FY 2020

DEPARTMENT OF THE NAVY
STATEMENT OF ASSURANCE

Table of Contents

4 Executive Summary

6 DON Risk Management and Internal Controls

10 Statement of Assurance and Reported Material Weaknesses

13 Significant Initiatives and Accomplishments

18 Way Forward

19 Appendices

20 Appendix A: Federal Managers Financial Integrity Act

21 Appendix B: Signed Statement of Assurance

24 Appendix C: Audit Priority Areas

25 Appendix D: Acronyms

"The carrier strike group team is trained and ready. The men and women of Carrier Strike Group 11 have demonstrated exceptional tactical and technical expertise, teamwork, and toughness. We are honored to answer the call and operate forward."

— Rear Admiral Jim Kirk, Commander, CSG 11

Aircraft carrier USS Nimitz (CVN 68) departs Naval Air Station North Island June 8. Nimitz and elements of the Nimitz Carrier Strike Group (CSG), deployed from San Diego in support of global maritime security operations. (U.S. Navy photo by Mass Communication Specialist 2nd Class Natalie M. Byers)

Message from the Secretary of the Navy

Every day, the men and women of the United States Navy and Marine Corps operate in an uncertain and dangerous world. "Calculated risk" is a critical element of the heritage and character of our team. Only by identifying and having open, frank conversations about the risks to our mission, can we expect to overcome challenges, break down barriers, and maintain a united front against all adversaries. Accurate and timely information about our risks and our strengths are required to accomplish our mission.

The Navy and Marine Corps manage enormous amounts of data, and new technologies provide opportunities to analyze and use this information to our advantage that were not available in the past. However, too many of our systems and processes are outdated, limiting our ability to harness new technologies and more effectively manage our global warfighting force. If we are to remain the greatest maritime force in the world, we must transform our business operations.

The National Defense Strategy (NDS) sets the course for the Department of Defense (DoD). The Department of the Navy (DON) Business Operations Plan is our roadmap for achieving the NDS goals and objectives. The annual financial statement audits identified areas where we need improvements, and our Integrated Risk Management (IRM) strategy is helping us to identify and assess risks in our planning, policies, systems, and controls. An efficient system of internal controls balanced with resources available will keep the transformation work on track and facilitate achievement of our strategic goals while maintaining combat-ready Naval forces.

Our transformation initiatives are already enhancing operational readiness to meet the demands of this changing world. For example, we were better prepared to address the risks presented by the Coronavirus Disease (COVID)-19 pandemic in several ways. Improved reporting at our Fleet Readiness Centers helped with the rapid deployment of our two hospital ships to aid our Nation. Our newly appointed Chief Information Officer (CIO) spearheaded the efforts to expand our network capabilities in order to support the virtual work and safety needs of our global workforce. We successfully tracked and reported funding provided through the Coronavirus Aid, Relief, and Economic Security Act to minimize the risk of fraud, waste, and abuse. Further, we streamlined our acquisition and vendor pay processes to assist our corporate partners by maintaining industrial support during this challenging time.

The COVID-19 pandemic is a powerful reminder of the value of the Department's ability to swiftly and effectively react to emerging risks. Failure to address such risks can severely impact the Navy and Marine Corps operational readiness, and endanger our people and their families. We cannot fall short.

I am confident that with proper recognition of the many risks and challenges we face as a force, the United States Navy and Marine Corps will transform our business operations, maintain a ready force, and achieve the capabilities needed to protect the American people through every challenge in the years ahead.

Kenneth J. Braithwaite
Secretary of the Navy

Executive Summary

Leaders across the DON are committed to reform business operations to strengthen stewardship and protect the resources entrusted to them by the American people. This commitment is resonating throughout the organization, and improvements made thus far are resulting in administrative efficiencies, a better use of resources, and more timely and reliable information throughout the Navy, Marine Corps, and commands. The Statement of Assurance (SOA) is the DON's annual report on whether internal controls are effective and achieving their intended objectives, as required.

The DON is using a top-down integrated risk assessment and control evaluation approach to focus resources on remediation of priority areas in our business operations. The recently published IRM strategy integrates the DON's methodology for identifying and assessing risk with its program for evaluating internal controls. DON organizations can use this risk management framework to evaluate risks that may prevent them from achieving their objectives. Internal controls help ensure the integrity of information used to manage operations. An effective internal control program provides process stability and security as business environments shift, demands evolve, risks emerge, and new priorities take focus.

The DON maintains an enterprise-wide program for evaluating its internal controls, which incorporates the results of other evaluations, such as the annual financial statement audits. In fiscal year (FY) 2020, the DON was able to provide reasonable assurance for internal controls over operations and Entity Level Controls (ELCs), including controls over fraud, and no assurance for internal controls over financial reporting and systems with 24 total reported material weaknesses.

The DON has established a comprehensive transformation initiative to improve the reliability, accessibility, security, and efficiency of business information for DON leadership to effectively manage its operations. This transformation comprises business process reforms, system consolidations, internal control enhancements, and monitoring and oversight improvements. This report highlights recent progress and future efforts planned to achieve these goals, including:

- Rollout of the MyNavy Career Center
- Introduction of the Civilian Human Capital Strategy
- Improvements in ship maintenance contract management and oversight processes
- Improvements in aviation development and maintenance processes
- Streamlined vendor payment processes
- Data accessibility and protection initiatives
- Systems consolidation
- Cybersecurity and system controls implementation
- Financial reporting process improvements

The DON leadership is committed to continuing these transformation efforts to support the warfighter and maintain fleet readiness in defense of the Nation. This report describes how the DON is prioritizing improvements and shows how identified deficiencies are being remediated. For information on the DON, its mission and organizational structure, the roles and responsibilities of the individual fleet and shore commands, the Department's financial statements, and reports of the independent auditors, please see the most recent **Department of the Navy Annual Financial Report here:** https://www.secnav.navy.mil/fmc/fmo/Pages/Financial-Reports.aspx

