Contracting Officer Representative (COR). This training encompassed Pipeline Schoolhouses, Naval Leadership Ethics Center and Senior Enlisted Academy, Fleet, and Pre-Deployment training.	Completed
Executed the off-ship bill pay process on all US Ships and MSC units.	Completed
Mapped all information systems involved in husbanding and port services process to outline functions, format, and integrity.	Completed
Reviewed off-ship bill pay processes for Financial Improvement and Audit Readiness (FIAR) requirements compliance.	Completed
Implemented OPNAVINST 4400.11, “Husbanding Service Provider Program Policy” to enforce compliance with updated HSP processes.	Completed
Implemented an executive dashboard to enforce and track compliance with updated HSP processes, with an emphasis on financial, contracting, and operational requirements. The dashboard synthesizes the health of Husbanding services processes and enables leadership to quickly detect and address instances of fraud, waste, and/or abuse.	Completed
Allowed for one year of run time to monitor system health. Key metrics were tracked by OPNAV on a monthly basis.	Completed

Updated afloat husbanding contracting rescission letter to better clarify shipboard and Type Command (TYCOM) limitations.	Completed
Established and implemented controls to ensure MSC certifying officers validate supporting documentation prior to payment certification as required by the DOD Financial Management Regulation (FMR).	Completed
Developed and implemented interim policy guidance to standardize Numbered Fleet deviation approval.	Completed
Established criteria in written policy for supply officer surveillance responsibilities.	Completed
Improved HSP daily reconciliation format to clearly document the goods and services received for use in creating the DD-250 receiving document. NAVSUP implement oversight to ensure only government generated forms are used to prepare task order modifications.	Completed
Updated NAVSUP policy to provide guidance on requesting port tariff and subcontractor information, as well as to reflect oversight of fair and reasonable pricing and task order modifications.	Completed
Developed strategy, procedures, and controls for conducting COR on and off site surveillance.	Completed
Updated COR and receipt inspector appointment letters.	Completed
Created global standard Logistics Requirements (LOGREQs) by ship class to be used by all Numbered Fleet Commands.	Completed
Issued policy guidance to standardize Numbered Fleet deviation approval.	Completed
Develop updated and standardized Supply Management inspection process.	Q1 FY 2020
Develop and implement MSC HSP inspection plan.	Q1 FY 2020
Develop and implement supply officer training improvements.	Q1 FY 2020
Fully implement husbanding Financial Audit Compliance Enhancement Tool module onboard Navy ships for husbanding record retention.	Q1 FY 2020
Create standardized receipt inspector training.	Q1 FY 2020
Update receipt inspector program policy.	Q1 FY 2020
Update OPNAVINST 4400.11A to define a standardized HSP policy across the Navy.	Q1 FY 2020
Update OPNAVINST 4400.11A to include an HSP Ready Reference Guide as Encl (1).	Q1 FY 2020
Update OPNAVINST 4400.11A to include HSP Governance as Encl (2).	Q1 FY 2020
Update OPNAVINST 4400.11A to include metrics and metrics reporting as Encl (3).	Q1 FY 2020
Conduct a shore manpower requirements determination and develop strategy to support MSC ships while removing COR duties from MSC CORs only performing acceptance functions.	Q3 FY 2020
Validate Implementation via Naval Audit Service (NAVAUDSVC) Audit.	Q1 FY 2022

Title of Material Weakness	
Data Protection (2017-04-ICO-MW)	
Description of Material Weakness	
Inspections, reports, and lessons-learned reveal that the DON features Department-wide systemic shortfalls in implementing cybersecurity measures to protect its Data Protection environment. The DON's environment features gaps in two cybersecurity areas – user access controls, including Privileged User Authentication and Public Key Infrastructure (PKI), and device hardening and encryption – which have contributed to data protection vulnerabilities. The DON exhibits issues regarding policy compliance with cybersecurity measures, oversight, and accountability.	
Internal Control Reporting Category	
Security, IT	
Targeted Correction Date	
Q1 FY 2020	
CAP Milestones	**Status**
Established process to ensure participation in the Cybersecurity Scorecard meetings to provide input, carry out corrective actions as necessary, and to assist with broader DoD cybersecurity protection. Map service scorecard metrics and efforts back to DON audit findings.	Completed
Reviewed current DON user system access policy, and update as necessary, to include clear guidance on and requirements for privileged user access authorization and credential revocation, user access and control training certification, and user monitoring and oversight. Required timely authorization reviews, spot checks, and focus on documentation and document retention.	Completed
Reviewed current DON acquisition and IT purchase contracts and policy, and updated as necessary to require the adoption of established DON user access controls and encryption and hardening standards.	Completed
Corrective action plan and validation path approved by the Senior Management Council.	Completed
Deployed Windows 10 to Navy/Marine Corps Intranet (NMCI) and OneNet employed BitLocker.	Completed
Review DON policy on privileged user access, and update as necessary to include requirements that commanders and supervisors ensure any login to a network infrastructure device requires Public Key Infrastructure (PKI)-based authentication/credential.	Q1 FY 2020
Deploy a Privileged Account Management and/or an additional Alternate Two-Factor Authentication solution that supports the hardware and software solutions procured (i.e., CyberArk type of solution).	Q1 FY 2020
Update SECNAV 5239 Cybersecurity Manual to include Network Access Requirements (i.e., Acceptable Use Standards).	Q1 FY 2020
Validation by Internal Controls Reporting.	Q1 FY 2020

Title of Material Weakness	
Complex Business IT Environment (2018-02-ICO-MW)	
Description of Material Weakness	
Redundant capabilities exist among numerous business systems within the same functional area, as well as across multiple functional areas. Additionally, the DON accounting systems are highly customized systems that depart from standard out-of-the-box functionality, controls, and business processes. This has led to inadequate and inconsistent data standards resulting in inter-operability issues between systems and end-to-end processes.	
Internal Control Reporting Category	
IT	
Targeted Correction Date	
Q1 FY 2022	
CAP Milestones	**Status**
Consolidate universe of accounting systems to two ERP and Standard Accounting Budgeting and Resource System (SABRS)).	
Shut down Standard Accounting and Reporting System – Headquarters Command Module (STARS-HCM).	Completed
Migrate STARS to SABRS.	Q1 FY 2020
Shut-down STARS	Q1 FY 2021
Consolidate financially relevant systems around ERP to reduce duplicative system capabilities and consolidate DON's universe of transactions.	
Consolidate Working Capital Fund (WCF) General Ledgers (GLs) into ERP.	Q1 FY 2021
Migrate SABRS to ERP.	Q4 FY 2021
Upgrade Navy ERP, expanding its financial functionalities for End-to-End (E2E) processes.	
Prioritize Phase 1 Navy ERP and Treasury Direct Disbursement (TDD) system requirements.	Complete
Implement Procure-to-Pay (P2P)	Q1 FY 2022
Implement Budget-to-Report	Q1 FY 2021
Implement G-Invoicing	Q3 FY 2021

Title of Material Weakness	
Property in the Possession of Contractors (2018-03-ICO-MW)	
Description of Material Weakness	
The DON lacks adequate policies and procedures to account for and financially report, property in the possession of contractors, primarily Government Furnished Property (GFP), as well as Contractor Acquired Property.	
Internal Control Reporting Category	
Property Management, Contract Administration, Supply Operations	
Targeted Correction Date	
Q4 FY 2021	
CAP Milestones	**Status**
Identify the universe of contracts that have GFP.	Q1 FY 2020
Identify GFP contracts without standard FAR property clauses.	Q1 FY 2020
Identify/implement procedures and metrics to ensure GFP is appropriately identified, monitored, accounted for, and reported.	Q1 FY 2020
Assess existing FAR/Defense Federal Acquisition Regulation (DFAR) requirements and provide recommended improvements to contract clause application to improve contractor accountability and controls over GFP and Contractor Acquired Property.	Q1 FY 2020
Establish baselines of GFP per contract.	Q3 FY 2020
Establish property records in an authorized APSR for GFP of any value.	Q3 FY 2020
Complete a White Paper containing GFP and Contractor Acquired Property lifecycle management, including end-to-end processes, internal controls designed to ensure GFP is appropriately monitored, accounted for, and reported.	Q3 FY 2020
Develop and implement GFP training based on processes and controls, including Property Administrator training.	Q3 FY 2020
Develop a test plan to test the design and operating effectiveness of documented processes and controls.	Q3 FY 2020
Develop a schedule and execute the test plan by testing processes and controls over GFP owned by each BSO.	Q4 FY 2021
Perform independent validation of the MW remediation.	Q4 FY 2021

Title of Material Weakness	
Submission of Criminal Subject Fingerprint Cards and Reporting Disposition of Criminal Charges (2018-04-ICO-MW)	
Description of Material Weakness	
The (DON) is not in full compliance with the criminal justice reporting requirements and timely transfer of information to the Federal Bureau of Investigation (FBI).	
Internal Control Reporting Category	
Personnel and Organizational Management	
Targeted Correction Date	
Q3 FY 2021	
CAP Milestones	**Status**
Issued policy directing DON compliance with criminal justice reporting requirements and the timely transfer of information to the Federal Bureau of Investigation (FBI) Criminal Justice Information System.	Completed
Coordinate policy implementation with the CNO and CMC.	Q1 FY 2020
Obtain delegation of authority on policy ownership for the DON.	Q1 FY 2020
Develop enforcement and accountability mechanisms for policy compliance.	Q2 FY 2020
Update Navy and Marine Corps criminal justice reporting operating procedures.	Q1 FY 2021
Train relevant DON stakeholders on policy and implementation.	Q2 FY 2021
Conduct testing on criminal justice reporting implementation.	Q3 FY 2021
Perform an independent validation of the MW remediation.	Q3 FY 2021

Title of Material Weakness
Oversight and Monitoring (2016-03-ICO-MW)
Description of Material Weakness
Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Controls (Circular), requires the Navy to take a holistic look at risks that impact its ability to achieve its operational, financial reporting, and financial systems objectives. The Circular prescribes a governance structure for implementing the requirement to integrate risk management and internal control functions, an assessment of the effectiveness of the environment. The DON has not established sufficient procedures to provide oversight of the third-party SSP that process, store, or transmit Navy financial data. The Navy does not have a comprehensive set of governance and oversight agreements. It lacks service level agreements (SLA), memoranda of understanding (MOU), or other documents to clearly outline roles and responsibilities of the Navy and its service providers with respect to controls over processes performed. The Navy does not have a process to ensure CUEC are documented and tested.
Internal Control Reporting Category
Comptroller and Resource Management, Personnel and Organizational Management
Targeted Correction Date
Q4 FY 2020

