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FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

FY 1993

STATEMENT OF ASSURANCE

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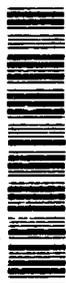
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Approved for public release

DEPARTMENT OF THE NAVY

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THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT)
WASHINGTON, D.C. 20350-1000

11 APR 1994

MEMORANDUM FOR DISTRIBUTION

Subj: DEPARTMENT OF THE NAVY MANAGEMENT CONTROL PROGRAM

Encl: (1) SECNAV WASHINGTON DC 172123Z Mar 94 (ALNAV 032/94)
(2) FY 1993 DON Annual Statement of Assurance

Enclosure (1), recently released by the Secretary of the Navy, emphasizes the importance of managers getting involved and staying involved with the Management Control Program. As we continue with right-sizing our force structure, organization and operations, each commanding officer and civilian equivalent must make sure that the Management Control Program is fully implemented within their respective organizations. Secretary of the Navy Instruction 5200.35C, Department of the Navy (DON) Management Control Program, requires managers to conduct annual evaluations so they have reasonable assurance that the systems of internal controls are effective in safeguarding assets. Managers of DON resources should perform vulnerability assessments, conduct management reviews, identify material weaknesses and establish action plans to correct those weaknesses.

To help you with these requirements, I am distributing the Fiscal Year 1993 DON Annual Statement of Assurance, enclosure (2), so you are aware of DON material weaknesses and the actions underway to correct them. Please have your managers use the results of this report as they review their areas of responsibility. If you have weaknesses in any of these areas, report them along with corrective actions via your chain of command. We want to make sure that these weaknesses are corrected throughout DON and not just in isolated activities.

Thank you for your support and cooperation. I know through your efforts in response to these enclosures we will be able to certify with reasonable assurance in our Fiscal Year 1994 report that our systems of internal control are effective in safeguarding our assets and achieving our mission.

My point of contact for the Management Control Program is Mr. Richard Gloss, DSN 327-3334 or commercial (703) 607-3334.

Distribution:
SNDL Part II

Deborah P. Christie
DEBORAH P. CHRISTIE

TO: N960S@A1@NHIS at CCGATE
 TO: NAVSTAT@A1 at CCGATE
 TO: NCAVHNS@A1@NHIS at CCGATE
 Subject: THE FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA)
 ----- Message Contents -----

 UNCLASSIFIED

 ***** NAVAL MESSAGE *****
 ***** DEPT OF NAVY *****

R 172123Z MAR 94
 FM: SECNAV WASHINGTON DC//OO//
 INFO CNO WASHINGTON DC

TO: See Below
 Subject: THE FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA)//
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 MSGID/GENADMIN/NAVCOMPT/NCF//
 SUBJ/THE FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA)//
 REF/A/DOC/SECNAVINST 5200.35C/07JAN91//
 POC/R. GLOSS/NCF-3/CIV/-/TEL:COMM (703) 607-3333/TEL:DSN 327-3333//
 RMKS/1. IN APRIL 1993, BOTH THE CHAIRMAN OF THE SENATE COMMITTEE ON
 GOVERNMENTAL AFFAIRS AND THE COMPTROLLER GENERAL OF THE UNITED STATES
 QUESTIONED THE ADEQUACY OF BOTH DOD AND DON STATEMENTS THAT THE
 OBJECTIVES OF FMFIA WERE BEING ACHIEVED, WHEN IT WAS EVIDENT THAT
 SIGNIFICANT PROBLEMS HAD NOT BEEN REPORTED AND REMAINED UNCORRECTED.
 THE DON HAS SINCE IMPLEMENTED CORRECTIVE ACTIONS DIRECTED BY OSD. IN
 NOVEMBER, I SIGNED THE FY93 FMFIA STATEMENT OF ASSURANCE THAT OUR
 SYSTEMS OF INTERNAL CONTROLS ARE EFFECTIVE IN SAFEGUARDING OUR ASSETS
 BASED ON ASSURANCES THAT YOU HAD PERFORMED MANAGEMENT CONTROL
 REVIEWS, HAD IDENTIFIED MATERIAL WEAKNESSES, AND HAD ESTABLISHED
 PAGE 02 RUENAAA0607 UNCLAS
 ACTION PLANS TO CORRECT THOSE WEAKNESSES.
 2. TO DEMONSTRATE TO THE U.S. CONGRESS AND THE PUBLIC OUR
 FAITHFULNESS AS STEWARDS OF THE RESOURCES ENTRUSTED TO US, I EXPECT
 ALL COMMANDING OFFICERS AND MANAGERS TO GET INVOLVED AND STAY
 INVOLVED WITH THE MANAGEMENT CONTROL PROGRAM. NEITHER YOU NOR I
 SHOULD ACCEPT ANYTHING LESS. EACH OF YOU ARE ACCOUNTABLE FOR
 REVIEWING YOUR AREA OF RESPONSIBILITY PER REF A. WHEN I SIGN THE
 FY94 FMFIA CERTIFICATION STATEMENT, I WANT TO HAVE REASONABLE
 ASSURANCE BASED ON YOUR MANAGEMENT REVIEWS AND NOT JUST AUDIT
 RESULTS, THAT OUR SYSTEMS OF INTERNAL CONTROL ARE EFFECTIVE IN
 SAFEGUARDING OUR ASSETS AND ACHIEVING OUR MISSION.
 3. RELEASED BY THE HONORABLE JOHN H. DALTON, SECRETARY OF THE NAVY.//
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Statement A per telecon
 McMichael McMiller Army Aviation and
 Troop Command SFAE-AV-AEC-T
 St. Louis, MO 63120-1798

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 Encl (1)

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

FY 1993 STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY



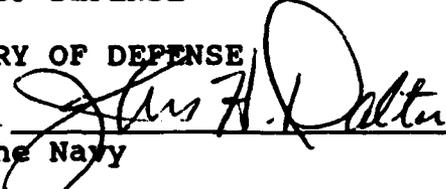
DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20350-1000

10 November 1993

EXECUTIVE SUMMARY/COVER BRIEF

MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: DEPUTY SECRETARY OF DEFENSE

FROM: John H. Dalton 
Secretary of the Navy

SUBJECT: DEPARTMENT OF THE NAVY (DON) FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE FOR
FISCAL YEAR 1993

PURPOSE: ACTION -- This statement provides DON input which, when combined with the other services will form the SECDEF Annual Certification Statement forwarded to the President and the U.S. Congress by 31 December 1993.

DISCUSSION: The DON has evaluated the system of internal administrative and accounting controls in effect during Fiscal Year (FY) 1993 in a conscientious and thorough manner. To the degree that information has been made available, despite issues identified in the FY 1993 audits, and except for identified material weaknesses, the system of internal control in effect during FY 1993 provided reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved. Information to support the statement was derived from management control program reviews, audits, inspections, investigations, and other management studies. The statement of certification is also supported by statements of assurance received from each ASN/Navy Principal which are based on certifications received from their subordinate organizations.

Tab A provides an evaluation of the internal control program and FY 1993 accomplishments. Tab B provides a progress report on the DOD High Risk Areas. Tabs C-1, C-2, and C-3 respectively provide a list and a summary of uncorrected and corrected material weaknesses. Tab D reports deficiencies and corrective actions in DON accounting systems.

**SUBJECT: DON FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT ANNUAL
STATEMENT FOR FISCAL YEAR 1993**

TABS:

- A - Management Control Evaluation Process**
- B - DoD High Risk Areas**
- C-1 - Listing of Uncorrected Material Weaknesses**
- C-2 - Uncorrected Material Weaknesses**
- C-3 - Material Weaknesses Corrected This Period**
- D - Report on Accounting Systems**

MANAGEMENT CONTROL EVALUATION PROCESS

1. Concept of Reasonable Assurance. The system of internal administrative and accounting control of the Department of the Navy (DON), in effect during the Fiscal Year (FY) ending 30 September 1993, was evaluated using the Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government. The Director of the Office of Management and Budget in consultation with the Comptroller General issued these guidelines, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Included is an evaluation of whether the system of internal administrative and accounting control of the DON is in compliance with standards prescribed by the Comptroller General.

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

- obligations and costs are in compliance with applicable law;

- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;

- 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; and

- programs are efficiently and effectively carried out in accordance with applicable law and management policy.

b. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgement. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal administrative and accounting control including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk because procedures may be inadequate due to changes in conditions, or because the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding.

TAB A

2. Determination of Reasonable Assurance Status.

a. **Structure.** The organization and structure of the DON along with the daily actions taken to maintain a modern, quality naval force and to preserve essential naval capabilities is a large factor that contributes to the Secretary of the Navy having reasonable assurance that the system of management controls are operating as intended. The Department of the Navy's (DON) Management Control Program is decentralized and covers all shore commands and afloat forces. The Secretary of the Navy, through the Assistant Secretary of the Navy (Financial Management)/ Comptroller of the Navy, is responsible for overall administration of the Management Control Program which includes developing operational policy and procedures, coordinating reporting efforts and performing oversight reviews. Primary responsibility for program execution and reporting is placed with the Assistant Secretaries of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps, the Secretariat staff offices and other major commands. Each of these components provide the Secretary with an annual Management Control Certification Statement giving a total of 14 statements that become source documents for the Secretary's consideration in arriving at a conclusion that indeed there is reasonable assurance that the system of internal administrative controls are working.