Aviation Boatswain's Mate (Handling) 2nd Class Rebecka Silver, assigned to the Wasp-class amphibious assault ship USS Bataan (LHD 5), directs an MV-22B Osprey, attached to the Blue Knights of Marine Medium Tiltrotor Squadron (VMM) 365 (Reinforced), aboard Bataan during flight operations, June 22, 2020. (U.S. Navy photo by Mass Communication Specialist 3rd Class Lenny Weston/Released)

DON Risk Management and Internal Controls

The Office of Management and Budget Circular A-123, ***Management's Responsibility for Enterprise Risk Management and Internal Control*** (OMB A-123) requires each federal agency to implement enterprise risk management and integrate this effort with its strategic planning and review processes. Enterprise risk management focuses on identifying, assessing, and managing risks across all of the entity's business processes to reduce or eliminate the potential for adverse effects from disruptive events. A primary tool for managing risk is a thorough program of effective internal controls including monitoring and oversight with accurate business information. Internal controls are mechanisms, rules, policies or processes that provide reasonable assurance that the objectives of an entity will be achieved.

To better identify, assess, and manage risk across all business processes, the DON introduced the **Department of the Navy Integrated Risk Management (IRM)** strategy, which integrates two critical capabilities: Enterprise Risk Management and Internal Controls over Reporting. The IRM strategy provides a roadmap for enhancing the efficiency, effectiveness, and transparency of the DON's risk management and internal control capabilities.

During the initial implementation phase, the DON will use existing mechanisms to capture, escalate, monitor, and manage risks based on the following:

Implementation Approach

People Assistant Secretary of the Navy (ASN) Financial Management and Comptroller (FM&C) and the Office of the Chief Management Officer (OCMO), as co-leads, developed an IRM communication strategy to introduce and reinforce IRM concepts to OMB A-123 stakeholders and operational leadership throughout the Department. The DON will continue to advance its communication and change management efforts in FY 2021 by developing and facilitating IRM training and conducting leadership "roadshows".

Process During FY 2020, the DON published its **Enterprise Risk Management Concept of Operations**, which will guide its efforts to identify risks in relation to strategic objectives and document risks in a DON Risk Profile. To develop and implement the guidance, processes, and tools necessary to fully address the expanded requirements of OMB A-123, the DON convened an IRM Working Group with representation from over 20 Navy and Marine Corps organizations. This group helps ASN (FM&C) and OCMO develop step-by-step IRM implementation instructions and an IRM Guidebook. A pilot program will assess the effectiveness of the instructions by applying them to the objectives, risks, and internal controls associated with the Hire-to-Retire business process. Once validated, the guidance will be issued for use across the enterprise during FY 2021.

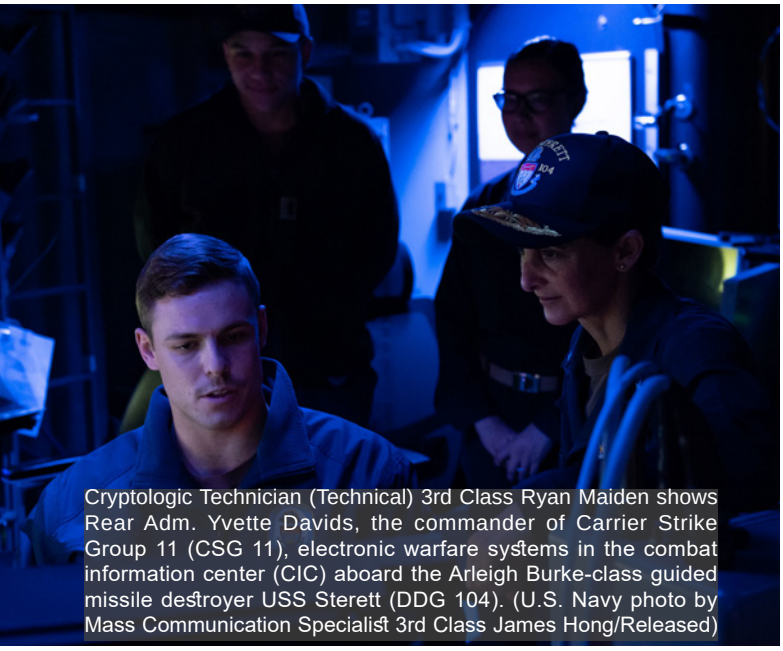
Governance Three DON governance bodies will help facilitate the flow of risk information and recommendations to senior leaders as the IRM strategy is more fully implemented. The **Business Operations Management Council** will assess enterprise-level and strategic risks, define strategic priorities in response to those risks, and publish strategic business objectives through the Business Operations Plan. The **Audit Committee** will continue to monitor the results of the financial statement and other audits, while setting the audit response strategy and aligning its priorities. The **Senior Management Council** will lead the implementation of the IRM strategy and enhance the OMB A-123 evaluation program across the DON. It will report financial risks to the Audit Committee and non-financial, operational risks to the Business Operations Management Council.

Technology To accelerate enterprise-wide adoption of IRM, the DON conducted a technology-focused pilot in FY 2020 that evaluated the efficiency of an automated enterprise governance, risk, and compliance (eGRC) management tool. The eGRC tool, once fully implemented in FY 2021, will enable continual risk identification, integrate the internal control evaluation process, and consolidate key elements of Navy's annual certification process within a single electronic platform accessible across the enterprise. The Commandant of the Marine Corps implemented its own eGRC tool in FY 2020, which is used for tracking surveys, risk assessments, accomplishments, and corrective action efforts.