CAP Milestones	Status
Completed inclusion of 32 process-level CUECs into the Navy Business Process Standards to demonstrate the existence and operation of process-level CUECs at the BSO level.	Completed
Completed issuance of DON information technology general controls (ITGC) CUECs Guidebooks to BSOs to assist with local implementation of DON policy.	Completed
Finalized FY 2016 Service Organization Controls (SOC) 1 Report Evaluations and attained signature approvals. SOC1 Report Evaluations demonstrate the Navy's assessment of its internal control environment and the impact of third-party deficiencies to the Navy's data. BSOs developed ITGC CUEC designs to adhere to DON policies at the BSO level.	Completed
BSOs completed development of ITGC CUEC designs that adhere to DON policy at the BSO level.	Completed
BSOs implemented newly designed policies and procedures at the BSO level that adhere to the DON policy for ITGC CUECs described in the guidebooks.	Completed
Developed methodology to test the operating effectiveness of Navy-owned key controls and ensure performance of controls is in accordance with Navy Business Process Standards. This step requires implementing pilot testing for business segments CIVPAY and Transportation of People (ToP) at BSOs using legacy and ERP systems.	Completed

Developed SLAs with the following material SSPs: • Defense Finance and Accounting Service (DFAS); • DLA; • Defense Manpower Data Center (DMDC); • Defense Contract Management Agency; and • U.S. Bancorp.	Completed
Confirmed materiality analyses that determine the systems in scope in FY 2018 for the non-SOC1 risk assessment efforts (in preparation for full financial statement audit). Systems determined by the independent public accountant during entrance conference briefing.	Completed
Reviewed testing results for reliability and effectiveness of key controls within the business process segment.	Completed
Executed test plans to assess the operating effectiveness of Navy-owned key controls and ensure performance of controls is in accordance with Navy Business Process Standards.	Completed
BSOs executed initial performance of independent BSO testing to validate operating effectiveness of ITGC CUECs.	Completed
Required coordination with the SSP points of contact for review and negotiation of SLA content and language regarding roles and responsibilities for controls over processes performed. The finalized SLAs will be routed to attain the appropriate signatures at the Navy and the respective SSP.	Completed
Conducted CUEC Crosswalk and Recommendations analyses on process-level CUECs identified in FY 2015 and FY 2016 (baseline) and FY 2017 SOC1 reports and adjudicate and implement process-level CUECs that are not aligned to Navy Business Process Standards.	Completed
BSOs implemented test plans to evaluate the operating effectiveness of Navy owned key controls and ensure performance in accordance with Navy Business Process Standards.	Completed
BSOs submit test plans and evaluation results for analysis and review to provide internal control remediation advice and support.	Completed
MAUs and BSOs will engage in regular touchpoints and communication with the DON MICP Office to review their Certification Statement submissions and integrate feedback into their subsequent Certification Statement compilation submissions and MICP implementation.	Completed
Identified DON high-risk fraud areas and schemes and assign ownership for assessment and controls to relevant DON MAUs and/or BSOs as part of the annual Certification Statement submission process.	Completed
Identify internal control reporting requirements and issue supplemental guidance to comply with internal control laws and regulations.	Q1 FY 2020
Develop and publish the DON ERM Concept of Operations.	Q1 FY 2020
Identify, document and communicate roles and responsibilities throughout the Navy as they relate to the implementation of MICP.	Q1 FY 2020
Ensure DON SOA policy includes sufficient guidance to MAUs/BSOs for conducting a DON risk assessment.	Q1 FY 2020
Complete a design assessment for DON ELCs. Test the design effectiveness of the ELCs and develop corrective actions for any identified deficiencies. Develop an assessment of the reporting process for ELCs.	Q1 FY 2020

Develop, document, and maintain evidence as a part of the MICP for the SOA showing that Navy performed risk assessments, performed control tests, developed corrective action plans, when needed, and tracked progress towards remediation.	Q3 FY 2020
Implement the DON Fraud Risk Program to include an effectiveness assessment of implemented Fraud Reduction and Data Analytics Act of 2015 internal control reporting requirements and guidance. Update requirements and guidance accordingly to support enterprise-wide fraud reporting and monitoring.	Q3 FY 2020
Establish the fraud risk and data analytics program for management, oversight and reporting DON-wide by applying evaluating mechanisms to monitor fraud trends and improve fraud prevention, detection and response.	Q3 FY 2020
Develop and publish the DON Integrated Risk Management (IRM) Strategy • Develop and publish the DON Internal Controls Over Reporting (ICOR) Concept of Operations; • Implement a standardized A123 Risk and Control matrix to conduct risk assessment and identify key internal controls; • Establish a standardized process to conduct test of design and test of effectiveness for business process area deemed in sustainment; • Develop a report summarizing the outcome of the risk assessment and internal control testing outcome; • Conduct additional analysis to determine appropriate assertion for inclusion in the SECNAV SOA based on outcome of internal control test results; and • Coordinate with the appropriate stakeholders to remediate validated internal control gaps.	Q4 FY 2020
Establish centralized oversight and monitoring of DON level reconciliations and validations over key audit areas/ processes and major financial statement line items.	Q4 FY 2020

Title of Significant Deficiency
Hazardous Noise (2017-01-ICO-SD)
Description of Material Weakness
The DON did not have a process in place to effectively mitigate hazardous noise risks posed by major weapon systems. Additionally, 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 noise exposure environment that may, according to the Naval Safety Center, cause permanent hearing loss for Sailors and Marines.
Internal Control Reporting Category
Acquisition
Targeted Correction Date
Q1 FY 2022

CAP Milestones	Status
Transferred ownership of the Flag Level Steering Board Deputy Assistant Secretary of The Navy (FLSB DASN) to Research, Development, Test and Evaluation (RDT&E).	Completed
Reinitialized the FLSB under DASN (RDT&E) memorandum.	Completed
FLSB AO assignment.	Completed
Planning meeting for AO Working Group.	Completed
FLSB AO Working Group.	Completed
Developed a plan of action and milestones (POA&M) specific to the development of a noise threshold goal for the DON, with an emphasis on those systems and platforms with known noise hazards.	Completed
Developed a POA&M for the development of technical guidance to assist DON resource sponsors in development of platform appropriate knowledge, skills, and abilities (KSAs) to address hazardous noise reduction.	Completed
Established internal management controls and provide oversight to ensure that the DON acquisition programs include appropriate KSAs to address the reduction of hazardous noise reduction.	Completed
Submitted memo describing Internal Management Controls and Oversight to Naval Audit Service to close last recommendation #2 from June 2018 Follow up Report.	Completed
Systems Engineering Sub-working Group develop work plan to execute POA&M under oversight of the Systems Engineering Stakeholder Group.	Q1 FY 2020
Sub working Groups to report out on progress to Systems Engineering Stakeholder Group.	Q2 FY 2020
Complete execution and institutionalize policy and practice of DON POA&M for Hazardous Noise Mitigation.	Q1 FY 2022

Title of Significant Deficiency	
Protection of Controlled Unclassified Information (2017-03-ICO-SD)	
Description of Material Weakness	
The DON does not have effective controls and guidance for the protection of controlled unclassified information (to include personally identifiable information (PII)).	
Internal Control Reporting Category	
Security	
Targeted Correction Date	
Q3 FY 2020	
CAP Milestones	**Status**
Established a process to develop appropriate enforcement and accountability for PII policy compliance.	Completed
Established a process to ensure proper monitoring, compliance, and sustainment of updated PII and hard drive handling and disposal trainings.	Completed
Reviewed existing DON hard drive disposal policies and procedures. Perform a comprehensive assessment of policy validity. Develop and update DON hard drive disposal policies and procedures as necessary.	Completed
Developed, reviewed, and updated all DON contractual requirements regarding custodianship of DON hard drives and liability for hard drive recovery, reuse, and decommissioning.	Completed
Updated DON policy regarding shredder use for the disposal of documentation containing unclassified information.	Completed
Reviewed, updated, and disseminated DON PII and hard drive handling and disposal trainings based upon DON policy updates.	Completed
Revise current hard drive disposal policy, DON CIO Washington DC 281759Z Aug 12 Processing of Electronic Storage Media for Disposal. Remove waiver allowance, modify record documentation, and insert inspection requirements.	Q1 FY 2020
Reissue DON hard drive disposal policy.	Q1 FY 2020
Process to validate policy compliance will be in the reissued policy message.	Q1 FY 2020
Validate policy compliance through Audit Service, Inspector General (IG), and Command Inspections.	Q2 FY 2020
Internal Control Review (ICR) team to perform an independent validation of the significant deficiency remediation.	Q3 FY 2020

Material Weaknesses Reassessed During the Period

Title of Material Weakness	
Surface Force Incidents (2018-01-ICO-MW)	
Description of Material Weakness	
Following a tragic increase in surface fleet incidents in the first eight months of 2017, the Vice Chief of Naval Operations (VCNO) directed a CR of surface fleet operations and incidents at sea that have occurred over the past decade to make detailed recommendations with respect to corrective actions necessary to ensure the safety of the Navy's people, safe operations at sea, and the readiness of Navy forces. Along a similar timeline, the Secretary of Navy formed an independent subject matter team review to conduct a broader Strategic Readiness Review (SRR) to complement the CR in determining root causes with a specific focus on the force and the overall culture of operational risk management, training and department organization.	
Internal Control Reporting Category	
Force Readiness	
Targeted Correction Date	
Q1 FY 2020 – As a result of the accomplishment outlined below, the threat to the Navy' mission, resources, and image have all been significantly reduced. As a result, the DON has reassessed the MW to a control deficiency.	
CAP Milestones	**Status**
Chief of Naval Operations Comprehensive Review.	Completed
Secretary of the Navy Strategic Review.	Completed
Establishment of the Under Secretary of the Navy/VCNO Readiness Reform Oversight Council and Steering Group.	Completed
Development of the Under Secretary of the Navy/VCNO Consolidated CR/SRR Recovery Playbook.	Completed
Implementation of tier one and tier-two Recovery Playbook actions necessary to establish "Safe to Operate" and "Effective Operations."	Completed
Validation of remediation. Navy will continue to monitor pending establishment of "Culture of Operational Excellence."	Q1 FY 2020

Financial Reporting Material Weaknesses

The following table lists the MWs in Internal Control over Financial Reporting (ICOFR) and incorporates changes from the weaknesses reported in the FY 2018 DON Statement of Assurance (SOA).