Line managers at all organizational levels schedule and perform individual risk assessments and management control reviews, monitor and track corrective actions, and report identified weaknesses judged to be material through their chain of command. In fact, DON has approximately 2,500 Management Control Program coordinators who support thousands of managers as they evaluate the systems of internal controls related to their mission areas. In addition, audits, inspections and investigations issued by the General Accounting Office, the Department of Defense Inspector General, the Auditor General of the Navy, the Naval Inspector General, and the Director, Naval Criminal Investigative Service are reviewed to identify potential Department of the Navy-wide issues.

Except for limited scope audits, the Naval Audit Service routinely assesses the effectiveness of management controls in the course of auditing and, where warranted explicitly, addresses management control deficiencies in their reports as a means of ensuring managerial accountability. To limit the duplication between the audit follow-up process and the requirements of the FMFIA Management Control Program, the requirement for DON components, Echelon 2 and below, to review and consider audit findings for reporting as FMFIA material weaknesses, was revised. The heads of Echelon 2 and below commands/activities are responsible for reporting to their immediate superior only those weaknesses from audits which, in their opinion, represent

significant breakdowns in management controls and material weaknesses in programs and functions under their direct command and authority. In addition, the Auditor General of the Navy in collaboration with the Navy Comptroller's Management Control Division is responsible for identifying potential material weaknesses resulting from audits. Potential draft weaknesses are provided to DON senior level functional managers for their review and consideration in determining DON material weaknesses. On the basis of an annual evaluation of the DON's management control certification statement, the Auditor General of the Navy issues an independent assessment of the statement that is provided to the Secretary of the Navy. This independent assessment serves as a check and balance and becomes another source for giving assurance to the Secretary that the system of internal controls are working and to the extent possible have been properly evaluated.

The forces afloat are also an integral part of the DON Management Control Program. Numerous alternative management control reviews in the form of shipboard inspections and reviews are conducted on a continual basis to ensure the effectiveness of all operational, financial, administrative and quality of life controls in place on all Naval ships. In fact on the average there are some 25 different inspections on each ship throughout any fiscal year that gives assurance that the system of internal controls are in place and working.

Another key component of the DON's Management Control Program is senior management's involvement. In 1986, The Secretary of the Navy established an Internal Control System Coordinating Committee (ICSCC) to facilitate the coordination of internal control functions. This year, instead of convening the ICSCC after the Navy's statement of assurance was drafted, a meeting was held in August to discuss significant issues to be addressed in the DON's 1993 annual statement and to explain the additional program requirements resulting from the Department of Defense (DOD) Senior Financial Management Oversight Committee. The Acting Assistant Secretary of the Navy (Financial Management/Comptroller) chaired the meeting that included principals from the Chief of Naval Operations, the Marine Corps and the offices of the Assistant Secretaries of the Navy. After preparing a draft of this year's statement, the Auditor General of the Navy, the Assistant Secretaries of the Navy and members of the ICSCC were requested to provide their comments/concurrence before the statement was presented to the Secretary for signature. For each DON material weakness reported the appropriate senior functional proponent(s) must ensure that corrective actions are implemented and progress is monitored.

b. Discovery Process and Statistical Data. During FY 1993, Navy and Marine Corps components reviewed more than 1,718 risk assessments that were performed during FY 1992. If an assessable

unit is the same, for example, timekeeping, in the "roll up", it is only counted once for DON statistical purposes. Of the 1,718 risk assessments, 23% were rated high risk, 60% rated medium risk while 17% were rated to have a low risk. These risk assessments were used to establish the management control plans of the components with those areas having a high risk rating being the first to be reviewed. The components performed over 3,648 Management Control Reviews and Alternative Management Control Reviews (such as audit findings, inspections, and investigations) and used the results to determine the adequacy of DON's internal controls and to establish and implement new controls where needed.

In addition, the DON analyzed the results of over 140 General Accounting Office, Department of Defense Inspector General and Naval Audit Service audit reports. All weaknesses highlighted by the Office of the Comptroller of Defense from these audit reports were considered for this year's report. Generally, significant weaknesses selected for reporting to the Secretary of Defense are either within a High Risk area concern, pertinent to a Defense Management Report Decision, related to a Consolidated Information Management issue, a high visibility item as a result of congressional/media interest, or represent a DON-wide systemic problem. Also, the results from DON investigative and inspector general organizations were considered.

The DON Secretariat staff offices and Echelon 1 components reported 16 weaknesses and one accomplishment. The DON Management Control Program staff combined nine of the newly reported weaknesses along with weaknesses identified in audit summaries and developed four weaknesses that focused on systemic issues. Prior year weaknesses covering the same systemic areas were also rolled into the newly reported material weaknesses. Five of the remaining weaknesses are being reported individually. The DON maintains a tracking system to provide status of corrective actions for reported material weaknesses. During FY 1993, the DON tracked and reported on the corrective actions for five material weakness with 28 milestones. DON would have had an additional 11 weaknesses corrected during FY 1993, however the new DOD verification requirement resulted in DON not being able to close these weaknesses in FY 1993 since the verification process was incomplete.

Through the weekly and sometimes daily briefings that principal officials have with senior managers, DON issues affecting the department are discussed. The agenda of these meetings help track the status of emergent issues and contributes to information managers use to assess how well their programs are working and how well their problems are being resolved.

The annual performance reviews of all personnel within the DON provides data for determining the checks and balances needed in

an organization to ensure mission outcomes. Also, from these performance reviews managers determine whether or not the critical elements of personnel are meeting the mission of the component and to what extent their job descriptions are current and are covered by written procedures.

During FY 1993, various DON components performed efficiency reviews. To accomplish an efficiency review managers must assess their internal organizational structure, mission and functions to determine optimum efficiency and economy of operation. The results of these reviews gave managers the data to make adjustments to their organizations to ensure mission accomplishment.

Since the capitalization of many of DON's policy and functional areas such as accounting, supply and logistics, monthly meetings among the appropriate DOD components gave management information on the status of programs and issues affecting organizations across the services. Through these status reports managers assessed the effectiveness of controls. Several Memorandum of Understanding between the DOD components were concluded during FY 1993. These Memorandum of Understanding help delineate functions and responsibilities as well as internal controls thus ensuring mission accomplishment.

Finally, the personnel resources were considered. To maintain a qualified staff, civilian staff attended training classes and professional development seminars related to the mission and function of their respective organizations during FY 1993. Understanding and using current instructions and guidance is especially important in maintaining an effective and efficient system of controls. So, it is important that DON maintains an active training program for managers and staff.

Conclusion: Since not all functions and programs are reviewed each year, reasonable assurance is only expressed for those areas reviewed by DON components during FY 1993. Therefore, to the degree that information has been made available, despite issues identified in the FY 1993 audits, and except for the material weaknesses reported, the Secretary of the Navy has reasonable assurance that the systems of management controls are operating as intended.

3. Training DON Managers. Educating and training DON managers at all levels on the processes and requirements of the Management Control Program is central to achieving the objectives of the FMFIA. In addition to the general courses that the Office of Personnel Management and other governmental agencies may offer for DON managers, the following is a summary of DON activities contributing to education and training:

- a. Several DON components developed a computer assisted

Management Control course that managers, through their local area network systems, can access on an as need basis. The course is user friendly and easily updated to reflect changes in program requirements.

b. The Chief of Naval Operations' training manual that was issued to their subordinate commands/activities during FY 1992, continues to be in demand and is used by managers. This training manual includes materials from the DON's train-the-trainer course, including a brief history of the Management Control Program, program forms (with instructions) and case studies.

c. The Navy Practical Comptrollership Course (PCC), offered at the Naval Postgraduate School in Monterey, CA contains a chapter on the DON's Management Control Program. This course continues to be a key activity contributing to education and training in the area of the Management Control Program processes and requirements. The PCC is offered 6 times a year to mid-level civilian accountants, budget analysts, and junior and senior level military personnel. Over 240 individuals received extensive instructions in this training forum in FY 1993.

d. The DON provides Management Control training to prospective commanding officers prior to assuming command responsibility at their next duty station. This training in effect enables these commanders to keep abreast of the most recent program change and fundamental requirements of the DON Management Control Program.