Over time, the DON IRM strategy will provide DON leadership with a holistic and timely view of risk and internal control information so that the DON can effectively focus efforts and resources to respond to the greatest risks to the DON's goals.

In addition, the DoD Instruction 5010.40 requires that Defense components establish OMB A-123 compliant internal control programs to review, assess, and report on internal controls as required by the Federal Managers Financial Integrity Act (FMFIA) of 1982 (see Appendix A). The DoD OCMO and Office of the Under Secretary of Defense (Comptroller) serve as the internal control program oversight bodies that provide guidance to the DON and other Defense organizations for the annual SOA assessment and evaluation process throughout the year by providing training, tools, templates, and governance oversight.

In order to derive a conclusion on the effectiveness of the DON's internal controls, the DON considers information obtained through several enterprise-wide initiatives:
(1) Certification Statement process executed by the various DON commands through their A-123 program, (2) testing results from DON-wide integrated testing and external audits performed by the independent auditors, and (3) Fraud Risk Assessment and an ELC survey.



Cryptologic Technician (Technical) 3rd Class Ryan Maiden shows Rear Adm. Yvette Davids, the commander of Carrier Strike Group 11 (CSG 11), electronic warfare systems in the combat information center (CIC) aboard the Arleigh Burke-class guided missile destroyer USS Sterett (DDG 104). (U.S. Navy photo by Mass Communication Specialist 3rd Class James Hong/Released)

Certification Statement Process: The DON's A-123 Program Office issues guidance, tools, and training to DON Major Assessable Units (MAUs) and Budget Submitting Offices (BSOs) to support compliance with reporting requirements, including the completion of the annual Certification Statement Memorandum and supporting components (i.e., Managers' Internal Control Program (MICP) Plan, Risk Assessment, Internal Controls Evaluation, Material Weakness/ Significant Deficiency, Corrective Acton Plans (CAPs) and Significant Accomplishments).

DON MAUs and BSOs assign a MICP Coordinator for their organization, who serves as the working-level internal control representatives for their activity. Each MAU and BSO defines the assessable units within its organization based on those most critical to the organization's mission and strategic objectives. They execute 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 components are a critical information source for the determination of reasonable assurance over the effectiveness of the DON's internal controls.

The DON A-123 Program Office provides continuous support and feedback throughout the assessment process. Information obtained from the MAUs and BSOs is analyzed and consolidated to present an integrated assessment of operations, key risks, business processes, controls, systems and data reliability.

DON-Wide Top-Down Integrated Testing: In FY 2019, the DON introduced a top-down integrated risk assessment and control evaluation approach to align with OMB Circular A-123 requirements and ensure key control testing is consistent with Government Accountability Office (GAO) guidelines. The DON expanded its scope of testing and further standardized the approach by issuing guidance and training in FY 2020.

As part of its "top-down" testing methodology, the DON performed evaluations and/or reviewed third party evaluations of selected enterprise-wide business processes, their related systems and internal controls. Highlights of these testing results are presented below:

Business Process	Test Results
 Military Personnel, Pay and Benefits	• Testing of selected military personnel management and benefits process key controls found two areas for improvements related to reserve personnel reporting to duty and active duty separations. • General Information Technology (IT) controls were tested for the Navy Standard Integrated Personnel System and Officer Personnel Information System and the Office Personnel Information System, with several deficiencies being identified, related to access, security management, interfaces, and segregation of duties, configuration management, and contingency planning controls. • Review of System and Organization Controls (SOC) 1 report of the Defense Joint Military Pay System, a DFAS owned system used to process military pay and entitlements, found their system controls to be effective overall, but identified access controls and security management controls that need to be implemented within DON. • FY 2020 payment integrity testing of active and reserve military payroll for the DON found an error rate of 0.21 percent. Specifically, the Marine Corps' rate was zero percent.
 Civilian Personnel, Pay and Benefits	• No significant exceptions were noted in selected data elements within the Defense Civilian Personnel Data System in connection with testing of the reliability of civilian payroll. • FY 2020 payment integrity testing and civilian payroll for the DON found an error rate of 0.14 percent. • No issues reported by DON BSOs and MAUs in connection with tests of the reconciliation of payroll reports with their general ledgers. • Audits of the Defense-owned civilian personnel and payroll systems found their processes and IT controls effective overall. • Testing of the controls within the time keeping system, Standard Labor Data Collection and Distribution Application, found deficiencies within access controls and security management.
 General Equipment (Aircraft, Vessels and Satellites)	• Testing of existence and completeness of vessels and satellites in Navy Enterprise Resource Planning (ERP) and aircraft in Decision Knowledge Programming for Logistics Analysis and Technical Evaluations (DECKPLATE) found no significant discrepancies.
 Operating Materials and Supplies (UAE Only)	• FY 2020 testing of the Navy's controls over the management of Uninstalled Aircraft Engines (UAE) found deficiencies in controls related to the receipt and acceptance of UAE and the annual physical inventory process. • System control testing for DECKPLATE identified deficiencies related to access, interfaces and security management. • System control testing for two ordnance systems, Ordnance Information System and Logistics Modernization Program, found numerous deficiencies that could impact the reliability of management reporting.
 Government Purchase Cards	• Testing of controls over Government Purchase Card (GPC) transactions related to purchase requisitions, receipts and acceptances, and bank statement reconciliations identified areas for improvements. However, the deficiencies are not pervasive across the DON, and additional training will be provided as part of the remediation plan.

While the DON's scope of testing continues to expand each year, it is expected that new exceptions will be identified due to an increase in the breadth and depth of the assessment process. In addition, as the A-123 program continues to mature through integration, implementation of technology solutions, and continuous monitoring, internal control exceptions will be reduced to an acceptable level, and sustained system of effective internal controls will pave the way for the department to ultimately attain a clean audit opinion.