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)							
Statement of Assurance: Controls are not in place to provide Reasonable Assurance							
End-to-End Process	**FY 2019 Beginning Balance**	**New**	**Re-categorized**	**Resolved**	**Downgraded**	**Reassessed**	**FY 2019 Ending Balance**
Acquire-to-Retire	2	-	1	(1)	-	-	2
Budget-to-Report	6	-	(5)	-	-	-	1
Hire-to-Retire	1	-	-	-	-	(1)	-
Order-to-Cash	-	-	1	-	-	-	1
Plan-to-Stock	3	-	-	-	-	-	3
Procure-to-Pay	4	-	(1)	-	-	(1)	2
Multiple End-to-End Processes	4	-	(1)	-	-	-	3
Total ICOFR MWs	**20**	**-**	**(5)**	**(1)**	**-**	**(2)**	**12**

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	**Title of Material Weakness**	**First Year Reported**	**FY 2018 Targeted Correction Date**	**Revised Targeted Correction Date**	**Page #**
Acquire-to-Retire	Property, Plant & Equipment Valuation	FY 2006	Q2 FY 2020	Q3 FY 2021	53
Acquire-to-Retire	GE-Remainder - Existence and Completeness	FY 2007	Q1 FY 2020	Q4 FY 2021	55
Multiple	Financial Reporting	FY 2017	Q4 FY 2020	Q1 FY 2022	56
Multiple	Fund Balance with Treasury	FY 2016	Q3 FY 2023	Q1 FY 2022	56
Procure-to-Pay	Accounts Payable (AP)	FY 2017	Q2 FY 2019	Q1 FY 2022	56
Budget-to-Report	Traceability and Supportability of Foreign Military Sales Transactions	FY 2015	Q3 FY 2019	Q4 FY 2021	58
Procure-to-Pay	Procure-to-pay (P2P) process	FY 2013	Q2 FY 2020	Q1 FY 2022	59

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	**Title of Material Weakness**	**First Year Reported**	**FY 2018 Targeted Correction Date**	**Revised Targeted Correction Date**	**Page #**
Plan-to-Stock	Inventory	FY 2005	Q2 FY 2022	Q4 FY 2021	60
Plan-to-Stock	Operating Materials & Supplies - Remainder	FY 2005	Q4 FY 2024	Q1 FY 2021	61
Plan-to-Stock	Operating Materials & Supplies – Ordnance	FY 2005	Q4 FY 2024	Q4 FY 2021	62
Order-to-Cash	Order-to-Cash (O2C) Process	FY 2009	Q2 FY 2020	Q3 FY 2021	63
Multiple	Budgetary Execution	FY 2012	Q3 FY 2022	Q3 FY 2020	65

Material Weaknesses Reassessed During the Period				
Internal Control Reporting Category	**Title of Material Weakness**	**First Year Reported**	**Targeted Correction Year**	**Page #**
Hire-to-Retire	Military Pay and Personnel (Controls)	FY 2015	FY 2023	66
Procure-to-Pay	Retention of Transportation Documents	FY 2013	N/A	68

Material Weaknesses Corrected During the Period				
Internal Control Reporting Category	**Title of Material Weakness**	**First Year Reported**	**Correction Year**	**Page #**
Acquire-to-Retire	Real Property E&C	FY 2006	Q4 FY 2019	69

Uncorrected Material Weaknesses Identified During Prior Periods

Title of Material Weakness	
Property, Plant & Equipment Valuation (2006-01b-ICOFR-MW)	
Description of Material Weakness	
The DON has not designed and implemented effective policies and procedures to accurately evaluate and report balances for property, plant, and equipment.	
Internal Control Reporting Category	
Acquire-to-Retire	
Targeted Correction Date	
Q3 FY 2021	
CAP Milestones	**Status**
Aircraft	
Established aircraft opening balances and placed-in-service date estimates in accordance with Statements of Federal Financial Accounting Standards (SFFAS) 50 and Technical Release 18 for all aircraft delivered by 30 September 2016.	Completed
Documented valuation and placed-in-service date estimation methodologies/procedures in a white paper.	Completed
Developed Navy ERP system requirements for General Equipment (GE) – CIP.	Completed
Update Navy ERP with new values and placed-in-service dates.	Q1 FY 2020
Develop standard contract language structure to enable proper financial accounting for capital assets.	Q2 FY 2020
Implement updated interim aircraft valuation and CIP relief methodology for aircraft acquired after 9/30/2016.	Completed
Assess and validate the aircraft direct and indirect cost analysis.	Completed
Develop roll-forward management review controls to validate existence and completeness reporting of aircraft.	Completed
Implement Navy ERP system change request to automate CIP to capture all direct and indirect costs to apply to PP&E assets.	Q1 FY 2020
Assess and validate the automated GE-CIP solution to include new construction and capital improvements in Navy ERP and address any remaining gaps for SFFAS 6 compliance.	Q1 FY 2020
Finalize valuation white paper for newly acquired aircraft (SFFAS 6).	Q1 FY 2020
Review and validate the aircraft valuation white paper (SFFAS 6).	Q1 FY 2020
Assess and validate effectiveness of documented processes and internal controls designed to establish aircraft values.	Q3 FY 2020
Vessels	
Established ships and submarines opening balances and placed-in-service date estimates in accordance with SFFAS 50 and Technical Release 18 for all ships and submarines delivered by 12/31/2018.	Completed
Documented valuation and placed-in-service date estimation methodologies/ procedures in a white paper.	Completed
Developed Navy ERP system requirements for GE–CIP.	Completed
Updated Navy ERP with new values and placed-in-service dates.	Completed
Complete vessels indirect cost analysis.	Q2 FY 2020

Develop standard contract language structure to enable proper financial accounting for capital assets.	Q2 FY 2020
Develop roll-forward management review controls to validate existence and completeness reporting of vessels.	Completed
Develop and document processes and internal controls to establish accurate vessel values.	Q2 FY 2020
Prepare SFFAS 50 valuation packages for all ships and submarines delivered between 31 December 2018 and the deployment of the automated GE CIP solution.	Q1 FY 2020
Implement Navy ERP system change request to automate CIP to capture all direct and indirect costs to apply to PP&E assets.	Q1 FY 2020
Assess and validate the automated GE-CIP solution to include new construction, capital improvements, and all direct and indirect costs in Navy ERP and address any remaining gaps for SFFAS 6 compliance.	Q1 FY 2020
Assess and validate the vessels direct and indirect cost analysis.	Q1 FY 2020
Finalize valuation white paper for newly acquired vessels (SFFAS 6).	Q1 FY 2020
Review and validate the vessels valuation white paper (SFFAS 6).	Q1 FY 2020
Establish small boats opening balances and placed-in-service date estimates in accordance with SFFAS 50 and Technical Release 18.	Q2 FY 2020
Document valuation and placed-in-service date estimation methodologies/ procedures in a white paper.	Q2 FY 2020
Assess and validate effectiveness of documented processes and internal controls designed to monitor accurate vessel values.	Q3 FY 2020
Satellites	
Established satellites opening balances in accordance with SFFAS 50 and Technical Release 18.	Completed
Documented valuation and placed-in-service date estimation methodologies/ procedures in a white paper.	Completed
Update Navy ERP with new values.	Completed
Establish processes, procedures, and internal controls to maintain valuation baseline.	Q1 FY 2020
Real Property	
Developed capitalization threshold methodology.	Completed
Develop a population of CIP where all balances have been verified.	Q1 FY 2020
Develop and implement impairment methodology.	Completed
Apply valuation methodology (placed in service date, capitalization threshold, plant replacement value).	Q4 FY 2020
General Equipment – Remainder	
Test BSO self-certified capital and non-capital/accountable GE-R quantities and Net Book Values in existing APSR to establish baseline.	Q3 FY 2020
Establish methodology to value GE-R in accordance with SFFAS 6 and SFFAS 50.	Q4 FY 2020
Establish GE-R opening balances and placed-in-service date estimates in accordance with SFFAS 50 and Technical Release 18.	Q2 FY 2021
Assess and validate effectiveness of documented processes and internal controls designed to value new GE-R in accordance with SFFAS 6.	Q3 FY 2021

Title of Material Weakness	
GE-Remainder - Existence and Completeness (2007-01-ICOFR-MW)	
Description of Material Weakness	
The DON does not have effective policies and procedures in place over General Equipment-Remainder (GE-R). The DON is unable to identify a complete population of its general equipment assets. General Equipment Remainder is comprised of all equipment not identified as major assets (Vessels, Aircraft, and Satellites).	
Internal Control Reporting Category	
Acquire-to-Retire	
Targeted Correction Date	
Q4 FY 2021	
CAP Milestones	**Status**
Develop comprehensive DON policies and procedures for the acquisition, management, disposal, and financial accounting/reporting of GE assets.	Completed
Identify self-reported capital and non-capital/accountable GE-R quantities and Net Book Value in existing APSRs.	Completed
Complete annual General Equipment Inventory Progress Certification for all capitalized GE-R assets and report for non-capital/accountable GE-R every 3 years (per current policy).	Completed
Integrate GE-R baseline E&C efforts with NMAC. Update NMAC playbook to include GE-R.	Completed
Complete a PCM containing GE-R lifecycle end-to-end processes, include DON internal controls designed to ensure GE-R is appropriately accounted for and reported, ensure updated policies, processes, and controls, checklists are documented in the PCM (i.e., buy, transfer, dispose).	Q2 FY 2020
Develop a migration strategy and implementation plan to migrate GE-R data to Navy ERP as the APSR for financial tracking.	Q1 FY 2020
Train, monitor, and conduct NMAC GE physical inventory of accountable property ($5,000 and above) by installation, and update APSRs to reflect any GE discovered during NMAC.	Q3 FY 2020
Identify and implement metrics to ensure all GE-R is appropriately accounted for and reported, including GE inventory accuracy rates.	Q3 FY 2020
Report initial E&C GE-R baseline.	Q4 FY 2020
Develop a test plan and a schedule to test the design and operating effectiveness of documented policies, processes, and controls.	Q3 FY 2020
FMO/RDA develop and conduct training and awareness campaigns for personnel who manage and report GE-R based on policies and processes updated following NMAC review.	Q4 FY 2020
Execute the test plan by testing policies and processes over GE-R.	Q3 FY 2021
Perform independent validation of the MW remediation.	Q4 FY 2021