4. **Accomplishments.** The following paragraphs address accomplishments of the DON's Management Control Program during FY 1993.

a. During FY 1993, DON initiated an aggressive quality assurance program to ensure FMFIA implementation and documentation. Thirty-one quality assurance reviews were conducted at subordinate DON commands. In addition to determining whether the Management Control Program is fully implemented, the Management Control staff uses the review to provide on-site assistance where needed. Managers are reminded to consider all areas of responsibility such as operational and mission areas as well as administrative areas for inclusion in their inventory of assessable units. These reviews also serve as a feedback mechanism wherein field activities have the opportunity to provide suggestions for improving or streamlining program requirements/reports. Overall, at those subordinate Navy commands visited, the Management Control Program was satisfactorily implemented and appeared to be working effectively. Only minor suggestions, such as additional documentation/comments needed to be provided on the vulnerability assessment form, had to be made in order to "fine-tune" the individual programs. DON found quality assurance reviews to be

an effective means to ensure Management Control Program compliance and quality. Additional reviews are planned for FY 1994.

b. A Quality Management Board evaluated the possibility of adopting common planning, assessment, review and reporting requirements for both the Management Control Program, and an activity group strategic planning process and its products. The board developed an approach and process for coordinating the development and integration of the two processes/programs using the principles of Total Quality Leadership. A prototype was designed and is being piloted within an activity group. The inventory of assessable units will parallel those responsibilities assigned by the standard organization manual. This parallel of assessable units and manager responsibilities will tie the Management Control Program directly to the managers' responsibilities (processes), and will return ownership of the program to the managers. Along with this pilot, an automated follow-up system was devised that will provide the needed information on audits, management control reviews, internal reviews, and other studies. This system will not only give management a data base for tracking possible material weaknesses, but will also be a source of information for quick assessment of the status of the internal control environment. This system provides management with the needed checks and balance for managers. Moreover, the system appears to be exportable as the prototype is instituted at other DON activities.

c. As a result of Defense Management Review decisions, Corporate Information Management consolidations and the downsizing of DOD, reorganizations are continually occurring. Consequently, the responsibility for specific functions and the related internal controls are transferring within or between components of the Department of Defense. Reorganizations are being closely monitored to ensure that all assessable units are properly accounted for and included in this year's annual statement. In fact, proper documentation of those assessable units covering the DON assets and resources transferred to other DOD components was noted during the quality assurance reviews.

d. Continued use of the Attack Cost Through Improvement in Our Navy/Marine Corps ("Action PLUS") program has achieved cost avoidances and savings of approximately \$48 million in FY 1993. The focus of the program is to implement the best features of DON improvement efforts such as acquisition streamlining, central procurement, productivity improvement and value engineering and to improve quality while at the same time reducing the cost and time to provide support to the fleet and the Marine Corps.

e. The DON continues to pursue the challenge in developing substitutes for hydrocarbons (halons). DON launched an aggressive research and development plan to qualify a non-ozone

depleting refrigerant for shipboard use. This development is in response to the 1990 amendment to the U.S. Clean Air Act. The refrigerant is being tested and could lead to conversions throughout the DON. Development of non-chlorofluorocarbon refrigerants is very important in order to comply with stringent environmental rules and regulations.

f. A naval activity has designed and developed the DON's Electronic System For Personnel (ESP) program to electronically transmit personnel actions to and from satellite detachments. ESP processes personnel actions from the time a position is established to the completion of hiring action. It also provides electronic transfer of data both to payroll systems and the DON's main database in Oak Ridge, TN. This electronic link is designed to significantly improve the turnaround time on completing personnel actions and is the first in a series of customer-focused personnel systems planned to place more information and control in the hands of managers. This system has significantly reduced the amount of paper and uses built-in credit cards (smart cards) to check data integrity. Smart cards also detect unauthorized changes made to a document. The Office of Personnel Management approved the system and several naval activities are implementing ESP. Several DOD as well as non-DOD organizations have expressed an interest in the system.

5. Other Accomplishments. Other accomplishments during FY 1993 include:

a. The DON's ability to detect, investigate and deter procurement fraud has improved with enhanced training programs, more effective use of resources through regionalizing, continued emphasis upon initiative operations, and improved awareness through briefing programs. For FY 1993, 289 procurement fraud cases were opened and 386 cases were closed for a total DON benefit of \$13 million. For example, the DON initiated an investigation after allegations of defective pricing by a DOD contractor. This investigation was the first of its kind, in which indictments and convictions were achieved against defense contractor employees who caused the inflation of labor-hour "estimates." This has established a precedence, in that defense contractors who knowingly and willfully inflate estimates in sole source negotiated contracts will be subject to criminal prosecution. The corporation agreed to a civil settlement of approximately \$55.5 million and pled guilty to one count of mail fraud and agreed to pay \$1 million in fines. The DON also successfully pursued the first case under the Program Fraud Civil Remedies Act. The judgment was made on behalf of the government totaling \$185,253. Other fraud cases investigated during FY 1993 identified deficiencies related to:

- issuing fraudulent surety bonds;
- cost mischarging;

- violations of federal wage and standards under the Davis-Bacon Act;
- false claims;
- product substitution;
- bribery of procurement officials;
- kickbacks by subcontractors to higher tier subcontractors and/or prime contractors; and
- illegal dumping, disposal, storage and transportation of hazardous waste and toxic pollutants.

b. During FY 1993 the DON conducted 1,364 larceny of government property investigations with a total reported loss value of approximately \$10 million. Recoveries through investigative efforts totaled approximately \$3 million. Administrative buildings, Navy Exchanges, warehouses, storage areas and maintenance buildings continue to be the prime locations where larcenies occur.

c. The Navy Hotline Program opened 1,700 cases and closed 1,400 cases with a total Navy benefit of about \$602,497. Due to the downsizing and reductions in force, job security concerns have prompted complaints about job atmosphere. Despite an increase in the number of complaints placed, the substantiation rate remains constant at twenty-eight percent.

d. Area visits were conducted to evaluate and review the quality of life for service-members at naval commands/bases located outside the continental United States. The most significant and consistent deficiencies found in these reviews were in Bachelor housing; Command Managed Equal Opportunity Programs; and fraternization.

6. Plans. During FY 1994 the DON will:

a. Rewrite and issue an updated DON Management Control Program instruction based on the Office of Management and Budget Circular A-123 and DOD revised guidance.

b. Continue to review opportunities to streamline and improve Management Control Program processes with the objective of reduce redundancy in reporting and unneeded paperwork. We will continue to concentrate on the identification and timely correction of weaknesses including, but not limited to, those in "High Risk" problem areas.

c. Continue the on-site Quality Assurance Review Program to ensure that the statutory intent and implementation principles of the Management Control Program are being adhered to, that implementation problems are identified and corrected, and that all improvement initiatives are recognized and incorporated into the overall program. Special emphasis will be placed on

evaluating field-level identification and reporting of material weaknesses.

d. Continue to stress top management interest, involvement and support of the Management Control Program and the importance of developing and implementing adequate and timely corrective actions. Work with Navy managers to improve methods for the accumulation and use of shipboard inspections to determine systemic weaknesses.

e. Continue to explore the feasibility of automating the requirements of the Management Control Program on floppy disks to achieve standardization and uniformity in performing Vulnerability Assessments, Management Control Reviews, and reporting. Several DON components have already initiated this effort for their own activities. An automated program could also serve as a continuous training mechanism for training DON managers and coordinators.

f. Explore development of a standard DON inventory of assessable units within common-service organizations such as the Personnel Support Activity group, the naval shipyards, the naval weapons station and others. These activity groups will be meeting during FY 1994 to discuss developing a standard inventory of assessable units for use within their organizations.

g. Reconsider audits identified in the Auditor General's report as having potential material weaknesses for FY 1993 corresponding to new issues that may have not been significant enough to report, however could have potential as contributing to a systemic weakness in FY 1994 FMFIA Statement of Assurance. Those issues are as follows: Government property in possession of contractors; Family housing requirements; Duplication/proliferation of test and simulation capacity; and Force readiness issues.

7. Point of Contact. The Department of the Navy point of contact for the Management Control Program and issues dealing with material weaknesses reported in the FY 1993 FMFIA Statement of Assurance is Mr. Richard Gloss. Mr. Gloss can be reached on commercial (703) 607-3333, DSN 327-3333 or fax (703) 607-3342.

HIGH RISK AREAS
STATISTICAL SUMMARY

For All High Risk Areas

Weaknesses Reported:	6
Less: Corrected	<u>1</u>
Net Uncorrected weaknesses	5

For Each High Risk Area

Supply Operations:

Weaknesses Reported:	4
Less: Corrected	<u>0</u>
Net Uncorrected weaknesses	4

Contracted Advisory and Assistance Services:

Weaknesses Reported:	1
Less: Corrected	<u>1</u>
Net Uncorrected weaknesses	0

Contract Administration:

N/A

Information Technology:

Weaknesses Reported:	1
Less: Corrected	<u>0</u>
Net Uncorrected weaknesses	1

Financial Accounting for Real and Personal Property:

N/A

TAB B

WEAKNESS STATUS
SUPPLY OPERATIONS

UNCORRECTED MATERIAL WEAKNESSES

<u>Title of Weakness</u>	<u>OSD#</u>	<u>C-2 Page#</u>
Requirements Determination	FY-93	1
Excess and Unrecorded Inventories	FY-93	8
Receipt Confirmation	89-016	81
Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys	86-16	94

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

None

Supply Operations

Material weaknesses as identified by the Department of the Navy (DON) components for the high risk area of Supply Operations continue to center around excess inventory, materials control and requirements determination. These weaknesses deal with DON activities not screening materials on receipt, purging uneconomical and unserviceable stock excesses and not adequately determining the proper requirements for equipment, supplies, and materials.

Excess inventory has been a major concern in the DON and corrective actions have involved actions such as determining availability of on-hand assets prior to starting procurement and establishing policies and procedures requiring the use of excess on-order assets to be used as Government Furnished Material for production contracts. At many activities DON already has identified unrecorded material and returned it to inventory control as well as centralized the responsibility for generating material requirements.