Entity Level Controls: The DON has an established ELC evaluation process to assess the design of the DON's entity level controls as outlined in the GAO's *Standards for Internal Control in the Federal Government* ("Green Book") as well as determine how well policies, programs, and directives that support ELCs are socialized and implemented across the enterprise.

Building on the program's FY 2019 evaluation, the DON enhanced its assessment process by requiring MAUs to submit key supporting documentation to evidence control implementation and further expanding the scope to include fraud-specific questions. The additional fraud questions support the DON's focus on assessing fraud-risk mitigation controls and the DoD-required assertion regarding ELCs and fraud controls.

Of the 48 ELC GAO Green Book attributes, the FY 2020 assessment identified seven attributes that were not fully implemented, compared to 21 attributes in FY 2019. The assessment concluded that:

- Risk tolerances are not well-defined due to the DON's broad scope of business activities and objectives.
- Processes to identify and analyze risks, throughout the entity, need to be standardized.
- Processes used to identify and effectively respond to fraud risk needs to be strengthened.
- Entity-wide control activities are not fully established for all key end-to-end business processes.

Fraud Risk: In FY 2020, the DON conducted its first-ever Fraud Risk Assessment in which 17 components were asked to identify and score inherent fraud risks, describe and evaluate internal control effectiveness, and consider residual fraud risk exposure. The assessment:

- Identified opportunities for strengthening certain fraud-related controls in the area of large contracts for bid requirements, targeted selection of favored vendors, and nonconforming parts and supplies.
- Found IT security as an area of high inherent risk, but one where internal controls were effective in reducing the overall risk to the DON.
- Found various policies and manual or system controls were deemed effective to lower the risk for asset safeguards area from medium to low risk to the DON.
- Found travel, fleet, and purchase card controls were perceived to effectively reduce the DON's risk of fraud.

Chief Navy Counselor Jorge Ramirez, from Brownsville, Texas, assigned to the amphibious assault ship USS Boxer (LHD 4), speaks to a Sailor during "8 Bells" training in the ship's classroom. (U.S. Navy photo by Mass Communication Specialist 2nd Class David Ortiz/Released)

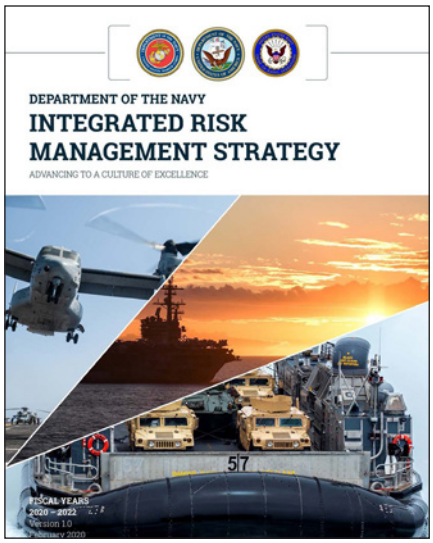
Statement of Assurance and Reported Material Weaknesses

As aforementioned, the FMFIA and OMB A-123 require each federal agency to evaluate its accounting systems and administrative controls for compliance with laws, regulations, and reporting standards. FMFIA requires management to provide signed statements on whether internal controls achieve their intended objectives, and if not, prepare a report on identified weaknesses and the timeline for planned remediation. The Department of Defense requires that each military service and Defense organization submit conclusions on specific aspects of its controls.

As presented by the Secretary of the Navy (SECNAV) in Appendix B of this report, the DON reported the following conclusions based on its internal evaluation:

- **Internal Control over Operations**: Reasonable Assurance, except for nine reportable material weaknesses and two significant deficiencies.
- **Internal Control over Financial Reporting**: No Assurance, due to twelve reported material weaknesses.
- **Internal Control over Financial Systems**: No Assurance, due to three reported systems non-conformances.
- **Entity Level Controls, including fraud controls**: Reasonable Assurance, except for one reported material weakness.

A control deficiency exists when the design, implementation, or operation of a control does not allow management or personnel (in the normal course of performing their assigned functions) to achieve control objectives and address related risks. A significant deficiency is defined as a lack of or a combination of deficiencies in internal controls that are less severe than a material weakness, yet important enough to merit attention by those charged with governance. A significant deficiency determined to be important enough to report externally is considered a material weakness.



A material weakness over reporting is a significant deficiency impacting internal and external decision-making. A material weakness over operations may include the following conditions:

- Impact the operating effectiveness of ELCs
- Impair fulfillment of essential operations or mission
- Deprive the public of needed services
- Significantly weaken established safeguards against fraud, waste, loss, unauthorized use, or misappropriation of funds, property, other assets or conflicts of interest

Property, Plant & Equipment (utility assets), contract authority, contingent legal liabilities, and environmental and disposal liabilities were four additional material weaknesses reported by the independent financial statement auditor in FY 2019, which occurred after the FY 2019 SOA was issued. The DON was able to remediate these issues in FY 2020 through process improvements and system upgrades. As such, they are not reported as a current year material weaknesses in this SOA.