Title of Material Weakness
Financial Reporting (2012-01-ICOFR-MW) Accounts Payable (2017-03-ICOFR-MW) Fund Balance with Treasury (2016-02-ICOFR-MW)
Description of Material Weakness
2012-01-ICOFR-MW: The DON does not have complete documentation of its end-to-end processes and procedures for the Financial Statement Compilation and Reporting (FSCR) process. The DON is unable to support transaction-level detail and has failed to promptly research and resolve trial balance variances, which impact the financial statements. The DON also lacks appropriate controls over the review of JVs recorded by Defense Finance and Accounting Services (DFAS) and has known errors in the underlying Defense Departmental Reporting System trial balance data and DFAS "plugs" the correction of the error through the recording of an unsupported JV. **2017-03-ICOFR-MW:** AP accrual methodology lacks appropriate rigor and precision. The DON failed to record AP reported to management by its vendors at the transaction level and lacks sufficient documentation to support the procedures to accrue the AP estimate. **2016-02-ICOFR-MW:** The DON is unable to reconcile FBwT from the general ledger to the U.S. Treasury. The DON does not perform effective oversight of recording and reconciling transactions involving FBwT and does not have complete documentation of its end-to-end processes and procedures for the FBwT process. The DON's statement of budgetary resources and SF-133 are misstated. The DON is collecting cash prior to an agreement being established.
Internal Control Reporting Category
Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock, Budget-to-Report
Targeted Correction Date
Q1 FY 2022

CAP Milestones	Status
FBwT: Budget to Report - Distribute budget authority through Navy ERP.	
Developed functional requirements to execute funds receipt and distribution in Navy ERP.	Completed
Implement standard accounting classifications across all BSOs.	Q2 FY 2020
Perform monthly reconciliation and reporting.	Q4 FY 2020
Implement removal of Program Budget Information System (PBIS) overlay.	Q4 FY 2020
Deploy Treasury Direct Disbursing (TDD).	
Develop & deploy TDD in OnePay	Q1 FY 2020
Develop & deploy TDD in MCTFS	Q1 FY 2020
Develop & deploy TDD in Navy Personnel and Pay System (NP2).	Q1 FY 2022
Financial Reporting; AP: Procure-to-pay (P2P) - Re-design processes and controls to centralize procurement processes into Navy ERP target-state.	
Developed functional requirements for target-state P2P system environment.	Completed
Implement in ERP	Q1 FY 2022
Financial Reporting: Develop and implement target-state financial close systems, processes, and controls.	
Develop and implement FY 2019 process enhancements and controls.	Q1 FY 2020

Developed target-state financial statement close functional requirements.	Completed
Financial Reporting: Develop and implement financial reporting analytics to assess and mitigate compliance risks.	
Develop functional requirements to implement financial reporting analytics.	Q1 FY 2020
Financial Reporting: Develop target-state posting logic.	
Assessed and developed Navy ERP requirements for a prioritized sub set of known posting logic issues.	Completed
Identify Navy ERP's posting logic and assess for Treasury Financial Manual (TFM) compliance.	Q1 FY 2020
FBwT; Financial Reporting: Streamline and standardize reconciliation processes with Treasury.	
Defined TDD Agency Locator Code payment/collection verification process.	Completed
Develop and implement interim FBWT reconciliation.	Q4 FY 2021
Develop target-state FBWT reconciliation.	Q3 FY 2020
Implement target-state FBWT reconciliation.	Q1 FY 2022

Title of Material Weakness
Traceability and Supportability of Foreign Military Sales Transactions (2015-04-ICOFR-MW)
Description of Material Weakness
The DON is unable to reliably reconcile Title 22 Foreign Military Sales (FMS) execution data with Funds Balance with Treasury due to reliance on multiple unconnected systems, non-standard funding process, and reliance on manual calculations to establish account balances. Additionally, Navy has not documented financial management processes and controls. There is a lack of defined roles and responsibilities between system and process owners across the DoD enterprise resulting in disparate control environments and varied availability of key supporting documentation. With the decision that the Security Assistance Account (SAA) financial statements will be subject to a separate independent audit, the Defense Security Cooperation Agency (DSCA) initiated a Financial Improvement and Audit Readiness (FIAR) effort in July 2018 involving DoD's Implementing Agencies with the goal of becoming fully auditable by the start of FY 2022. DSCA's decentralized FIAR program relies on the Implementing Agencies to individually identify and remediate business process and IT control deficiencies associated with SAA. FMS Trust Fund transactions comprise approximately 80% of the SAA portfolio Department-wide and have become an initial focus area within SAA for Navy.
Internal Control Reporting Category
Budget-to-Report
Targeted Correction Date
Q4 FY 2021

CAP Milestones	Status
Coordinate with DSCA, Office of the Secretary of Defense, Comptroller (OSD(C)), and other Military Departments (MILDEPs) to evaluate current deficiencies and evaluate potential alternative standard processes for department-wide implementation.	Q1 FY 2020
Develop PCM depicting 'to-be' end-to-end processes and controls for FMS transactions.	Q1 FY 2020
Develop Corrective Action Plans for Navy FMS transactions and distribute to FMS community across Navy BSOs.	Q2 FY 2020
Complete implementation of new processes/controls within FMS program offices.	Q4 FY 2020
Validate processes and controls are in place and operating effectively.	Q2 FY 2021
Provide artifacts to DSCA for independent validation evidencing FMS auditability.	Q4 FY 2021

Title of Material Weakness	
Procure-to-pay (P2P) process (2013-01-ICOFR-MW)	
Description of Material Weakness	
The (DON) lacks the necessary processes, monitoring, and controls to accurately record the procurement and supply chain processes within the DON through the receipt of goods and the payment.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q1 FY 2022	
CAP Milestones	**Status**
CVP: Defined End State in ERP.	Completed
Developed functional and system requirements for CVP.	Completed
Developed future state posting logic requirements for Contractor Vendor Pay.	Completed
Drafted policy change/memos for P2P.	Completed
Implement in ERP.	Q1 FY 2022

Title of Material Weakness	
Inventory (2005-01-ICOFR-MW)	
Description of Material Weakness	
The DON is unable to assert to completeness, existence, or valuation of inventory. The DON's processes, controls, and systems are non-standard and compartmentalized. Policies, procedures and monitoring controls are not sufficient to properly manage and account for item quantity, condition, and location. Improved IT governance over DON inventory systems, including compliance with Enterprise DON IT Control Standards is required, and Navy system posting logic does not support the valuation of items. Furthermore, the DON has too many feeder systems to support the timely accounting for items, and it has not established sufficient policies and procedures to monitor and account for items held by third parties.	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2021	
CAP Milestones	**Status**
Establish E&C of baseline balance.	
Support baseline balance through physical inventory.	Q2 FY 2020
Reconcile DLA-managed inventory balances.	Q2 FY 2020
Other government agencies (e.g., DLA) support E&C balances.	Q4 FY 2021
Valuation of balances.	
Establish deemed cost methodology.	Q3 FY 2020
Establish go-forward functional requirements.	Q3 FY 2020
Remediate NFR & process/control gaps.	
Prioritized FY 2018 NFRs for remediation and risk acceptance.	Completed
Complete internal control testing of sustainment controls	Q1 FY 2020

Title of Material Weakness	
Operating Materials & Supplies - Remainder (2005-02-ICOFR-MW)	
Description of Material Weakness	
The DON lacks policies and procedures over the end-to-end process to account for and report Operating Materials & Supplies - Remainder (OM&S-R) and related financial transactions, and is unable to assert to completeness, existence, or valuation..	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2021	
CAP Milestones	**Status**
Establish E&C of baseline balance.	
Integrate OM&S-R into NMAC process	Completed
Establish baseline population.	Q3 FY 2020
Valuation of balances.	
Establish deemed cost methodology.	Q3 FY 2020
Establish go-forward functional requirements.	Q3 FY 2020
Remediate NFR & process/control gaps.	
Prioritized FY 2018 NFRs for remediation and risk acceptance.	Completed
Identify control gaps and develop plan to address	Q4 FY 2020
Implement internal controls	Q4 FY 2021

Title of Material Weakness	
Operating Materials & Supplies - Ordnance (2005-03-ICOFR-MW)	
Description of Material Weakness	
The DON lacks policies and procedures over the end-to-end process for ordnance components held by contractors and other government agencies and is unable to attest to completeness, existence, or valuation. Contractors frequently fail to account for and report ordnance assets and related financial transactions.	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2021	
CAP Milestones	**Status**
Establish E&C of baseline balance.	
Support baseline balance through physical inventory.	Q2 FY 2020
Reconcile Army-managed inventory balances.	Q2 FY 2020
Other government agencies (e.g., Army) support E&C balances.	Q4 FY 2021
Valuation of balances.	
Establish deemed cost methodology.	Q3 FY 2020
Establish go-forward functional requirements.	Q3 FY 2020
Remediate NFR & process/control gaps.	
Prioritized FY 2018 NFRs for remediation and risk acceptance.	Completed
Complete internal control testing of sustainment controls	Q1 FY 2020

Title of Material Weakness	
Order-to-Cash (O2C) Process (2009-01-ICOFR-MW)	
Description of Material Weakness	
The DON lacks the necessary documentation, monitoring, and controls during the receiving and processing of sales orders for goods and services through receiving payment.	
Internal Control Reporting Category	
Order-to-Cash	
Targeted Correction Date	
Q3 FY 2021	
CAP Milestones	**Status**
Reimbursable Work Order (RWO): Kickoff and plan for Intra-Governmental Payment and Collection (IPAC) "Push" Pilot for selected level 1 RWO transactions between DON and U.S. Coast Guard. The IPAC "Push" effort requires Grantors to authorize and release payments to Performers after reviewing required documentation related to the transaction instead of allowing Performers to pull the funds. The intention is to enhance controls around receipt and acceptance and invoicing payments.	Completed
RWO: Prepared and configured G-Invoicing with DON structure to implement G-Invoicing for creating and negotiating General Terms and Conditions (GT&Cs) according to the Office of the Secretary of Defense (OSD) mandate.	Completed
RWO: Deployed G-Invoicing for uploading and/or creating GT&Cs and provide administrative and end-user trainings to BSO personnel who will be managing user access at the BSO level going forward.	Completed
RWO: Developed and submitted a Functional Requirement Document to FMP-6 for working into Navy ERP future state.	Completed
RWO: Collaborate with Defense Finance and Accounting Services (DFAS) to walk through and document end-to-end RWO billing process and controls for RWO transactions. Through the effort, the DON will gain a better understanding of existing controls that are performed by DFAS and identify control gaps that are required to meet the RWO Policy and Audit requirements.	Q1 FY 2020
RWO: Plan and conduct IPAC "Push" test for selected level 1 RWO transactions between DON and U.S. Coast Guard.	Q1 FY 2020
RWO: Request IPAC "Pull" to "Push" system change and develop standard GT&C to be used for all DON commands during the IPAC "Push" pilot.	Q1 FY 2020
RWO: Provide user support to BSOs regarding user access management and uploading and/or creating GT&Cs in G-Invoicing.	Q1 FY 2020
RWO: Publish a DON policy and/or memorandum to expand the IPAC "Push" requirement to all DON's federal agency Trading Partners.	Q1 FY 2020
RWO: Identify alternative solutions to eliminate control gaps in the as-is RWO billing process and document the to-be process with enhanced controls.	Q1 FY 2020
RWO: Conduct IPAC "Push" pilot with all DON commands and U.S. Coast Guard. Sustain and monitor pilot performance.	Q1 FY 2020
RWO: Develop, implement, and test DON command-level RWO processes to achieve process standardization and RWO policy compliance.	Q2 FY 2021
RWO: Establishment of the G-Invoicing interface.	Q3 FY 2021