An objective of DON management is to establish and implement adequate controls over government-owned materials and inventory. For example, guidance will be issued requiring management to make periodic spot checks for unrecorded inventory. DON also plans to improve procedures for verifying requirements data before initiating purchases and awarding supply contracts. This process should align the requirements with purchases.

Many of DON's efforts to improve supply operations are under the cognizance of the Department of Defense Information Management Program initiatives such as the development of an Interservice Material Accounting and Control System that will improve interservice and supply reporting. The DON will continue to have a weakness in the area of materials sent to commercial facilities for repair until this system is completed. The DON continues to implement the Fleet Optical Scanning Ammunition Marking System and to train the appropriate personnel. This action will help in determining sonobuoy requirements. Finally, DON has completed the testing of a methodology that will improve visibility and control over initial spares shipped from contractors to activities. Procedures have been established for centralized management to improve control and to standardize delivery of spares and should be implemented on ships.

WEAKNESS STATUS
CONTRACTED ADVISORY AND ASSISTANCE SERVICES

UNCORRECTED MATERIAL WEAKNESS

None

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

<u>Title of Weakness</u>	<u>OSD#</u>	<u>C-2 PAGE#</u>
Under Reporting of Contracted Advisory and Assistance Services Contracts	92-070	8

Contracted Advisory and Assistance Services

Material weaknesses as identified by Department of the Navy (DON) components for the high risk area of Contracted Advisory and Assistance Services deals with identifying and reporting expenditures for services. To strengthen internal controls, the DON implemented Department of Defense guidance, "Contractor Advisory and Assistance Services Users' Guide" and issued SECNAVINST 4200.31C, "Acquiring and Managing Consulting Services," dated 22 June 1993. DON defined specific functions that are inherent to the Navy. The DON also requires training of personnel on the definition and proper reporting procedures of Contractor Advisory and Assistance Services. Identification and reporting of consulting services is an item for review in all DON procurement management reviews.

WEAKNESS STATUS
CONTRACT ADMINISTRATION

NOT APPLICABLE

WEAKNESS STATUS
INFORMATION TECHNOLOGY

UNCORRECTED MATERIAL WEAKNESSES

<u>Title of Weakness</u>	<u>OSD#</u>	<u>C-2 Page#</u>
Copyrighted Computer Software	FY93	30

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

None

Information Technology

A material weakness as identified by Department of the Navy (DON) components for the high risk area of Information Technology centered around the problem of DON components using unauthorized/undocumented software. Software vendors try to control unauthorized use of their products through license agreements that invoke the protection available under Federal copyright statutes. License agreements specify that each software program purchased is to be used on one computer at a time. In some instances, an activity may purchase a "site license" or a license to use a software program on a local area network of computers.

Compliance with license agreements relies on the integrity of the software user. Despite copyright warnings, unauthorized/undocumented software installed on personal computers appears throughout the DON. This problem appears to exist because of either vague instructions regarding controls over copyrighted computer software, lack of guidance on how software should be accounted for or controlled. There also appears to be a lack of management emphasis on compliance with licensing agreements.

An objective of the DON is to ensure internal controls are implemented for this identified weakness. DON has written policy and instructions on using software DON, however, the importance of following copyright law needed to be reemphasized. DON issued a policy statement emphasizing that DON employees must follow copyrighted computer software licensing agreements. Also, DON established a working group to draft a guidebook covering management of copyrighted computer software. When completed DON will distribute the guidebook DON-wide.

WEAKNESS STATUS
FINANCIAL ACCOUNTING FOR REAL AND PERSONAL PROPERTY

NOT APPLICABLE

**UNCORRECTED MATERIAL WEAKNESSES
LISTING**

Identified During Current Period:

<u>Title</u>	<u>Correction Date</u>	<u>Page No.</u>
Requirements Determination	9/96	1
Excess Material and Unrecorded Inventories	9/97	8
Inadequate Operational Testing for the Acquisition of Systems and poorly defined program initiations	9/97	18
Federal Employees' Compensation Act (FECA) Case Management	9/95	24
Navy Enlisted Classification (NEC) Code Training	3/96	27
Copyrighted Computer Software	3/95	30
Aviation Continuation Pay (ACP) bonus program	3/95	32
Department of the Navy Revolving Funds Chief Financial Office (CFO) Financial Statements Accountability	9/95	34
Unmatched Disbursements	9/95	39

TAB C-1

Identified During Prior Periods:

<u>Title</u>	<u>FY Reported</u>	<u>Correction Date in Annual Statement of</u>		<u>Page No.</u>
		<u>FY92</u>	<u>FY93</u>	
Naval Selected Reserve Force Mobilization Requirements	92	9/95	3/96	42
Sexual Harassment	92	3/95	9/95	45
Poor Utilization of Bachelor Enlisted Quarters (BEQs) Berthing Spaces and Transient Bachelor Officer Quarters (BOQs)	92	9/93	9/94	48
Enlisted Member "Mess Separately" (RATSSEP) Authorization and Food Service Operations	92	9/93	9/94	53
Environmental Issues relating to major systems acquisition	92	3/93	3/95	55
Compliance with Environmental Laws and Regulations by the Department of the Navy (DON)	92	9/93	9/95	59
Compliance with Environmental Laws and Regulations by the Department of the Navy Concerning Management and Elimination of Ozone Depleting Substances	92	3/96	9/96	61
Environmental Compliance Deficiencies	92	9/93	9/94	64
Hazardous Waste Management	92	3/94	3/94	67
Requirements Determination for Ammunition and Centrally-Controlled Operating Stocks		(Systemic weakness, see page 1)		
Requirements Determination for Aircraft Acquisitions		(Systemic weakness, see page 1)		
Material at Commercial Repair Facilities		(Systemic weakness, see page 8)		
Potential Excess Aircraft, Ship and Submarine Parts		(Systemic weakness, see page 8)		

Identified During Prior Periods (cont'd):

<u>Title</u>	<u>FY Reported</u>	<u>Correction Date in Annual Statement of</u>		<u>Page No.</u>
		<u>FY92</u>	<u>FY93</u>	
Material Handling and Container Requirements	90	9/93	9/94	73
Management of the Metrology and Calibration (METCAL) Program	90	9/93	3/94	76
Family Service Centers	90	3/93	9/94	78
Receipt Confirmation	89	3/93	3/95	81
Excess Property	89	3/93	9/94	83
In-process Reviews and Operational Test and Evaluation of Non-Major Systems		(Systemic weakness, see page 18)		
Military Manpower/Hardware Integration (HARDMAN) Program	88	3/93	9/94	91
New Research Acquisition Program Initiations		(Systemic weakness, see page 18)		
Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys	86	9/93	9/94	94

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Requirements Determination. The Department of the Navy has identified deficiencies in the area of requirements determination for equipment, supplies, materials, training and systems acquisition. In many instances the requirements are either overstated, understated, not realistic, inadequately supported or invalid resulting in unnecessary funding and purchases or hindering fleet readiness because not enough material is available to meet requirements. In numerous cases, overstated requirements at individual DON activities were reviewed and corrected.

In some instances these inaccuracies in requirements determination result because out of date data were used to compute needs; flawed assumptions were used in computing the requirement; incorrect alignment of system resources and requirements; inadequate controls to ensure revalidation of existing requirements, miscommunication among responsible activities; requirement not updated to reflect the reductions in DON force structures; no documented process, standard methodology or model used; and appropriate guidance was not followed in developing requirements.

The following are prior year weaknesses that have been consolidated under the systemic area of "Requirements Determination" for the Department of the Navy:

OSD CASE #91-015: Requirements Determination for Ammunition and Centrally-Controlled Operating Stocks. Data used to determine requirements for ground ammunition were based on outdated war reserve requirements, incorrectly computed training requirements, and incomplete inventory statistics.

OSD CASE #91-024: Requirements Determination for Aircraft Acquisitions. Inadequate internal controls prevented the Navy from using the best available data and techniques to develop accurate acquisition estimates. Consequently, Navy overstated procurement and flight hour requirements for several aircraft including advance capability aircraft and training aircraft and flight hours. Use of inaccurate planning/usage data hampered Navy's ability to correctly forecast requirements.

Functional Category: Supply Operations

Pace of Corrective Action:

Continue on next page

TAB C-2

Year Identified: FY 1993, (FY 1991 prior year weaknesses)

Original Targeted Correction Date: FY 1995, (3/92, 9/93)

Targeted Correction Date in Last Year's Report: (9/93, 9/93)

Current Target Date: FY 1996

Reason For Change in Date: New completion date for requirements determination weakness is FY 1996 because prior year weaknesses, OSD Case numbers 91-015 and 91-024, have been combined with current year weakness. Also, change in correction date is due to new verification milestone.

Component/Appropriation/Account Number: DBOF (97X4930), OPN (17X1810), O&M, N (17X1804), APN (17X1506), SCN (17X1611), Milcon (17X1205), PMC (17X1109)

Validation Process: All corrective actions will be certified by the responsible component(s) through command inspections and/or quality assurance reviews, and Naval Audit Service follow-up audits.