The following table shows reportable deficiencies in the DON's internal controls (all findings listed are material weaknesses unless denoted as "SD", indicating a significant deficiency):

Deficiency	Type	Targeted Remediation Date
Depot Level Maintenance	Internal Controls over Operations	Jun. 2025
Military Pay and Personnel		Jan. 2025
DON Oversight and Management of Improper Payments		Mar. 2021
Property in the Possession of Contractors*		Dec. 2022
Execution of Husbanding Contracts – Husbanding Service Providers		Sep. 2023
Submission of Criminal Subject Fingerprint Cards and Reporting Disposition of Criminal Charges		Jun. 2021
Data Protection		Dec. 2021
Complex IT Environment		Oct. 2023
Oversight and Monitoring*		Dec. 2025
Protection of Controlled Unclassified Information (SD)		Jun. 2021
Attenuating Hazardous Noise in Acquisition and Weapons System Design (SD)		Dec. 2021
Property, Plant & Equipment Valuation*	Internal Controls over Financial Reporting	Sep. 2024
General Equipment-Remainder: Existence & Completeness*		Sep. 2021
Financial Reporting*		Sep. 2026
Fund Balance with Treasury Reconciliations*		Sep. 2021
Accounts Payable*		Sep. 2023
Traceability and Supportability of Foreign Military Sales Transactions		Sep. 2021
Procure-to-Pay Process		Dec. 2025
Order-to-Cash Process*		Sep. 2023
Inventory*		Feb. 2025
Operating Materials & Supplies – Remainder*		Sep. 2024
Budgetary Execution*		Sep. 2026
Operating Materials & Supplies – Ordnance*		Apr. 2022
Information Systems Interfaces*	Internal Controls over Financial Systems	Jun. 2022
Information Systems Configuration Management*		Jan. 2021
Information Systems Access Controls/Segregation of Duties*		Sep. 2024

*Denotes finding reported as a material weakness by the independent financial statement auditor.

Audit Roadmap: Beginning in FY 2018, independent auditors annually audit the Navy's and Marine Corps' financial statements. Both the Navy and Marine Corps audits have resulted in disclaimers of opinion, which means the auditors did not have enough evidence to render an opinion. The DON evaluated the Navy's financial remediation progress to estimate when it reasonably expects the Navy to achieve an opinion on its financial statements. Given the interdependencies of various internal control deficiencies and projected remediation timelines, and pending system consolidation efforts, the Navy currently estimates achieving an opinion in FY 2027. The Marine Corps is also developing an audit roadmap and working toward a positive opinion.

Remediation Priorities: The DON has identified several remediation priority areas. By concentrating resources and management attention on these areas, the DON established a more focused and efficient approach to correcting findings and improving the reliability of its financial information. As a result, the DON expects to reduce material weaknesses in its system of internal controls, increase the accuracy of financial statements and disclosures and, ultimately, achieve a positive audit opinion. The current priority areas are outlined in Appendix C.

HOUSTON (May 6, 2020) The U.S. Navy Flight Demonstration Squadron, the Blue Angels, fly over Houston, Texas, May 6, 2020. The flyover was part of America Strong; a collaborative salute from the Navy and Air Force to recognize healthcare workers, first responders, military, and other essential personnel while standing in solidarity with all Americans during the COVID-19 pandemic. (U.S. Navy photo by Mass Communication Specialist 2nd Class Cody Hendrix/Released)200506-N-YO638-2835

Significant Initiatives and Accomplishments

The DON has dedicated significant resources to transforming business processes across commands within the DON. While systems consolidation efforts and other initiatives are expected to take several years to complete, the DON efforts have resulted in a number of improvements in its business processes and information during the year, including the resolution of four material weaknesses first identified by the DON's independent auditor in FY 2019, that are resulting in the improved reliability of management information.

The largest element of the DON's business transformation efforts revolve around improving its financial management reporting systems and processes that affect many of the DON's business processes, as well as the reliability of the DON's financial statements. The DON Financial Management Transformation plan focuses on general ledger systems consolidation, feeder systems consolidation, and enhanced business processes, policies, and internal controls. The DON is consolidating its legacy financial systems while transferring many accounting activities directly into the Navy ERP system. Navy ERP is a system of integrated applications for collecting data on end-to-end business processes and supporting the DON's financial reporting activities. It will eventually serve as the DON's core financial management system. System consolidation will reduce the risk of human error and is critical to the DON's financial management transformation strategy.

The following table highlights the most significant initiatives/accomplishments in financial, systems, and operational currently underway to help resolve existing material weaknesses:

Material Weakness	Initiative/Accomplishment
Depot Level Maintenance	• Continuing the 20-year, $21 billion Naval Shipyard Infrastructure Optimization Program, which focuses on dry dock recapitalization, naval shipyard infrastructure facility layout, workflow optimization, capital equipment upgrades, and growing depot maintenance staff to over 37,000 personnel. • Reduced maintenance timelines and improved Strike Fighter F/A-18E/F Mission-capable rates from less than 60 percent in FY 2018 to 80 percent throughout FY 2020. • Improved development processes at aviation fleet readiness centers to provide near real-time elevation of delays and schedule variances across all aircraft production lines. Improved process for allocating funding to these centers to better align with workload requirements. • Completed 454 airframe maintenance reviews (exceeding 439 adjusted plan) resulting in better accounting for long lead-time material and fleet induction delays.
Military Pay and Personnel	• Migrating most of the DON's military manpower, personnel, training, and education systems to a core suite of systems, including a single Navy Personnel and Pay system that will work with Navy ERP and the revised disbursing processes. • Introduced the MyNavy Portal, a self-service portal that provides military personnel and their families a web-based marketplace for managing career and life events, such as advancements and promotions, career planning, deployments, and pay and benefits.
Execution of Husbanding Contracts	• Standardized Husbanding Service Provider (HSP) policy across the Navy including governance, training and metrics reporting processes. • Revised HSP contract quality assurance surveillance plans and standardized logistics requirements by ship class to include mandating minimum requirements for contracting officer representative on-site surveillance of HSP contractors.