RWO: Achieve DON systems interfacing with G-Invoicing, testing of interfaces, and data validation.	Q3 FY 2021
RWO: Full implementation of G-Invoicing to include GT&C, order, receipt and acceptance invoice, reconciliation, and closeout.	Q3 FY 2021
MILSTRIP: Documented MILSTRIP functional reporting requirements in the target-state environment	Q1 FY 2020

Title of Material Weakness	
Budgetary Execution (2012-02-ICOFR-MW)	
Description of Material Weakness	
There is a lack of integrated Navy and DoD Level systems to adequately trace funds from funding to execution. Billions in canceled funding each year represents a lost opportunity to the DON. Additionally, highly manual and labor-intensive processes are in place for reimbursable activity to accommodate compliance with the existing policy. There is a lack of control and transparency beyond echelon 1, a lack of enforced budgetary policies defining process standards, and noncompliance with government-wide requirements for reimbursables.	
Internal Control Reporting Category	
Budget-to-Report, Order-to-Cash, Procure-to-Pay	
Targeted Correction Date	
Q3 FY 2020	
CAP Milestones	**Status**
Improve Expenditure efficiency and transparency of funds across the DON through development of executive level reporting mechanisms or dashboards.	
Develop Process to Improve Expenditure Efficiency (PIEE) enterprise dashboards/reports/policy to support and monitor BSO expenditure efficiency (e.g., Deobligations, MILSTRIP, contract closeout, permanent change of station (PCS)).	Q3 FY 2020
Implement zero based budgeting (ZBB) process as part of POM and Budget Process.	
Developed policy/process to implement ZBB process for an annual review starting with FY 2021.	Completed
Reduce the use of reimbursable authority.	
Reduce the use of reimbursable authority for current and future years.	Q1 FY 2020

Material Weaknesses Reassessed During the Period

Title of Material Weakness	
Military Pay and Personnel (Controls) (2015-03-ICOFR-MW)	
Description of Material Weakness	
There are multiple widespread issues with governance, oversight, quality of service, supportability, systems, and control over Pay and Personnel functions resulting in lack of timely, accurate, and disbursing supported pay and personnel transactions. Insufficient internal controls and oversight regarding roles and responsibilities, separation of duties, enforcement, and system access to identify trends, deficiencies, and corrective actions have been identified. Additionally, the DON military pay and financial management system lacks modern capabilities to support auditability.	
Internal Control Reporting Category	
Hire-to-Retire	
Targeted Correction Date	
Q1 FY 2023 - The progress made toward remediation on the Military Pay and Personnel (Controls) MW provides reasonable assurance that the deficiency is no longer material to the DON. Internal MILPAY testing conducted by FMO has yielded positive results. Additionally, external testing performed by multiple IPAs is consistent in determining the deficiency not material. Therefore, this MW has been reassessed to a significant deficiency.	
CAP Milestones	**Status**
Updates were made to the OPNAVINST 5200.45 to clearly delineate the roles and responsibilities of the organizations responsible for personnel and pay service delivery.	Completed
A MICP for the Navy Pay and Personnel Support Center was established to provide necessary internal controls oversight and compliance framework.	Completed
Updated 46 SOPs and 49 trainings to ensure audit requirements for Key Supporting Documentation (KSDs), document retention locations, and internal control points are incorporated.	Completed
A dedicated pay and personnel training organization (PERS-213) was established. Additionally, job-specific training requirements for 10 out of 12 personnel and pay related functional areas were identified and established, and a set of first-generation (Phase 1) self-paced e-learning courses were developed to provide improved training opportunities and capabilities.	Completed
Gaps and inefficiencies in current document retention practices were assessed, a standard naming convention and new document retention policy was developed, and Total Records Information Management (TRIM) was deployed to standardize pay and personnel records retention processes and support audit compliance.	Completed
For the integrated PERS-Pay IT System, verified the "As-Is" state of the process to create a "To-Be" state, completed five of five development phases in a Pers/Pay Proof of Concept, Phases one and two of the Retirement and Separation form electronic DD 214.	Completed
Established three specialized functional service centers (Travel Claims, Strength Gains, and Reserve Pay Processing).	Completed

Established and developed an effort for Command Pay and Personnel Administrator (CPPA) Navy Enlisted Classifications (NEC) training course in collaboration with Personnel Specialist (PS) A School. Review Yeoman (YN), PS A – School blocking to facilitate addition of CPPA NEC training Requirements	Completed
Developed and implemented a Petty Officer in Charge/Assistant Officer in Charge training plan. Review the Reference Guide and the Mentor's Guide for updates since May 2015.	Completed
Complete an assessment of the constraints associated with modernizing and maintaining human resources IT applications in the afloat environment.	Q1 FY 2020
Implement initial capability delivery and fielding of an integrated automated personnel and pay information system across the Navy. The target for Navy Personnel and Pay (NP2) initial operating capability is Q1 FY 2021.	Q1 FY 2021
Refine NP2 pay capability based on implemented non-pay personnel management functionalities, such as billet management, retention, and performance management.	Q1 FY 2023
Refine NP2 pay capability based on implemented non-pay personnel management functionalities, such as adverse actions and grievances.	Q1 FY 2023
External or independent review of the MILPAY deficiency will occur to validate the remediation of the issue. FOC determination will be based on successful validation.	Q1 FY 2023

Title of Material Weakness
The DoD does not have a centralized process to maintain, store, and retrieve transportation documentation (2013-02-ICOFR-MW)
Description of Material Weakness
The Department of Defense (DoD) does not have a centralized process to maintain, store, and retrieve transportation documentation required to support Transportation of Things (ToT) transactions, management evaluation, and future examination/audits. The DON has been unable to provide a reliable and sustainable process to maintain, store, and retrieve transportation documentation.
Internal Control Reporting Category
Procure-to-Pay
Reassessment
The Office of Financial Operations (FMO) has reviewed and documented the materiality of the DON ToT and determined that ToT is not material to the DON. Therefore, this MW has been downgraded to a control deficiency.

Material Weaknesses Corrected During the Period

Title of Material Weakness	
Real Property E&C (2006-01a-ICOFR-MW)	
Description of Material Weakness	
The DON does not have effective procedures and policies to support E&C of Real Property.	
Internal Control Reporting Category	
Acquire-to-Retire	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	**Status**
Develop inventory re-baseline procedures.	Completed
Test procedures at representative installation.	Completed
Develop and define training for field staff executing procedures.	Completed
Distribute procedures to field for execution.	Completed
Progress checks, proof package reviews.	Completed
Facility Engineering Commands' E&C complete.	Completed
Perform an independent validation of the MW corrective action plan.	Completed

Financial Management Systems Material Weaknesses /Nonconformances

The following table lists the MWs/nonconformances in Internal Controls over Financial Systems (ICOFS) for FY 2019 and incorporates changes from the FY 2018 DON SOA.

	Effectiveness of Internal Controls over Financial Systems (FMFIA Section 4 and FFMIA)					
	Statement of Assurance: Controls are not in place to provide Reasonable Assurance					
Non-Conformances	**FY 2019 Beginning Balance**	**New**	**Resolved**	**Re-Categorized**	**Reassessed**	**FY 2019 Ending Balance**
Financial Management Systems	5	1	-	(3)*	-	3
Total System Conformance MWs	**5**	**1**	**-**	**(3)**	**-**	**3**

*Count includes MWs classified as ICOFS MWs in the 2018 SOA and have since been realigned to ICO or ICOFR MWs. Refer to "Material Weakness Removal" for more information.

Uncorrected Material Weaknesses/Nonconformances Identified During Prior Periods					
Internal Control Reporting Category	**Title of Material Weakness**	**First Year Reported**	**FY 2018 Targeted Correction Date**	**Revised Targeted Correction Date**	**Page #**
Interface Controls	Interfaces	FY 2016	Q2 FY 2021	Q3 FY 2022	71
Multiple	Configuration Management	FY 2015	Q3 FY 2021	Q2 FY 2021	72
Multiple	Information Systems Access Controls/Segregation of Duties	FY 2014	Q2 FY 2019	Q4 FY 2021	73

Uncorrected Material Weaknesses Identified During Prior Periods

Title of Material Weakness	
Interfaces (2015-05-ICOFS-MW)	
Description of Material Weakness	
IT interface controls between DON's Business Transaction Systems (BTS) and General Ledger Accounting Systems (GLAS) need improvement to ensure timely, accurate and complete processing of financial data.	
Internal Control Reporting Category	
Interface Controls	
Targeted Correction Date	
Q3 FY 2022	
CAP Milestones	**Status**
Issued Memo for DON IT interface controls standards.	Completed
Developed the Navy Office of Financial Management Systems and Policy Document Repository (FMPDR).	Completed
Finalized Interface Control Agreement (ICA) template, process guide, and security requirements.	Completed
Completed Interface Remediation Strategy and Open IT NFR Analysis.	Completed
Establish and sustain complete and accurate population of ERP and SABRS Interfaces.	Completed
Standardized procedures managing complete and accurate population for interfaces and edit checks & validations.	Q1 FY 2020
Standardized procedures for error handling and reconciliation for greater efficiency and process enforcement.	Q2 FY 2020
Identify interface capabilities, processes, and other documented requirements for feasible API solution to implement.	Q3 FY 2020
Work with system owners to pilot automated solutions with applicable prioritized system interfaces.	Q2 FY 2021
Incorporate lessons learned from the pilot program to optimize automated capabilities.	Q3 FY 2021
Complete transition to MICP for continuous monitoring purposes.	Q3 FY 2022