Results Indicators: The overstated requirements may cause unnecessary funding and purchases while understated requirements could hinder fleet readiness because not enough material would be available to meet requirements.

Use of inaccurate planning factors causes overstatements in budgetary requirements. A program's overstated budget request can cause other needed programs to go unfunded. Cancellation of excess requirements will result in a potential cost avoidance of \$2.324 billion.

Source(s) Identifying Weakness:

1. GAO Report No. GAO/NSIAD-93-131, "Navy Supply Improved Backorder Management Will Reduce Material Costs" of 19 March 1993;
2. Naval Audit Service Report No. 035-S-93, "Management of Secure Terminal Unit III (STU III) Telephones" of 1 May 1993;
3. Naval Audit Service Report No. 037-S-93, "Submarine Advanced Equipment Repair Program Requirements" of 19 May 1993;
4. Naval Audit Service Report No. 036-C-93, "Attack Submarine Capable Floating Drydock Requirements" of 18 June 1993;

Continue on next page

5. Naval Audit Service Report No. 021-N-93, "Selected Funded Planned Program Requirements at the Navy Aviation Supply Office" of 4 February 1993;

6. Naval Audit Service Report No. 030-N-93, "Material/Equipment Requirements for Decommissioned Ships" of 9 April 1993;

7. Naval Audit Service Report No. 043-C-93, "AH01 Helicopter Requirements" of 18 June 1993;

8. Naval Audit Service Report No. 003-S-93, "Training Aircraft Requirements" of 15 October 1993;

9. DODIG Report No. 93-049, "Navy Requirements for Currently Procured Wholesale Inventories of Repairable Items" of 1 February 1993;

10. DODIG Report No. 93-102, "Acquisition of the Unmanned Aerial Vehicles" of 27 May 1993.

OSD CASE #91-015:

1. Naval Audit Service Report No. 031-W-91, "Requirements Determinations for Marine Corps Ground Munitions" of 15 April 1991;

2. Naval Audit Service Report No. 030-S-91, "Marine Corps Management of Centrally-Controlled Operating Stocks Positioned at the Field Level-I and II Marine Expeditionary Forces" of 29 March 1991;

3. Naval Audit Service Report No. 048-C-91, "Advanced Anti-tank Weapons System-Medium Requirements" of 20 May 1991.

OSD CASE #91-024:

1. Naval Audit Service Report No. 013-S-91, "Requirements for T-44A Training Aircraft" of 18 January 1991;

2. Naval Audit Service Report No. 038-S-91, "T-45A Aircraft Acquisition" of 29 April 1991;

3. Naval Audit Service Report No. 010-C-91, "EA-6B Aircraft Requirements" of 13 November 1991.

4. GAO Audit Report (GAO/NSIAD-91-46), "T-45 Training System: Navy Should Reduce Risks Before Procuring More Aircraft" of 14 December 1990.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Ensure that Navy activities follow established backorder validation procedures to include periodic validation.
Completed	Develop procedures for determining availability of on-hand assets prior to starting procurement or refurbishment of identical components.
Completed	Establish written procedures for recording requirements.
Completed	Clarify and document Navy activities' responsibilities for requisition and planned program requirement processing.
Completed	Review and revalidate requirements using current guidance.

A. Completed Milestones for OSD Case #91-015:

<u>Date:</u>	<u>Milestone:</u>
Completed	Limit the mid-term ammunition requirements for mobilization to the Selected and Individual Reservist.
Completed	Cancel excess ammunition procurement planned for FY 1991 through FY 1994.
Completed	Project annual training expenditures based on criteria provided by appropriate guidance.

A. Completed Milestones for OSD Case #91-024:

Continue on next page

<u>Date:</u>	<u>Milestone:</u>
Completed	Cancel the FY 1992 POM planned procurement of the EA-6B and consider options to eliminate the remainder of the planned buy.
Completed	Reduce planned procurement of T-44A aircraft by five.
Completed	Develop guidance for reviewing and validating planning factors.
Completed	Adjust current programmed T-44A flying hours to reflect actual requirements.
Completed	Align system inventories programmed required with personnel/resources and document the process to show they are aligned.
Completed	Review overstated and understated requirements and adjust requirements to reflect corrected quantities.

B. Planned Milestones (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
9/94	Review and revalidate requirements in view of force structure reductions.
9/94	Improve established procedures for verifying requirements data before initiating purchases and awarding contracts.
9/94	Calculate primary training requirements based upon planned training rates, supportable overhead hour requirements, the utilization formula and supportable planning factor values.
9/94	Streamline development of planned program requirement training course and include a yearly refresher course.

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B. Planned Milestones for OSD Case #91-015 (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
9/94	Verification: The implementation of the corrective milestones will be accomplished by an on-sight review.

C. Planned Milestones (Beyond FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/95	Verification: All corrective actions will be certified by the responsible component(s) through command inspections and/or quality assurance reviews, and audits.

C. Planned Milestones for OSD Case #91-024 (Beyond FY 1994):

<u>Date:</u>	<u>Milestone:</u>
9/95 (30 Sep 1993)	Re-evaluate quantity requirements of the T-45A upon completion of Initial Operational Capability. Based on analysis, make appropriate revision to the out-year production of the T-45A.

- Initial Operating Capability (IOC) for the T-45 was defined as the delivery of the 12th aircraft, which occurred in April 1993. Student training has been delayed until completion of Operational Evaluation (OPEVAL), with earliest introduction of students not until January 1994. Once a statistically relevant student naval aviator population has been trained, T-45 quantity requirements will be reviewed and adjusted as necessary.

9/96 On target	Obtain independent validation of aircraft requirements data when developing major acquisition baselines.
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- IOC occurred in April 1993. Fleet usage patterns will be established and aircraft attrition rates observed to determine if aircraft requirements need to be changed.

Continue on next page

Date:

9/96

Milestone:

Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Excess Material and Unrecorded Inventories. Department of the Navy (DON) activities did not screen non-Defense Business Operations Fund (DBOF) ("sponsor") material on receipt, purge uneconomical-to-retain and unserviceable stock excesses; and the accounting for "sponsor" material had significant errors (e.g., inaccurate and unreported inventory) and inconsistencies (e.g., incorrect memorandum account, and incorrect value).

Many DON activities carried excess DBOF inventory and had unrecorded DBOF inventory. Internal controls were not sufficient to identify non-DBOF aeronautical change kit inventories that exceeded modification requirements and when excesses were identified, they were not effectively redistributed or reclaimed resulting in excess kits.

Some activities were ordering unneeded materials before work began and were not returning unused standard stock material to the supply system. Still others were ordering standard stock materials from an alternate source without canceling the original order. Though required, activities did not determine the disposition of unneeded direct material within 60 days following the completion or cancellation of key operations. Another reason for excess was that DON activities did not have a data base for recording and analyzing material usage data for availabilities and did not have a central control point for ordering materials for availabilities. Finally, planners had limited incentive to order the minimum amount of material.

The following are prior year weaknesses that have been consolidated under the systemic area of "Excess Material" for the Department of the Navy:

OSI CASE #90-020: Material at Commercial Repair Facilities. The scope of this material weakness was expanded during FY 1991. Deficiencies previously identified included excess on-hand material at Commercial Repair Facility that could have utilized by other services/activities.

OSD CASE #90-022: Potential Excess Aircraft, Ship and Submarine Parts. Navy's secondary item inventories (spares and repair parts) have grown by \$20 billion during the 1980s. There is a concern over the quantity of material retained on-hand above the Approved Force Acquisition Objective (AFAO). Material on-hand

Continue on next page

that exceeds AFAO quantities is categorized for retention or as potential excess, depending on each item's weapon system application, essentiality, and anticipated demand. Material in this category grew by over \$8 billion from FY 1980 to FY 1989. The primary reason for the increase was the result of turn-in and subsequent retention in inventory of repairable items, both installed components and supporting spares that were removed from active fleet units due to modernization and equipment upgrade.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1993, (FY 1990 prior year weaknesses)

Original Targeted Correction Date: FY 1997, (3/92, 9/93)

Targeted Correction Date in Last Year's Report: (FY92, FY93)

Current Target Date: FY 1997

Reason For change in Date(s): New completion date for excess material is FY 1997 because since prior year weaknesses, OSD Case numbers 020-90 and 022-90, have been combined with current year weakness. Also, change in correction date is due to new verification milestone.

Component/Appropriation/Account Number: Non-DBOF, DBOF (97X4930), APN (17X1506), O&M,N (17X1804)

Validation Process: All corrective actions will be certified by the responsible component(s) through command inspections and/or quality assurance reviews, and NAVAUDSVC follow-up audits.

Results Indicators: Unreported non-DBOF "sponsor" standard stock material, excess non-DBOF aeronautical change kits inventory, and excess DBOF inventory could be used to satisfy a Navy buy or repair requirements, to satisfy DLA supply system buy, repair or demand requirements, avoid Department of the Navy inventory carrying costs, and prevent unnecessary procurements.

The quantity of potential excess material on-hand takes up valuable storage space, and reducing the number of items managed may provide some productivity benefits for both stock point and inventory control point item managers.