Material Weakness	Initiative/Accomplishment
Complex IT Environment	• Established the Office of the Chief Information Officer to advance technology solutions and strategies that accelerate the DON's digital transformation and appointed a Special Assistant to the Secretary for Information Management/CIO. • Developed a new Information Superiority Vision to modernize IT infrastructure, implemented 5th generation wireless and artificial intelligence, accelerated software development, applied industry best practices, and employed active monitoring controls to protect Naval information. • Migrating disbursing functions from Defense Finance and Accounting Service (DFAS) disbursing systems to the U.S. Department of the Treasury's secure payment systems (Treasury Direct Disbursing) has resulted in the following achievements: – Reduced the number of automated adjustments by approximately 20,000 entries – Allowed the DON to support functional changes to its One Pay system, used to pay commercial vendor invoices, and Navy ERP – Matched 93 percent of transactions between One Pay and Treasury and 99 percent of transactions between Navy ERP and Treasury – Established daily transaction reporting, allowing for more timely and efficient reconciliation and eliminating the need for review and validation of monthly DFAS reporting to Treasury – Improved the reliability of critical financial reporting data, which will reduce the number of unmatched and undistributed disbursement transactions between Treasury and the general ledger • Assessed all General Fund and Working Capital Fund systems scheduled to migrate to Navy ERP. Also, migrated the Defense Working Capital Accounting System (Engineering Expeditionary Warfare Center) and the Integrated Management Processing System activities to Navy ERP. • The Defense Cash Accountability System and Program Budget Information System now feed directly into Navy ERP. • Continued planning for commands' migration from General Fund General Ledger systems to Standard Accounting Budgeting Reporting System (SABRS) and consolidating the related feeder systems to the Command Financial Management System (CFMS).
Oversight and Monitoring	• Issued enhanced guidance on process and control documentation and conducted three A-123 2-day training seminars, to support the objectives and requirements of the MAU and BSO Certification Statement process. • Implemented an independent DON-wide top-down integrated testing approach to standardize testing methodology and assess design and operational effectiveness of controls based on the DON's priorities and overall objectives to include Financial Management, IT, and Operations controls. • Implemented the Managers' Internal Controls Remediation and Reporting (MICRR) application to fully automate and manage the Marine Corps' risk management and internal program activities. • Developed a cyclical approach to Shared Service Provider oversight and monitoring and reviewed 22 SOC 1 reports and mapped the DON's controls to the Complementary User Entity Controls. • Enhanced the entity level controls assessment process by requiring the submission of key supporting documentation to evidence control implementation. • Established a Fraud Risk Management program and conducted a comprehensive fraud risk assessment. • Introduced a new Civilian Human Capital Strategy and initiated eight pilot programs to develop the workforce of the future and meet emerging demands.

Material Weakness	Initiative/Accomplishment
Property, Plant, and Equipment	• Inventoried 100 percent of utility assets on Navy installations, 100 percent of real property assets at installations identified as high-risk during testing, and one-third of all low-risk buildings and structures. • Implemented an automated process for recording construction costs for vessels and aircraft under construction or capital repair. • Established policies and procedures for validating listings of vessels and aircraft as well as valuing existing and future assets. • Implemented three new key controls; a preventative control to identify capital improvements in minor construction projects, a detective control to verify the completeness and existence of the active projects in the construction in process account, and a monitoring control to improve the timeliness of additions and deletions to the inventory of real property assets recorded in the accountable property system of record. • Analyzed end-to-end processes across every current program that impacts the DON's environmental liability cost estimate. Implemented controls at all levels, including segregation of duties, management reviews, and estimation checklists for environmental liability. This resulted in adjusting $5 billion in estimates that did not have a formally developed independent government estimate.
Financial Reporting	• Updated financially significant transaction process guidance to define the level of financial approval required for validating these transactions and collaborated with stakeholders to identify the appropriate authorizing officials. Also, developed financial reporting and Fund Balance with Treasury oversight and process monitoring controls. • Created financial management reports within general ledger business intelligence environment (Advana) to provide management visibility and access to data previously unavailable. • Chartered the Financial Reporting Operations Group to disseminate financial management standards, policy, guidance, and procedural changes; to include publishing the quarterly DON Financial Reporting Requirements document.
Fund Balance with Treasury	• Transferred balances for multiple revenue programs out of the Navy's budget suspense accounts and moved them into the appropriate Navy Treasury Account Symbols. • Reduced overaged balance of Statement of Difference variances at DON disbursing offices. Statement of Difference variances are differences between disbursement and collection activity reported to Treasury compared with actual disbursement and collection activity processed through Treasury's payment and collection systems.
Procure-to-Pay Process	• Introduced an intragovernmental payment and collection pilot initiative with the U.S. Coast Guard to redesign the process so the funds transfer could be processed by the buyer upon proper receipt and acceptance. This initiative will prepare the DON for the government-wide G-Invoicing implementation. • Analyzed historical acquisition data by procurement category to eliminate redundancies, increase efficiency, and deliver more value and savings from the government's acquisition programs. Initiatives include replicating best practices, standardizing requirements, and providing common acquisition solutions to help manage demand and consumption.
Inventory	• Identified $2.98 billion in materiel that had not been visible across the Navy enterprise. This material has filled over 12,000 Fleet requisitions valued at nearly $50 million, of which $31.6 million was requested in FY 2020. $2.44 billion of this material is being screened to determine potential for future use (savings will not be realized until parts are requisitioned). Note: This accomplishment is applicable across three areas: Operating Materials & Supplies, General Equipment-Remainder, and Inventory. • Performed a wall-to-wall physical inventory to validate reported inventory quantities and address data anomalies. Also, implemented enhanced processes and controls to ensure the existence and completeness of inventory, and performed testing at over 60 locations.