Title of Material Weakness	
Configuration Management (2015-04-ICOFS-MW)	
Description of Material Weakness	
The DON's Risk Management Framework (RMF) and updated Security Management processes must be implemented to comply with both DON and DoD policy. Effective implementation and guidance will provide appropriate cybersecurity measures and effective controls over IT configuration management sufficient to sustain audit.	
Internal Control Reporting Category	
Security Management, Configuration Management	
Targeted Correction Date	
Q2 FY 2021	
CAP Milestones	**Status**
Promulgated policy replacing DIACAP with RMF.	Completed
Developed RMF FM (Financial Management) Overlay to compliment RMF.	Completed
Completed a pilot system transition to RMF with FM Overlay.	Completed
Provided OPNAV N2N6 recommendations on Navy policy reinforcing proper management of the system Plan of Action and Milestones (POA&M).	Completed
Established a regular coordination process between FMP and OPNAV N2N6 and/or Navy Authorizing Official (NAO) regarding upcoming expiring authorizations.	Completed
Complete RMF with FM Overlay transition for 25% of Level 1 and 2 Audit Relevant Systems.	Q2 FY 2020
Complete RMF with FM Overlay transition for 50% of Level 1 and 2 Audit Relevant Systems.	Q3 FY 2020
Complete RMF with FM Overlay transition for 75% of Level 1 and 2 Audit Relevant Systems.	Q4 FY 2020
Complete RMF with FM Overlay transition for 100% of Level 1 and 2 Audit Relevant Systems.	Q1 FY 2021
Perform an independent validation of the MW remediation.	Q2 FY 2021

Title of Material Weakness	
Information Systems Access Controls/SOD (2014-01-ICOFS-MW)	
Description of Material Weakness	
DON compliance with User Access Control and SODs needs improvement to document, define, and administer user roles and transaction within applications.	
Internal Control Reporting Category	
Segregation of Duties, Access Controls, Security Management	
Targeted Correction Date	
Q4 FY 2021	
CAP Milestones	**Status**
SOD - Created Navy ERP Cross-application SOD Conflict Report.	Completed
SOD - Reviewed Navy ERP Cross-application SOD Conflicts with System Owner.	Completed
SOD - Presented Overview and Conflict Report to Navy ERP System Commands (SYSCOMs).	Completed
SOD - Submitted Navy ERP User Conflict Report with Validation from System Owners to Navy ERP System Owner and FMP 1.2.	Completed
SOD - Remediate Cross-application SOD Conflicts for Navy ERP.	Completed
SOD - Generate FY 2019 Quarter 4 Cross-application SOD User Reports.	Completed
SOD - Identify and Prioritize Candidates for AVM	Q1 FY 2020
SOD - Remediate and Mitigate Cross-application SOD Conflicts for Facilities Information Systems (FIS), Standard Procurement System – Naval Supply Systems Command (SPS-NAVSUP), SPS-Naval Facilities Engineering Command (NAVFAC), SPS-Naval Information Warfare Systems Command (NAVWAR), SPS-NAVSEA, FASTDATA, Standard Accounting, Budgeting and Resource System (SABRS), and Standard Labor Data Collection and Distribution Application (SLDCADA).	Q4 FY 2020
SOD - Collect User Lists and Compute Cross Application SOD Conflicts.	Q4 FY 2020
SOD - Submit Final Cross-application SOD Report for DCPDS, Enlisted Assignment Information System (EAIS), Officer Assignment Information System (OAIS), Expeditionary Equipment Management Information System (EXMIS), SEAPORT, Integrated Management Processing System (IMPS), SPS-Military Sealift Command (MSC), and MSC-Financial Management System (FMS) to System Owners and FMP 1.2.	Q4 FY 2020
Identity and Access Management (IdAM) - Defined Enterprise Solution Requirements.	Completed
IdAM - Complete Implementation of Initial Enterprise Solution Capabilities.	Q2 FY 2020
IdAM - Extend to Additional Enterprise Systems.	Q2 FY 2021
AVM - Control enhancement implementation starting at delivery of approved enhancements and including deployment, testing, training, go live and go live support.	Q1 FY 2020

AVM - Transition from current Navy Business Intelligence Services (NBIS) reporting to AVM reporting by coordinating with Naval Supply Business Systems Center (NAVSUP BSC), Financial Management and Comptroller, Navy Enterprise Business Solutions (Navy EBS or PMW220) and Systems Commands to sunset NBIS and begin AVM review process.	Q2 FY 2020
AVM - Integrate with Command Financial Management System and Standard Accounting, Budgeting, and Reporting System (SABRS) for SOD conflict analysis within requested and existing access as well as continuously monitor SOD that have occurred in transactional data.	Q4 FY 2020
AVM - Integrate with other financially significant Navy systems based on prioritization resulting from the cross-application SOD assessment as well as any preference from Navy.	Q4 FY 2021

Material Weakness Removal

In order to realign our reporting of MWs and significant deficiencies based on guidance from the Department of Defense (DoD), the following table presents the disposition of previously reported internal control deficiencies. **See tables on pages 76-82.**

Unique Id Number	ODCFO NFR Identification Number	Description of MW	AU	MW Identified	Justification for Change	Audit vs. Self-Identified	Date MW Corrected
FY16-NAVY-27	2013-03-ICOFR-MW	The Navy has inconsistent procedures to record Journal Vouchers (JV) and Standard Business Transactions (SBTs).	Financial Reporting	The Navy has inconsistent procedures to record JVs and SBTs	Consolidated under 2012-01-ICOFR-MW-Financial Reporting	Self-identified	6/12/2019
FY16-NAVY-37	2014-01-ICOFS-MW	The deficiencies for Global Combat Support System – Marine Corps (GCSS-MC) span across multiple control categories defined in the Government Accountability Office Federal Information System Controls Audit Manual (FISCAM), including application level general controls, access controls, system interfaces, and configuration management controls.	Financial Management Systems	USMC GCSS Deficiencies	Consolidated under 2014-01-ICOFS-MW-Information Systems Access Controls/SOD	Self-identified	6/12/2019
FY17-NAVY-07	2017-02-ICOFR-SD	Navy is unable to support completeness and reconcile the Accounts Receivable (A/R) balance and produce aging report which may lead to abnormal balances reported in the Navy's financial statements and inaccurate calculations of Allowance for Doubtful Accounts and write-offs. A/R may be materially misstated due to the lack of assurance over the reporting process. Navy does not have SOPs documenting the process of reconciling the source systems A/R balances to the general ledger A/R balances. Navy does have a process for recording Allowance for Doubtful Accounts and write-offs, but it is not being consistently applied nor been evaluated and tested for Generally Accepted Accounting Principles (GAAP) compliance.	Accounts Receivable	Comprehensive Accounts Receivable and Aging Report	Consolidated under 2012-01-ICOFR-MW-Financial Reporting	Self-identified	6/12/2019
FY16-NAVY-06	2016-01-ICOFR-MW	The Fund Receipt and Distribution (FRD) reconciliation process design requires improvements and more timely preparation. Field level General Ledgers (GLs) do not reconcile to Funding Authorization Documents (FADs).	Fund Balance with Treasury (FBWT)	FRD Reconciliation Process	Consolidated under 2012-01-ICOFR-MW-Financial Reporting	Self-identified	6/12/2019

Unique Id Number	ODCFO NFR Identification Number	Description of MW	AU	MW Identified	Justification for Change	Audit vs. Self-Identified	Date MW Corrected
FY16-NAVY-34	2015-01-ICOFS-MW	The Navy Enterprise Resource Planning (ERP) system is currently not compliant with the Standard Financial Information Structure (SFIS), which is updated regularly and part of the DoD Business Enterprise Architecture handling financial management.	Financial Management Systems	The Navy ERP system is currently not compliant with the SFIS	Consolidated under 2012-01-ICOFR-MW-Financial Reporting	Self-identified	6/12/2019
FY16-NAVY-26	2015-02-ICOFR-MW	General Ledger Accounting Systems (GLAS) posting logic does not produce expected financial and budgetary accounting relationships.	Financial Reporting	Posting logic does not produce expected financial and budgetary accounting relationships	Consolidated under 2012-01-ICOFR-MW-Financial Reporting	Self-identified	6/12/2019
FY16-NAVY-11	2012-01-ICOFR-MW	A lack of controls exists across multiple GL and contracting systems which cause delays in recording obligations in the proper accounting period following the obligation activity.	Military Standard Requisitioning and Issue Procedures (MILSTRIP); Contract/Vend or Pay; Transportation of Things (ToT); Reimbursable Work Order (RWO)	Obligations are not timely recorded in the GL	Consolidated under 2012-01-ICOFR-MW-Financial Reporting	Self-identified	6/12/2019
FY17-NAVY-06	2017-01-ICOFR-MW	The DON has incurred multiple audits and assessments over its commitment, obligation/de-obligation, undelivered order (UDO), and unfilled customer order (UFCO) balances. The result of these reviews has identified instances where invalid or dormant balances have been reported on the DON's financial statements and are tied to multiple findings and recommendations. The aggregate result of these findings represents a significant risk of material misstatement on the financial statements.	Financial Reporting	Ineffective Controls over Statement of Budgetary Resources (SBR) Balances	Consolidated under 2012-01-ICOFR-MW-Financial Reporting	Self-identified	6/12/2019
FY16-NAVY-08	2016-03-ICOFR-MW	The DON has not established sufficient procedures to provide oversight of the third-party Shared Service Provider (SSP) that processes, stores, or transmits Navy financial data. The Navy does not have a comprehensive set of governance and oversight agreements. It lacks Service Level Agreements (SLA), Memorandums of Understanding (MOUs,) or other documents to clearly outline roles and responsibilities of the Navy and its service providers with respect to controls over processes performed. The Navy does not have a process to ensure CUECs are documented and tested.	All	SSP Oversight	Consolidated under 2016-03-ICO-MW-Oversight and Monitoring	Self-identified	6/12/2019

Unique Id Number	ODCFO NFR Identification Number	Description of MW	AU	MW Identified	Justification for Change	Audit vs. Self-Identified	Date MW Corrected
FY17-NAVY-02	2017-02-ICO-SD	The DON components – MAUs, BSOs, and reporting lower echelons – have demonstrated gaps in Managers' Internal Control Program (MICP) implementation, including internal control documentation and document retention, compliance with MICP reporting requirements, and personnel training. Additional guidance and accountability for MAU and BSO completion of required MICP reporting activities is needed through greater enforcement and monitoring at all levels, and the creation and distribution of updated policy and tools.	All	*SD*- MICP Implementation	Consolidated under 2016-03-ICO-MW-Oversight and Monitoring	Self-identified	6/12/2019
FY16-NAVY-15	2006-01a-ICOFR-MW	The DON does not have effective procedures and policies to support E&C of real property.	Real Property Assets	Real Property E&C and CIP	Deficiency was remediated and CAP milestones associated with E&C of real property were completed	Self-identified	6/12/2019
FY16-NAVY-16	2006-01b-ICOFR-MW	The DON does not have effective procedures and policies to support CIP of real property.	Real Property Assets	Real Property E&C and CIP	Consolidated under 2006-01b-ICOFR-MW-Property, Plant & Equipment Valuation	Self-identified	6/12/2019
FY16- NAVY -17	2007-01-ICOFR-MW	The DON cannot establish and/or support ownership and valuation of ships and submarines due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of the Navy's ships and submarines. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.	Equipment Assets	General Equipment (GE) – Ships/Submarines, Aircraft, Satellites, Remainder	Consolidated under 2006-01b-ICOFR-MW-Property, Plant & Equipment Valuation	Self-identified	6/12/2019
FY16- NAVY -18	2007-01-ICOFR-MW	The DON cannot establish and/or support ownership and valuation of aircraft due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of aircraft assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.	Equipment Assets	GE – Ships/Submarines, Aircraft, Satellites, Remainder	Consolidated under 2006-01b-ICOFR-MW-Property, Plant & Equipment Valuation	Self-identified	6/12/2019