Understated supply records prevent the Navy from identifying material that may be available for use, and unnecessary procurements may result. Overstated supply records can adversely

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affect readiness since the Navy may be relying on nonexistent resources. Inaccurate supply reports and financial inventory records may cause incorrect budget requirement computations. These deficiencies resulted in a potential one-time cost avoidance of \$17.7 million (an additional \$1.2M identified in FY 1991).

Source(s) Identifying Weakness:

1. NAVAUDSVC Audit Report 023-S-93, "Sponsor Material Held by Selected Naval Ordnance Activities" of 8 March 1993.

2. GAO Audit Report NSIAD 92-216, "Navy Supply, Excess Inventory Held at the Naval Aviation Depots" of July 1992.

3. NAVAUDSVC Audit Report 044-W-93, "Management of Aeronautical Change Kits" of 15 June 1993.

4. NAVAUDSVC Audit Report 026-N-93, "Causes and Reutilization of Excess Material from Ship Availabilities at Naval Shipyards" of 26 March 1993.

OSD CASE #90-020:

1. NAVAUDSVC Audit Report 027-N-90, "Management of Commercial Repair of Non-Aviation Material" of 30 January 1990;

2. Naval Audit Service Report No. 037-N-91, "Non-Aviation Repairable Assets at Navy Aviation Depots and other Department of Defense Repair Facilities" of 29 April 1991.

OSD CASE #090-022:

1. GAO Audit Report (GAO/NSIAD 90-100), "DEFENSE INVENTORY: Growth in Air Force and Navy Unrequired Parts" of 6 March 1990;

2. GAO Audit Report (GAO/NSIAD 90-111), "DEFENSE INVENTORY: Growth in Ships and Submarine Parts" of 6 March 1990.

3. DODIG Audit Report 90-010, "Summary Report on the Audits of Contract Terminations" of 21 November 1989.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

Completed

Establish internal controls for all non-DBOF (sponsor) material.

Continue on next page

Date:

Milestone:

Completed

Ensure unrecorded DBOF material is identified, returned to inventory control, and not permitted to accumulate.

Completed

Assign central management with the responsibility to generate material requirements.

Completed

Establish procedures to verify shipyards return standard stock materials to the supply system and cancel requisitions when delivery dates are unacceptable or alternative methods are used.

Completed

Revise material ordering policy.

A. Completed Milestones for OSD Case #90-020:

Date:

Milestone:

Completed

Establish procedures to verify assets held by commercial facilities when making supply decisions.

Completed

Ensure that appropriate DON components are aware of failure information reported by commercial repair facilities.

Completed

Validate records of material due in from repair when making supply decisions.

Completed

Establish procedures for periodic verification of commercial facilities' proper use of the CAV reporting program.

Completed

Develop procedures for posting commercial repair transactions to financial inventory records.

Completed

Notify all repair contractors not in compliance, to prepare Monthly Repair Status Reports in accordance with requirements.

Continue on next page

Date:

Milestone:

Completed	Require repair contractors under indefinite quantity-type contracts to report material received under those contracts.
Completed	Adjust Financial Inventory Control Ledgers to reflect standard unit price changes.
Completed	Make accounting entries, prior to the close of the fiscal year, to eliminate any remaining negative inventory balances from the year-end Financial Inventory Report.
Completed	Obtain inventory of material held for storage at commercial repair facilities and take appropriate disposition action.
Completed	Establish procedures to verify records of assets held by interservice repair facilities pending implementation of the Interservice Mat. Accounting and Control System.
Completed	Establish procedures for periodic verification of repair items reported on monthly status reports to ensure inventories at interservice repair facilities are properly reported.
Completed	Maintain Financial Inventory Control Ledgers for all commercial facilities.
Completed	Establish procedures at Interservice Repairs facilities to prevent Navy assets from being misidentified, commingled with non-Navy assets, or lost.

Continue on next page

Date:

Milestone:

Completed

Develop procedures to provide constant visibility over excess material and promptly offer the material to other services when appropriate.

A. Completed Milestones for OSD Case #90-022:

Date:

Milestone:

Completed

Stop the practice of buying more than the economic order quantity, unless there is such specific justification in each case in which a quantity discount more than offsets the additional holding costs.

Completed

Require item managers for ship and submarine parts to retain summary data for major items showing the basis for an item's most recent procurement and events affecting the item.

Completed

Develop and implement procedures that specify the scope of supervisor's review of item managers' validation of excess on-order positions and establish critical elements in personnel performance appraisals.

Completed

Require training for item managers on validating excess on-order validations.

Completed

Update procedures for authorizing and approving changes to requirements and asset data.

Completed

Establish policies and procedures requiring the use of excess on-order assets as Government Furnished Material on production contracts.

Continue on next page

Date:

Milestone:

Completed

Review policy on terminating orders for unrequired items at all levels to ensure they clearly support termination whenever practical and develop termination model.

Completed

Begin systematically identifying and evaluating all inactive ship and submarine items and eliminate those with no potential for future use.

B. Planned Milestones (FY 1994):

Date:

Milestone:

3/94

Provide specific guidance on inventory accountability (including sponsor material), classification, reporting, and disposition in appropriate guidance and tasking documents; and correct guidance on devaluing material.

3/94

Direct activities to provide planned corrective actions for improving inventory management controls and reducing inventory holding costs through implementation of appropriate guidance; and provide directions to activities to turn in unneeded or uneconomical-to-retain standard stock to the supply system.

3/94

Turn into the Navy supply system all excess aeronautical change kits if they are not redistributed to satisfy other modification requirements.

3/94

Issue and implement aeronautical change kit procedures to include what is an excess, actions to be taken as a result of excess determinations, time frames for reviewing potential excess, and feedback to managers.

Continue on next page

Date:

Milestone:

3/94

Issue and implement procedures which assigns a high priority to management of Government Furnished Equipment aeronautical change kits to ensure that excess are identified and that timely redistribution or reclamation takes place.

3/94

Issue guidance requiring top management to make periodic spot checks for unrecorded DBOF inventory.

3/94

Establish procedures to verify return of standard stock material to supply systems when there is no identified future need; cancel supply system requisitions when alternative methods of satisfying requirements are initiated; cancel unneeded material orders and take disposition action on unused material within 60 days after key operation completion or cancellation and make this issue an item of command inspection; and adhere to material ordering procedures and order only long lead time material (including nuclear material) before Work Definition Conferences.

3/94

Revise performance standards for material planners' to incorporate an incentive to order only the minimum amount of material required.

9/94

Establish planned program requirements for overhaul repair material at Inventory Control Points.

B. Planned Milestones for OSD Case #90-020 (FY 1994):

Continue on next page

Date:

Milestone:

3/94
(9/93)

Determine validity of Financial inventory Ledger balances for one-time repair contracts and adjust to show correct value.

3/94
(9/93)

Perform quarterly reconciliation between financial & supply records.

3/94
(9/93)

Coordinate with other services to develop a standardized system for reporting and recording assets on Financial Inventory Control Ledgers.

- Implementation of recommendation is contingent upon the Interservice Material Accounting and Control System (IMACS) implementation. Assets will be visible via computer query over modem connections to IMACS central.

Date:

Milestone:

3/94
(On Target)

Revise guidance on the physical inventory program at Interservice Repair Facilities.

B. Planned Milestones for OSD Case #90-022 (FY 1994):

Date:

Milestone:

3/94

Establish procedures to inform ship and submarine part inventory control points about systems being phased-out or replaced, require inventory records to be coded to identify the items and ensure that purchases of such items are made only for immediate needs.

- The DON Inventory Control Point (ICP) Resystemization; implementation effort has been phased out or replaced due to the Joint Logistics Systems Center (JLSC) efforts to develop a Material Management System which will become the standard for all services.

9/94

Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

Continue on next page

C. Planned Milestones for OSD Case #90-020 (Beyond FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/95 (9/93)	Use Monthly Repair Status Reports for non-CAV commercial facilities to update supply records.
9/95	Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

C. Planned Milestones (Beyond FY 1994):

<u>Date:</u>	<u>Milestone:</u>
9/95	Establish mandatory material designator assignment procedures and include in a material usage feedback system.
9/95	Develop and implement a material usage data base that accumulates and retains all data on material ordered and material usage by availability.
3/96	Perform management reviews to certify the effectiveness of all corrective actions.
9/97	Ensure that over the five-year Material Control Program cycle, all aspects of excess material are covered throughout the various assessable units.
9/97	Verification: All corrective actions will be certified by the responsible component(s) through command inspections and/or quality assurance reviews, and audits.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Inadequate Operational Testing for the Acquisition of Systems and poorly defined program initiations. System are being put into production without adequately performing Operational Test and Evaluations (OT&E). Two critical areas that were not adequately tested included the reliability and maintainability of a system. The tactical system did not meet 5 of 11 hardware and software reliability goals, and problems with maintainability resulted from systems failures not being corrected within the required time. Although the tactical system has a built-in error detection system to identify problem areas, it did not effectively detect and isolate the problems, and the instructions for troubleshooting problems were not user-friendly. In a similar situation, a tactical system that was being developed and procured to replace an older version was determined to have at least 7 major deficiencies in program management elements critical to the operational testing and validation phases. Independent testing of improvements for the system to be replaced did not occur prior to their installation due to a lack of organizational coordination. These deficiencies were critical, and adversely impacted the OT&E and validation phases of the acquisition cycle.