Material Weakness	Initiative/Accomplishment
Operating Materials and Supplies	• Completed a comprehensive evaluation of the design and operating effectiveness of ordnance business process controls, including receipt, storage, and material management processes. • Completed a second annual wall-to-wall inventory of ordnance assets with a 2.9 percent error rate (not including vendor managed materiel). Documenting operational and oversight processes for ordnance and cleaning up ordnance inventory data. • Performed a line-by-line review of the Operating Materials & Supplies-Tridents asset listing and performed physical inventories with industry partners.
Budgetary Execution	• Developed an integrated Program Objective Memorandum cycle and budgeting process that provides the Secretariat with a holistic understanding of requirements, risks, and strategic decision-points over planning. • Directly recorded $1 billion in funding for the Navy Fleet Readiness Centers into Navy ERP which improved the funds receipt and distribution processes. • Strengthened controls to ensure all appropriated funds are properly recorded and reconciled. Also, began a major initiative to correct the processes and system functionality that affect the reliability of budgetary execution information.
Information Systems Interfaces	• Began implementing the DoD Risk Management Framework for financially-relevant systems and worked with system owners to address high-risk areas, prioritize IT controls, and increase awareness of system control requirements. • Developed Interface Memorandum of Agreement and Interface Control Agreement templates to outline the controls and procedures that should be documented in accordance with the DON CIO/FM&C Enterprise IT Control Standards. Disseminated templates so DON system owners can identify gaps and update documentation. • Standardized audit documentation and procedure requirements for managing complete and accurate population of interfaces, edit checks/validations, and error handling/ reconciliation for greater efficiency and process enforcement. • Published the DON Interface Management Toolkit. • Continued developing an automated solutions strategy for FY 2021 implementation to manage interfaces within Navy ERP and SABRS.
Information Systems Access Controls / Segregation of Duties	• Performed a comprehensive cross-application assessment and identified conflicting user roles involving users of Navy ERP. • Continued developing the Access Violation Management (AVM) Tool that will be integrated with CFMS and SABRS. The AVM Tool will automate SOD conflict analysis and monitoring SOD conflicts that occur through transactional data. • Developed documentation to clarify the definition of security violations and how they tie to the DON CIO/ASN FM&C Enterprise IT Control Standards. • Began assessing the identification, documentation, implementation, and monitoring of privileged user controls across key financially-relevant systems that have not been previously reviewed. • Developing an Identity and Access Management prototype for integration with Navy ERP, which is expected to be completed in FY 2021.

Secretary of the Navy (SECNAV) Kenneth J. Braithwaite, elbow-bumps a Sailor following an all-hands call in the hangar bay of the Nimitz-class aircraft carrier USS Harry S. Truman (CVN 75) in the Atlantic Ocean, June 4, 2020, marking his first visit as Navy secretary to a ship underway. The Harry S. Truman Carrier Strike Group (HSTCSG) remains at sea in the Atlantic as a certified carrier strike group force ready for tasking in order to protect the crew from the risks posed by COVID-19, following their successful deployment to the U.S. 5th and 6th Fleet areas of operation. Keeping HSTCSG at sea in U.S. 2nd Fleet, in the sustainment phase of OFRP, allows the ship to maintain a high level of readiness during the global COVID-19 pandemic. (U.S. Navy photo by Mass Communication Specialist Third Class Samuel Gruss/Released)

Way Forward

The DON has established an aggressive but feasible action plan to modernize its business operations by upgrading and consolidating legacy operational and financial systems. Modernizing the business operations of the Navy and Marine Corps is a necessity and massive undertaking that affects operations across the enterprise. In the current year, the DON assessed all systems that need to be migrated to Navy ERP and successfully migrated Defense Working Accounting System and Integrated Management Processing System activities to Navy ERP.

The most efficient way to achieve this transformation is to establish a culture and structure of transparent identification and assessment of organizational risks, and to identify, prioritize and enact appropriate risk responses, whether through avoidance, reduction, mitigation, or acceptance. The established IRM strategy provides an actionable framework for enhancing the efficiency, effectiveness, and transparency of the DON's risk management and internal control capabilities in order to more effectively prioritize leadership's risk response decisions. Based on the risk assessment, the DON developed an audit roadmap, which identifies remediation priority areas and layouts the department's risk management strategy and deficiency remediation plan, to achieve an opinion on its financial statements. The road map further enables the DON to strategically manage risks and prioritize risk areas that have significant impact to its business operations.

In addition, under the IRM strategy, the DON evaluated its existing internal controls and identified potential control gaps that need to be implemented to mitigate risks. Risk mitigation through internal controls requires effective ELCs, well defined policies and procedures, well designed and effectively operating internal controls, and efficient systems designed to provide timely and relevant information to management that supports the DON's operating objectives, strategic goals, and readiness mission. The DON has made significant improvements in its internal controls and systems. As a result, four material weaknesses were remediated in the fiscal year.

In continuing to execute the strategies and initiatives discussed in this Statement of Assurance, DON leadership is committed to the mission, vision and value that is being achieved from modernizing the DON's business operations. These transformation efforts will further our strategic goals and improve operational readiness while supporting the warfighter and maintaining combat-ready naval forces in defense of the Nation.

Ships attached to the Ronald Reagan Carrier Strike Group and John C. Stennis Carrier Strike Group transit the Philippine Sea. The U.S. Navy has patrolled the Indo-Pacific region routinely for more than 70 years promoting regional security, stability and prosperity. (U.S. Navy photo by Mass Communication Specialist 3rd Class Connor D. Loessin)

Appendices

Appendix A: Federal Managers Financial Integrity Act

Federal Managers Financial Integrity Act of 1982

September 8, 1982

An Act to amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Sec.1. This Act may be cited as the "Federal Managers' Financial Integrity Act of 1982".

Sec.2. Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C.66a) is amended by adding at the end thereof the following new subsection:

(d) (1) (A) To ensure compliance with the requirements of subsection (a)(3) of this section internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that --

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

(B) The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.

(2) By December 31, 1982 the Director of the Office of Management and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of paragraph (1) of this subsection. The Director, in consultation with the Comptroller General, may modify such guidelines from time to time as deemed necessary.

(3) By December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement --

(A) that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or

(B) that such systems do not fully comply with such requirements.