Unique Id Number	ODCFO NFR Identification Number	Description of MW	AU	MW Identified	Justification for Change	Audit vs. Self-Identified	Date MW Corrected
FY16-NAVY-19	2007-01-ICOFR-MW	The DON cannot establish and/or support ownership and valuation of satellites due to lack of supporting documentation, improper interpretation of guidance, underutilization of the APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of satellite assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.	Equipment Assets	GE – Ships/Submarines, Aircraft, Satellites, Remainder	Consolidated under 2006-01b-ICOFR-MW-Property, Plant & Equipment Valuation	Self-identified	6/12/2019
FY16-NAVY-21	2007-01-ICOFR-MW	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 APSR, and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of GE assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation (GE-Remainder).	Equipment Assets	GE – Ships/Submarines, Aircraft, Satellites, Remainder	Split between 2006-01b-ICOFR-MW Property, Plant & Equipment Valuation and 2007-01-ICOFR-MW GE-Remainder - Existence and Completeness	Self-identified	6/12/2019
FY16-NAVY-39	2015-04-ICOFS-MW	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 Special Publications (NIST SP) and the Government Accountability Office (GAO) Federal Information System Controls Audit Manual (FISCAM).	Financial Management Systems	The DIACAP failed to produce the audit ready control environment	Scope change with revised title under 2015-04-ICOFS-MW-Configuration Management	Self-identified	6/12/2019
FY18-NAVY-03	2018-03-ICO-MW	The DON has insufficient oversight over inventory and assets managed by third parties. Third parties may include Defense Logistics Agency, Army, contractors, and related Defense Contract Management Agency oversight.	ICO	Oversight of Third Parties Managing Assets	Scope change with revised title under 2018-03-ICO-MW- Property in the Possession of Contractors	Self-identified	6/12/2019
FY16-NAVY-23	2012-02-ICOFR-MW	The Reimbursable Work Order – Grantor/Performer (RWO-G/P) process lacks effective controls. The Navy's control environment is not designed and/or operating effectively to verify or validate RWO-G/P transactions are authorized, approved, properly posted, accurate, and/or complete. There is a potential audit risk that the Navy's financial statements do not accurately account for undelivered orders, accounts receivables, or year-end accruals, which could result in invalid and/or unauthorized transactions.	RWO	RWO Controls	Scope change and realigned under 2009-01-ICOFR-MW- Order to Cash	Self-identified	6/12/2019

Unique Id Number	ODCFO NFR Identification Number	Description of MW	AU	MW Identified	Justification for Change	Audit vs. Self-Identified	Date MW Corrected
FY16-NAVY-36	2015-02-ICOFS-MW	Standard Accounting and Reporting System-FL (STARS-FL) has numerous deficiencies, including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues.	Financial Management Systems	STARS-FL deficiencies, business process transaction policy, procedures, and documentation issues along with master data issues	Consolidated under 2018-02-ICO-MW-Complex Business IT Environment	Self-identified	6/12/2019
FY16-NAVY-38	2015-03-ICOFS-MW	STARS-FL has numerous deficiencies in the areas of SOD, reconciliation, pre-validation edit checks, and other internal controls.	Financial Management Systems	STARS-FL deficiencies in the areas of SOD, reconciliation, pre-validation edit checks, and other internal controls	Consolidated under 2018-02-ICO-MW-Complex Business IT Environment	Self-identified	6/12/2019
FY18-NAVY-02	2018-02-ICO-MW	The DON has not implemented top-down controls over its complex business IT environment and does not have an enterprise-wide strategy for managing its financial management systems.	ICO	DON has not implemented top-down controls over its complex business IT environment and does not have an enterprise-wide strategy for managing its financial management systems	Consolidated under 2018-02-ICO-MW-Complex Business IT Environment	Self-identified	6/12/2019
FY16-NAVY-10	2014-01-ICOFR-MW	The Navy's controls over approving and/or authorizing purchase transactions are not designed or operating effectively. Additionally, controls around receipt and acceptance, detection and correction of improper payments, and documentation retention need to be evaluated.	MILSTRIP; Contract/Vend or Pay; ToT	Individuals without properly documented authority are approving purchase requests, purchase orders, and certifying invoices for payment	Consolidated under 2009-01-ICOFR-MW-Order to Cash	Self-identified	6/12/2019
FY16-NAVY-32	2009-01-ICOFR-MW	DLA and General Services Administration (GSA) have established off-line requisition systems to access and purchase catalogued or GSA schedule products. These systems do not include the necessary interfaces with the supply and financial automated systems; therefore, incomplete information has resulted in invalid accounting entries and Prompt Payment Act violations (This issue is one of the causes relating to the weakness in timely recording of obligations).	MILSTRIP	Offline MILSTRIP Requisitions	Consolidated under 2009-01-ICOFR-MW-Order to Cash	Self-identified	6/12/2019

Unique Id Number	ODCFO NFR Identification Number	Description of MW	AU	MW Identified	Justification for Change	Audit vs. Self-Identified	Date MW Corrected
FY16-NAVY-09	2013-01-ICOFR-MW	The DON does not have proper controls over shipyard requisitions, specifically, receipt and acceptance documentation.	MILSTRIP; Contract/Vend or Pay; ToT	Naval Shipyard requisitions cannot be reconciled to the general ledger	Scope change and revised title under 2013-01-ICOFR-MW-Procure-to-Pay	Self-identified	6/12/2019
FY16-NAVY-22	2015-01-ICOFR-MW	The DON's transactions resident in the BTS cannot be reconciled to the DON GLAS due to system, policy, and process issues. Process variances, system interface, and configuration management issues present a risk that the DON could over or understate obligations, A/R, Accounts Payable (A/P), and disbursements. Specifically, the following issues have been determined: • Lack of GLAS that can uniquely identify every transaction resident in BTS. Systemic issues create an inability to trace and reconcile individual transactions back to the BTS; • Lack of comprehensive policy and guidance for BTS and GLAS owners to perform the necessary activities to ensure completeness and accuracy; • Lack of reoccurring file and transactional reconciliations between BTS and GLAS; • Lack of a proper control environment to reconcile BTS and GLAS transactions; and • Lack of governance and monitoring processes to ensure that BTS and GLAS owners sustain the necessary activities to ensure completeness and accuracy.	Financial Reporting	Feeder System Reconciliations	Scope change and revised title under 2015-05-ICOFS-MW-Interfaces	Self-identified	6/12/2019
FY18-NAVY-01	2018-01-ICO-MW	Following a tragic increase in surface fleet incidents in the first eight months of 2017, the VCNO directed a CR of surface fleet operations and incidents at sea that have occurred over the past decade to make detailed recommendations with respect to corrective actions necessary to ensure the safety of the Navy's people, safe operations at sea, and the readiness of Navy forces. Along a similar timeline, the Secretary of Navy formed an independent subject matter team review to conduct a broader Strategic Readiness Review (SRR) to complement the CR in determining root causes with a specific focus on the force and the overall culture of operational risk management, training and department organization.	ICO	Surface Force Incidents	Reasonable assurance of remediation provided by the Senior Accountable Official (SAO) and AO. The deficiency will be managed as a control deficiency	Self-identified	7/19/2019

Unique Id Number	ODCFO NFR Identification Number	Description of MW	AU	MW Identified	Justification for Change	Audit vs. Self-Identified	Date MW Corrected
FY16-NAVY-14	2013-02-ICOFR-MW	The DoD does not have a centralized process to maintain, store, and retrieve transportation documentation required to support ToT transactions, management evaluation, and future examination/audits. The DON has been unable to provide a reliable and sustainable process to maintain, store, and retrieve transportation documentation.	ToT	The DoD does not have a centralized process to maintain, store, and retrieve transportation documentation	Deficiency assessed to be immaterial to the DON, and will be regarded as a control deficiency	Self-identified	7/19/2019
FY16-NAVY-31	2015-04-ICOFR-MW	BPC is funded through a variety of government appropriations with various periods of availability. BPC funds are transferred to the Foreign Military Sales (FMS) Trust Fund for execution, which shows a no-year appropriation. DoD appropriations within the FMS Trust Fund have expiration dates. Contracts written in support of BPC cases show the no-year LOA, which does not correctly display the expiration date of the funds. This increases the risk of obligations being made past the funds expiration date, potentially resulting in an ADA violation. While a statement is included on all funding documents with expiring funds identifying the expiration date, those statements may not be carried forward on obligating documents or systems by the respective performing activity.	Financial Reporting	Contracts written in support of Building Partner Capacity cases show the no-year line of accounting (LOA), which does not correctly display the expiration date of the funds	Scope change and revised title under 2015-04-ICOFR-MW- Traceability and Supportability of Foreign Military Sales Transactions	Self-identified	7/25/2019
FY16-NAVY-29	2015-03-ICOFR-MW	There are multiple widespread issues with governance, oversight, quality of service, supportability, systems, and control over Pay and Personnel functions resulting in lack of timely, accurate, and disbursing supported pay and personnel transactions. Insufficient internal controls and oversight regarding roles and responsibilities, separation of duties, enforcement, and system access to identify trends, deficiencies, and corrective actions have been identified. Additionally, the DON military pay and financial management system lacks modern capabilities to support auditability.	Military Pay	Military Pay and Personnel (Controls)	Progress made toward remediating the MW, along with internal MILPAY testing conducted by FMO and external testing conducted by multiple DON IPAs, demonstrate that the MW is no longer material to the DON. This material weakness has been reassessed to a significant deficiency	Self-identified	09/30/2019

Attachment 1: Points of Contact

The (DON) Points of Contact for the Managers' Internal Control Program and issues dealing with MWs reported in the DON's Fiscal Year 2019 Federal Managers' Financial Integrity Act Statement of Assurance are:

- Ms. Alaleh Jenkins
  Deputy Assistant Secretary of the Navy (Financial Operations)
  (202) 685-6701
  alaleh.jenkins@navy.mil

- Ms. Vicki Crouse
  Office of Financial Operations
  (202) 433-9198
  victoria.crouse@navy.mil

- Ms. Edom Aweke
  Office of Financial Operations
  (703) 695-9270
  edom.aweke@navy.mil