The following are prior year weaknesses that have been consolidated under the systemic area of "Systems Acquisition" for the Department of the Navy:

OSD CASE #87-2: New Research Acquisition Program Initiations. Some new acquisition program research and development initiations faced cancellation or deferral because objectives and requirements were occasionally poorly defined, threat definitions were not always specific and supported by validated intelligence studies, and program oversight was lacking. Program initiation guidelines require revision to improve the development of documentation needed to support budget requests for RDT&E funding.

OSD CASE #88-1: In-Process Reviews and Operational Test and Evaluation of Non-Major Systems. Operational test and evaluation results were not given adequate consideration in production decisions. Consequently, portions of total systems requirements are being fielded under Low Rate Initial Production (LRIP) approvals prior to successful completion of operational test and evaluation. Heavy use of LRIP contributes to the acquisition and

Continue on next page

fielding of large portions of total system requirements before full rate production approvals and before system deficiencies were corrected. Proper documentation for operational test and testing for evaluation test results were not being adequately reported, stored and cross referenced, and safeguards were inadequate to prevent conflict of interest in contract award for operational non-major systems. These conditions were caused by noncompliance with regulations, insufficient and conflicting regulating guidance, and inadequate oversight of the test and evaluation process.

Functional Category: Major Systems Acquisition

Face of Corrective Action:

Year Identified: FY 1993, (FY 1987, FY 1988 prior year weaknesses)

Original Targeted Correction Date: FY 1997, (9/88, 3/90)

Targeted Correction Date in Last Year's Report: (3/92, 3/92)

Current Target Date: FY 1997, (3/94, 3/93)

Reason for Change in Date(s): New completion date for systems acquisition is FY 1997 because prior year weaknesses, OSD Case Numbers 87-2 and 88-1, have been combined with current year weakness. Also, change in correction date is due to new verification milestone.

Component/Appropriation/Account Number: RDT&E,N (17X1319), WPN (17X1507), OPN (17X1810), APN (17X1506)

Validation Process: Corrective actions are certified by the responsible DON component upon completion and reviewed through subsequent audits, inspections, and/or quality assurance reviews. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: These tactical systems support deployed operations in land, and sea warfare missions. Thus, a fully capable system, successfully developed and tested, is critical to the accomplishment of their missions. Moreover, proper operational testing and evaluation prior to the acquisition and installation of the system modifications would ensure that the improvements increase mission effectiveness and are operationally suitable.

Continue on next page

Inadequate in-process reviews of non-major systems can affect evaluations and recommendations utilized in the program decision processes. Purchasing systems prior to successful completion of operational testing is contrary to Navy policy and circumvents controls in the decision process for approving full rate production. Approximately 60% of RDT&E funds and procurement funds are used for non-major systems.

Source(s) Identifying Weakness:

1. GAO/NSIAD-93-81, "Navy Acquisition: AN/BSY-1 Combat System Operational Evaluation" of 19 November 1992.

2. DODIG Audit Report No. 93-116, "Acquisition of Advanced Amphibious Assault Vehicles" of 18 June 1993.

OSD CASE #87-2:

1. GAO Audit Report No. 86-174.

OSD CASE #88-1:

1. Naval Audit Service Report No. 033-C-88, "Multi-location Audit of In-Process Reviews of Non-major Systems" of 1 January 1988.

2. DODIG Report No. 91-115, "Consulting Services Contracts For Operational Test and Evaluation" of 22 August 1991.

3. Naval Audit Service Report No. 061-C-91, "Operational Test and Evaluation of Non-major Systems" of 30 September 1991.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

Completed

Correct system deficiencies detected during technical and operations evaluations consisting of software and hardware modifications.

- Problems detected during testing were undergoing corrective action prior to audit.

Completed

Modify acoustic software to correct system deficiencies observed during operational evaluation.

Continue on next page

Date:

Milestone:

- Problems detected during testing were undergoing corrective action prior to audit.

Completed

Conduct test to demonstrate capability in a realistic operational environment.

- OT&E follow-on testing provided a more in-depth look at the system.

Completed

Postpone the procurement and installation of improvements for tactical system until OT&E is successfully completed.

Completed

Ensure coordination between organizations responsible for product improvements on programs which require operational testing. Develop procedures to ensure that operational tests are scheduled in accordance with a 5-Year Master Test Plan.

Completed

Verify corrective actions during follow-on test and evaluation of the final milestone.

A. Completed Milestones for OSD Case #87-2:

Date:

Milestone:

Completed

Complete a staffing and workload analysis to identify resources needed for effective oversight of RDT&E acquisitions and develop related budget requests.

Completed

Revise program guidance to incorporate procedures and processes needed to support new acquisition program initiatives.

A. Completed Milestones for OSD Case #88-1:

Continue on next page

Date:

Milestone:

Completed	Review and establish plan of action and milestones for Mini-DAMA.
Completed	Increase monitoring of compliance with documentation requirements.
Completed	Apply the provisions of Public Law 101-189 requiring quantifying of LRIP at Milestone II to non-major systems.
Completed	Require that any increase in LRIP quantities initially approved at Milestone II be approved by the next higher decision authority.
Completed	Issue policy to incorporate conflict of interest provision on contractor involvement in operational testing for non-major systems.
Completed	Require that LRIP documentation provide the rationale for approvals that authorize more than a single years buy.
Completed	Provide appropriate procedures and controls for processing and approving LRIP decisions made through waivers of the formal milestone decision process.
Completed	Specify what detailed data must be retained to support operational test evaluation reports and the retention period for each type of data.
Completed	Revise guidance to incorporate procedures for changing ACAT designations when appropriate and provide update and verification procedures for centralized data base of acquisition projects.
Completed	Verification: Conduct internal assessment and management review to certify completion of milestones.

Continue on next page

B. Planned Milestones (FY 1994): N/A

B. Planned Milestones for OSD Case #87-2 (FY 1994):

Date:

Milestone:

9/94

Verification: Conduct Management reviews to certify the effectiveness of all corrective actions.

C. Planned Milestones (Beyond FY 1994):

Date:

Milestone:

3/96

Test reliability and maintainability in conjunction with projected software modification.

9/97

Verification: All completed milestones will be certified by a management control review.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Federal Employees' Compensation Act (FECA) Case Management. Federal Employees' Compensation Act (FECA) case management by Department of the Navy (DON) activities needs improvement. DON activities were not monitoring and investigating cases to minimize FECA charges. DON program management did not apply sufficient resources to ensure proper case oversight, direction, informational tools, and other support to properly implement FECA policy and guidance. Increased oversight is needed to improve overall program effectiveness.

The Department of Defense (DOD) shares a major part of the responsibility for correcting this issue. DOD, under initiative DMRD 974, included the FECA in their studies on major aspects of managing civilian personnel programs more efficiently. In December 1992, DOD decided to consolidate the FECA programs and responsibilities separately executed by the several DOD agencies and centrally manage the program at the Defense Civilian Personnel Management Service (DCPMS). On October 24, 1993, DON will transfer six FECA resources to the DCPMS. Centralized DOD-wide FECA management will include: the development of a computerized DOD-wide FECA chargeback of injury costs, and an injury cases create system accessible to all DOD injury compensation specialists (projected implementation date is May 1994); placement of 27 DOD FECA liaisons located at or near the district offices of the Department of Labor's Office of Workers' Compensation Programs; institution of a system to provide FECA program information to the DOD field activities; establishment of a FECA question and answer technical advisory service; development of a DOD specific FECA training program; and the issuance of FECA program guidance and policy to foster better management of the FECA program throughout DOD.

As a result of the consolidation, 14 of the 15 recommendations in Audit Report 022-W-93 will fall under the DCPMS charter. Only the responsibility for the investigation of cases on chargeback lists will remain in DON. The Office of Civilian Personnel Management is assigned specific responsibility for 575 cases not identified to a major claimant or activity.

Functional Category: Personnel Management

Fact of Corrective Action:

Continue on next page

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

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

Current Target Date: FY 1995

Reason For Change in Date (s): N/A

Component/Appropriation/Account Number: O&M,N (17X1804)

Validation Process: Complete the review of unassigned cases at Department of Labor District Offices contingent upon the availability of funds needed for travel to District Office locations outside the Washington, D.C. area, and obtain Department of Labor certification that costs have been switched to appropriate Federal agencies. Oversight of assigned cases will be through command inspections and/or quality assurance reviews, personnel management evaluations, and Naval Audit Service follow-up audits.

Results Indicators: Where reviews of unassigned cases locate non-Navy cases, costs can be switched to other Federal agencies for payment. For assigned Navy cases, activities will properly manage cases, return injured employees to work, or take appropriate action to separate them from Navy rolls.

Source Identifying Weakness: Naval Audit Service Report No. 022-W-93, "Federal Employees' Compensation Act Case Management" of 16 February 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Completed reviews of 175 of 575 cases which were not identified to a major claimant or activity.
Completed	Complete reviews of 300 unassigned cases.

B. Planned Milestones (FY 1994): N/A

C. Planned Milestones (Beyond FY 1994):

Continue on next page

Date:

Milestone:

3/95

Complete reviews of remaining 100 unassigned cases, and obtain the Department of Labor certification that costs have been switched to appropriate Federal agencies.