(4) In the event that the head of an agency prepares a statement described in paragraph (3)(B), the head of such agency shall include with such statement a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described.

(5) The statements and reports required by this subsection shall be signed by the head of each executive agency and transmitted to the President and the Congress. Such statements and reports shall also be made available to the public, except that, in the case of any such statement or report containing information which is --

(A) specifically prohibited from disclosure by any provision of law; or

(B) specifically required by Executive order to be kept secret in the interest of national defense or the conduct of foreign affairs, such information shall be deleted prior to the report or statement being made available to the public".

Appendix B: Signed Statement of Assurance

THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

INFO MEMO

FOR: SECRETARY OF DEFENSE DepSec _____

FROM: Kenneth J. Braithwaite, Secretary of the Navy OCT 1 2020

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2020

- Mr. Secretary, I recognize the importance of managing the Department of the Navy's (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. The DON's Statement of Assurance is provided in TAB A.

- Based on the results of the DON Internal Controls Over Operations (ICO) assessment, as of the date of this memorandum, the DON can provide reasonable assurance, except for the nine Material Weaknesses (MWs) and two Significant Deficiencies reported in the "Material Weaknesses and Significant Deficiencies" section, that ICO and compliance were operating effectively as of 30 September 2020.

- Based on the results of the DON Internal Control over Financial Reporting assessment, the DON is unable to provide assurance that controls were operating effectively due to the 12 MWs reported in the "Material Weaknesses" section as of 30 September 2020, in accordance with OMB Circular No. A-123, Appendix A.

- Based on the results of the DON Internal Controls Over Financial Systems assessment, the DON is unable to provide assurance that controls were operating effectively due to the three MWs reported in the "Material Weaknesses" section as of 30 September 2020, in accordance with FMFIA and OMB Circular No. A-123, Appendix D.

- The DON assessed Entity Level Controls (ELCs), including fraud controls, in accordance with Section 10.09 of GAO's, Standards for Internal Control in the Federal Government (the "Green Book"), OMB Circular No. A-123, the Payment Integrity Information Act of 2019, 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 30 September 2020. 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.

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2020

- My point of contact for any questions regarding the Statement of Assurance for Fiscal Year 2020 is Mr. Gregory G. Koval, who may be reached at (703) 685-6720 or e-mail at gregory.koval1@navy.mil.

COORDINATION: NONE

Attachments:
As stated

Prepared by: Mr. Gregory G. Koval, (703) 864-7956

Appendix C: Audit Priority Areas

Priority Area	Description
Accounting Systems Consolidation	Continue developing a business systems architecture and reengineering business processes to guide IT modernization with the ultimate goal of one accounting system by FY 2023.
IT General Controls	Address access and security control deficiencies to strengthen the resilience and integrity of DON systems and associated data.
WCF Contract Authority	Develop functionality, procedures and controls to record budgetary resources from contract authority directly within Navy ERP.
Real Property	Implement controls over acquisitions and disposals of land, buildings, and structures and keep the complete inventory of these assets in FY 2019 up-to-date, and correct reporting errors in utility assets by conducting a wall-to-wall count of utility assets and segments.
Inventory and Operating Materials and Supplies	Clarify and reengineer supply chain management business processes to ensure proper accountability of Inventory and Operating Materials and Supplies.
Financial Reporting and Fund Balance with Treasury	Streamline the financial statement preparation and reconciliation process, and address system deficiencies that require adjustments to the financial statements, thus improving financial governance and oversight.
Budgetary Reform	Continue refining and improving the DON's funds distribution process and recording of intra-governmental transactions.
Contractor Held Property	Improve the accountability and reporting of contractor held property, including establishing inventory reporting requirements and monitoring controls, and prioritizing Trident missiles, ordnance, and Working Capital Fund inventory.
Contingent Legal Liabilities	Improve the estimation and reporting process associated with legal liabilities.
Environmental and Disposal Liabilities	Create controls to ensure liability estimates are complete and accurate.
Marine Corps Audit Opinion	Pursue an audit opinion by addressing five critical material weaknesses: 1. Availability to Provide Complete, Timely, and Sufficient Evidence 2. Financial Reporting and Analysis 3. Fund Balance with Treasury 4. Accounting for Property, Plant, and Equipment 5. Accounting for Operating Materials and Supplies

Appendix D: Acronyms

Acronym	Term
ASN	Assistant Secretary of the Navy
AVM	Access Violation Management
BSO	Budget Submitting Office
CAP	Corrective Action Plan
CFMS	Command Financial Management System
CIO	Chief Information Officer
COVID	Coronavirus Disease
DECKPLATE	Decision Knowledge Programming for Logistics Analysis and Technical Evaluations
DFAS	Defense Finance Accounting Service
DLA	Defense Logistics Agency
DoD	Department of Defense
DON	Department of the Navy
eGRC	Enterprise Governance, Risk, and Compliance
ELC	Entity Level Control
ERP	Enterprise Resource Planning
FMFIA	Federal Managers' Financial Integrity Act
FRC	Fleet Readiness Center
FY	Fiscal Year
FM&C	Financial Management and Comptroller
GAO	Government Accountability Office
GPC	Government Purchase Card
HSP	Husbanding Service Provider
IRM	Integrated Risk Management
IT	Information Technology
MAU	Major Assessable Unit
MICP	Managers' Internal Control Program
NDS	National Defense Strategy
OCMO	Office of the Chief Management Officer
OMB A-123	Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
SABRS	Standard Accounting Budgeting Reporting System
SD	Significant Deficiency
SECNAV	Secretary of the Navy
SOA	Statement of Assurance
SOC	System and Organization Controls
SOD	Segregation of Duties
SPS	Standard Procurement System
UAE	Uninstalled Aircraft Engine

STATEMENT OF ASSURANCE
FY 2020

DEPARTMENT OF THE NAVY