- Mr. Joseph Doyle
  Office of Financial Operations
  (703) 692-0688
  joseph.doyle@navy.mil

Attachment 2: Acronym List

Acronym	Term
ADA	Antideficiency Act
ADM	Aircraft Depot Maintenance
AO	Action Officer
AP	Accounts Payable
API	Application Programming Interface
APSR	Accountable Property System of Record
AR	Accounts Receivable
ASN	Assistant Secretary of the Navy
ASN (EI&E)	Assistant Secretary of the Navy (Energy, Installations, and Environment)
ASN (FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
ASN (M&RA)	Assistant Secretary of the Navy (Manpower and Reserve Affairs)
ASN (RD&A)	Assistant Secretary of the Navy (Research, Development, and Acquisition)
AU	Assessable Unit
AVM	Access Violation Management
BOP	Business Operations Plan
BSO	Budget Submitting Office
BTS	Business Transaction Systems
BUMED	Navy Bureau of Medicine and Surgery
BUPERS	Bureau of Navy Personnel
CAP	Corrective Action Plan
CHINFO	Navy Office of Information
CIO	Chief Information Officer
CIP	Construction in Progress
CIVPAY	Civilian Pay
CMC	Commandant of the Marine Corps
CNIC	Commander, Navy Installations Command
CNO	Chief of Naval Operations
CNP	Chief of Naval Personnel
COMFRC	Commander, Fleet Readiness Centers
COR	Contracting Officer Representative
COTS	Commercial off-the-Shelf
CPPA	Command Pay and Personnel Administrator
CR	Comprehensive Review
CUEC	Complementary User Entity Control
CVP	Contract Vendor Pay
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)
DBS	Defense Business Systems
DCPDS	Defense Civilian Personnel Data System
DCPS	Defense Civilian Pay System
DECKPLATE	Decision Knowledge Programming for Logistics Analysis and Technical Evaluation

Acronym	Term
DFAR	Defense Federal Acquisition Regulation
DFAS	Defense Finance and Accounting Service
DIACAP	DoD Information Assurance Certification and Accreditation Process
DJMS	Defense Joint Military Pay System
DJMS- AC/RC	Defense Joint Military Pay System- Active Component/Reserve Component
DLA	Defense Logistics Agency
DMDC	Defense Manpower Data Center
DMO	Defense MilPay Office
DoD	Department of Defense
DoD FMR	Department of Defense Financial Management Regulation
DON	Department of the Navy
DON/AA	Department of the Navy Assistant for Administration
DSCA	Defense Security Cooperation Agency
DUSN	Deputy Under Secretary of the Navy
E&C	Existence and Completeness
E2E	End-to-End
EAIS	Enlisted Assignment Information System
EBS	Enterprise Business Center
ECMP	Enterprise Continuous Monitoring Program
EFT	Electronic Funds Transfer
ELC	Entity-Level Controls
eMASS	Enterprise Mission Assurance Support System
EPR	Evaluate, Prioritize, and Remediate
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
EXMIS	Expeditionary Equipment Management Information System
EYES	Execution Year Engine Schedule
EYG	Execution Year Guidance
FAM	Functional Area Managers
FAR	Federal Acquisition Regulation
FASTDATA	Fund Administration and Standardized Document Automation
FBI	Federal Bureau of Investigation
FBwT	Fund Balance with Treasury
FFC	United States Fleet Forces Command
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FIS	Facilities Information System
FISCAM	Federal Information System Controls Audit Manual
FLSB DASN	Flag Level Steering Board
FM	Financial Management
FMB	Financial Management and Budget

Acronym	Term
FMFIA	Federal Managers' Financial Integrity Act
FMO	Office of Financial Operations
FMP	Office of Financial Policy and System
FMPDR	Financial Management Systems and Policy Document Repository
FMPM	Financial Management Policy Manual
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FRC	Fleet Readiness Center
FRD	Fund Receipt and Distribution
FSA	Field Support Activity
FSCR	Financial Statement Compilation and Reporting
FY	Fiscal Year
FYDP	Future Years Defense Program
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GCSS	Global Combat Support System
GE	General Equipment
GE-R	General Equipment- Remainder
GEX	Global Exchange Service
GF	General Fund
GFP	Government Furnished Property
GL	General Ledger
GLAS	General Ledger Accounting Systems
GSA	General Services Administration
GT&C	General Terms and Conditions
HR	Human Resources
HSP	Husbanding Service Provider
ICO	Internal Controls over Operations
ICOFR	Internal Control over Financial Reporting
ICOFS	Internal Controls over Financial Systems
ICOR	Internal Controls Over Reporting
ICR	Internal Control Review
IdAM	Identity and Access Management
IG	Inspector General
IMPS	Integrated Management Processing System
iNFADS	Internet Navy Facilities Asset Data Store
IOC	Initial Operational Capability
IP	Improper Pay
IPA	Independent Public Accountant
IPAC	Intra-Governmental Payment and Collection
iRAPT	Invoicing, Receipt, Acceptance, and Property Transfer
IRB	Investment Review Board

Acronym	Term
IRM	Integrated Risk Management
IT	Information Technology
ITGC	Information Technology General Controls
JV	Journal Voucher
KSA	Knowledge, Skills, and Abilities
KSD	Key Supporting Documents/Documentation
LOA	Line of Accounting
LOGREQ	Logistics Requirement
MAU	Major Assessable Unit
MCTFS	Marine Corps Total Force System
MICP	Managers' Internal Control Program
MILDEP	Military Departments
MILPAY	Military Pay
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MNCC	MyNavy Career Center
MOU	Memorandum of Understanding
MPT&E	Manpower Personnel Training and Education
MSC	Military Sealift Command
MSC-FMS	Military Sealift Command Financial Management System
MW	Material Weakness
NAE	Navy Acquisition Executive
NAO	Navy Authorizing Official
NAVAIR	Naval Air Systems Command
NAVAUDSVC	Naval Audit Service
NAVFAC	Naval Facilities Engineering Command
NAVINSGEN	Naval Inspector General
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
NAVWAR	Naval Information Warfare Systems Command
NBIS	Navy Business Intelligence Services
NCIS	Naval Criminal Investigative Service
NEC	Navy Enlisted Classification
NETC	Naval Education and Training Command
NFR	Notice of Findings and Recommendations
NIA	Naval Intelligence Activity
NIST	National Institute of Standards and Technology
NM	Navy-Managed
NMCI	Navy/Marine Corps Intranet
NO	Navy-Owned
NP2	Navy Personnel and Pay System
NROWS	Navy Reserve Order Writing System
NSMA	Navy Systems Management Activity

Acronym	Term
NWCF-SM	Navy Working Capital Fund – Supply Management
O&M	Operations and Maintenance
O2C	Order-to-Cash
OAIS	Officer Assignment Information System
OCIO	Office of the Chief Information Officer
OCMO	Office of the Chief Management Officer
OEP	Organizational Execution Plan
OGC	Office of the General Counsel
OIS	Ordnance Information System
OJAG	Office of Judge Advocate General
OLA	Office of Legislative Affairs
OM&S	Operating Materials and Supplies
OM&S-R	Operating Materials and Supplies – Remainder
OMB	Office of Management and Budget
OMN	Operations and Maintenance- Navy
ONR	Office of Naval Research
OPNAV	Office of the Chief of Naval Operations
OPNAVINST	Office of the Chief of Naval Operations Instruction
OPR	Office of Primary Responsibility
OSBP	Office of Small Business Programs
OSD	Office of the Secretary of Defense
OUSDC	Office of the Under Secretary of Defense Comptroller
P2P	Performance to Plan
P2P	Procure-to-Pay
PACFLT	Commander, U.S. Pacific Fleet
PB	President's Budget
PBIS	Program Budget Information System
PCM	Process Cycle Memorandum
PCS	Permanent Change of Station
PEO	Program Executive Office
PERS-213	Officer Subspecialty Management and Graduate Education Section
PERS-Pay	Personnel Pay Division
PIEE	Process to Improve Expenditure Efficiency
PII	Personally Identifiable Information
PKI	Public Key Infrastructure
PMW	Program Manager, Warfare
POAM	Plan of Action and Milestones
POM	Program Objective Memorandum
PP&E	Property, Plant and Equipment
PPB	Planning, Performance, and Budget
PPBE	Planning, Performance, Budget, and Execution
PS	Personnel Specialist

Acronym	Term
Q1	Quarter 1
Q2	Quarter 2
Q3	Quarter 3
Q4	Quarter 4
QASA	Quality Assurance Self-Assessment Program
RCM	Risk and Control Matrix
RESFOR	Commander, Navy Reserve Force
RMF	Risk Management Framework
ROA	Risk and Opportunity Assessment
RWO	Reimbursable Work Order
RWO-G/P	Reimbursable Work Order – Grantor/Performer
SAA	Security Assistance Account
SABRS	Standard Accounting Budgeting Reporting System
SAO	Senior Accountable Official
SAP	Special Access Programs
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SBT	Standard Business Transactions
SD	Significant Deficiency
SDLC	Systems Development Lifecycle
SDM	Ship Depot Maintenance
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLA	Service Level Agreement
SLDCADA	Standard Labor Data Collection and Distribution Application
SMC	Senior Management Council
SOA	Statement of Assurance
SOC	System and Organization Control
SOD	Segregation of Duties
SOP	Standard Operating Procedure
SPECWAR	Naval Special Warfare Command
SPOE	Single Point of Entry
SPS	Standard Procurement System
SRR	Strategic Readiness Review
SSAE	Statement on Standards for Attestation Engagement
SSN	Submarine, Nuclear Power
SSO	Subservice Organization
SSP	Strategic Systems Programs
SSP	Shared Service Provider

Acronym	Term
STARS	Standard Accounting Reporting System
STARS-FL	Standard Accounting and Reporting System – Field Level
STARS-HCM	Standard Accounting and Reporting System – Headquarters Command Module
SUPDESK	Supervisors Deck
SYSCOM	Systems Command
TDD	Treasury Direct Disbursing
TFM	Treasury Financial Manual
TMS	Type Model Series
TO	Task Order
ToP	Transportation of People
ToT	Transportation of Things
TRIM	Total Records Information Management
TYCOM	Type Command
UDO	Undelivered Order
UFCO	Unfilled Customer Order
USFF	United States Fleet Forces Command
USMC	United States Marine Corps
USMC DDS	United States Marine Corps Deployable Disbursing System
VCNO	Vice Chief of Naval Operations
WAWF	Wide Area Work Flow
WCF	Working Capital Fund
WinIATS	Windows Integrated Automated Travel System
WLS	Workload Standards
ZBB	Zero Based Budgeting

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE FY 2019

DEPARTMENT OF THE NAVY