9/95

Verification: Responsible activities will certify completion of assigned cases through the computerized DOD-wide FECA chargeback injury cases create system and monitoring will be through command inspection and/or quality assurance reviews, personnel management evaluations, audits, and DCPMS case management system.

Point of Contact: Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Navy Enlisted Classification (NEC) Code Training. The control system for NEC training records and assignments is not adequate to prevent or promptly detect all material errors and irregularities in operations. Data transmission errors have occurred, reducing the accuracy of the system; unqualified enlisted personnel were allowed to enroll in and complete NEC producing courses; all NEC codes earned by enlisted personnel through formal school training were not recorded in official personnel records; and valid NEC code transactions were lost annually during ADP transmissions between the training and personnel systems.

Functional Category: Personnel and/or Organization Management.

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1996

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

Current Target Date: FY 1996

Reason for change in date: N/A

Component/Appropriation/Account Number: OM&N (17X1804) and MPN (17X1453).

Validation Process: Management Control Review or Alternative Management Control Review during FY 1996.

Results Indicators: The inventory of NEC codes held by enlisted personnel will be accurately stated in official records. Therefore, the Navy will accurately train the number of personnel needed to satisfy billet requirements. A portion of training funds will be put to better use when unqualified students are not assigned to NEC producing courses.

Source(s) Identifying Weakness: NAVAUDSVC Report 049-S-93, "Enlisted Classification Code Training" of 30 June 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

Continue on next page

<u>Date:</u>	<u>Milestone:</u>
Completed	Establish separation of duties and accountability for NEC removals.
Completed	Research and, where appropriate, award the 121 identified NECs that were recorded in Navy Integrated Training Resources Administration System (NITRAS) but not in the personnel system.

B. Planned Milestones (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/94	Establish internal controls to ensure accuracy of NEC data transmitted, including use of sequence codes during data transmission to prevent omission of entire file transmissions, and use of a trailer record with a record count on NITRAS files transmitted to the personnel system to verify file transmission.
3/94	Require detailers to use NEC Manual, to determine qualifications for course assignments to NEC producing courses.
3/94	Reemphasize to Navy activities, including detaching commands and training activities, their responsibility for screening service members for proper qualifications before sending service members to training.
3/94	Investigate interface problems between NITRAS and the personnel system including transmission errors not appearing on reject listings.

Continue on next page

Date:

Milestone:

3/94

Establish internal controls such as requiring detailers' supervisors to review detailer course assignments so that any questionable assignments might be identified and investigated.

3/94

Require enlisted community managers to review and document approval of requests for waiver of qualifications for NEC producing courses prior to detailer assignment.

3/96

Verification: Conduct/utilize a management control review or alternative management control review to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Copyrighted Computer Software. Compliance with license agreements relies on the integrity of the software user. Despite copyright warnings, unauthorized/undocumented software installed on personal computers appears throughout the Department of the Navy. This problem appears to exist because of either vague instructions regarding controls over copyrighted computer software lack of guidance on how software should be accounted for or controlled. There also appears to be a lack or of management emphasis on compliance with licensing agreements.

Functional Category: Information Technology

Face of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

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

Current Target Date: FY 1995

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and review through onsite verifications, subsequent audits, inspections, quality assurance reviews, and/or management control reviews.

Results Indicators: Compliance with and internal controls will ensure that all personnel are aware of copyright restrictions and penalties for abuse of licensing agreements. Also procedures will be developed to account for copyrighted computer software while it is in use.

Source(s) Identifying Weakness: DODIG Report No. 93-056, "Controls Over Copyrighted Computer Software" of 19 February 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

Continue on next page

Date:

Milestone:

Completed

Issue policy statement emphasizing DON employees to follow copyrighted computer software licensing agreements.

Completed

Establish a working group to draft guidebook covering management of copyrighted computer software.

B. Planned Milestones (FY 1994):

Date:

Milestone:

9/94

Distribute Guidebook on managing copyrighted computer software DON-wide.

C. Planned Milestones (Beyond FY 1994):

Date:

Milestone:

3/95

Verification: All corrective action(s) are certified by the responsible components upon completion and review through onsite verifications, subsequent audits, inspections, quality assurance reviews, and/or management control reviews.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

**UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93**

Title and Description of Material Weakness: Aviation Continuation Pay (ACP) bonus program. The Navy's FY 1993 ACP bonus program did not use a Center for Naval Analyses (CNA) bonus computation methodology. This occurred because there was a lack of Department of Defense (DOD) and Navy policy. This resulted in the Navy using an inconsistent bonus computation methodology. Additionally, one of the Navy's initial FY 1993 through FY 1998 budgets was overstated because it was based on the previous year's budget and did not consider the impact of reduced FY 1993 program bonus level and related out-year budget computations.

Functional Category: Comptroller and/or Resource Management.

Face of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

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

Current Target Date: FY 1995

Reason for Change in Date(s): N/A

Component/Appropriation/Account Number: BUPERS/MPN/171453.2201.

Validation Process: MCR or Alternative MCR in FY 1995.

Results Indicators: The Navy now uses a consistent bonus computation methodology. Adjustments to the ACP program budget allowed \$75.3 million to be put to better use. \$74.6M was reprogrammed during the audit and at the midyear review for the FY 1993 ACP program.

Sources(s) Identifying Weakness: (c) NAVAUDSVC Report 047-C-93, "Aviation Continuation Pay" of 29 June 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

Continue on next page

Date:

Milestone:

Completed

Use the CNA ACP methodology to revise FY93 bonus levels and future bonus requirements.

Completed

Establish written policy and procedures that describe how annual department head requirements are determined.

Completed

Use the audit-developed out-year budget methodology to determine budget requirements.

B. Planned Milestones (FY 1994):

Date:

Milestone:

3/94

Revise SECNAV Instruction 7220.79 to reflect guidance in Title 37 USC Section 301b and Public Law 101-189.

3/95

Verification: Conduct/utilize a management control review or alternative management control review to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statements Accountability. **Industrial Activities:** Property, Plant and Equipment account including accumulated depreciation, contained errors (e.g., Fixed assets recorded in the financial statements could not be located; fixed assets were not removed from the financial statements after disposal or transfer; and assets were misclassified. Inventories "Not Held for Sale" were inaccurate; physical inventories were not conducted or, when conducted, were incomplete; unused material was not returned to the appropriate inventory account or recorded on financial records; excess material was not disposed of timely, and stock levels were not always reviewed for excesses. Accruals were posted in the wrong year, were not adequately liquidated, and were improperly written off. Financial statements footnotes did not provide required disclosures.

Supply Activities: Financial inventory records for "Inventory Held for Sale" were inaccurate because the closing inventory balance included negative (credit) inventory balances. Perpetual inventory records for material at wholesale Navy stock points were not accurate. Supply and financial records for material differed and required quarterly reconciliations were not performed. Material-in-transit (MIT) and progress payments account balances were not accurate. Unmatched Stock-in-transit (SIT) balances were not accurate, and SIT financial and inventory records differed.

These material weaknesses represent weaknesses which are correctable within the Department of the Navy. Correction of systemic problems in supply activities MIT and progress payment account balances, however, are contingent on outside sources.

Functional Category: Comptroller and Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

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

Current Target Date: FY 1995

Continue on next page

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: Defense Business
Operations Fund (DBOF) (97X4930)

Validation Process: Plans for and progress on corrective actions will be addressed in management command submissions of the CFO financial statements supporting footnotes to DFAS with a copy to NAVCOMPT for monitoring. Corrective Actions are also reviewed through follow-up audits, inspections, and/or quality assurance reviews.

Results Indicators: Due to high Congressional interest in effective implementation of the CFO Act of 1990, these weaknesses play a key role in financial statement accountability and credibility of the Department of the Navy.

Source(s) Identifying Weakness: NAVAUDSVC Audit Report No. 074-S-92, "Marine Corps Industrial Fund Financial Statements (FY 1991)", of 30 June 1992. NAVAUDSVC Audit Report No. 075-S-92, "Financial Audit of the Fiscal Year 1991 Navy Industrial Fund (17X4912) Property, Plant, and Equipment Account", of 30 June 1992. NAVAUDSVC Audit Report No. 076-N-92, "Financial Audit of the Department of the Navy Stock Fund - Fiscal Year 1991", of 30 June 1992. NAVAUDSVC Audit Report No. 053-H-93, "Fiscal Year 1992 Consolidating Financial Statements of the Department of the Navy DBOF", of 30 June 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Supply activities perform required quarterly supply and financial record reconciliations to ensure supply and financial record accuracy.
Completed	Supply activities perform periodic reconciliations between Master Stock Item Record and Master Data file to maintain accurate inventory balances.
Completed	Supply activities adjust MIT and progress payments for discrepancies identified by the auditors and reflect in FY 1993 financial statements.

Continue on next page

B. Planned Milestones (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/94	Supply and industrial activities ensure full financial statement footnotes disclosure in accordance with DOD guidance and as agreed upon in responses to audit reports to make financial statements more meaningful.
3/94	Supply activity adjust SIT for invalid transactions reported by auditors and make adjustments to FY 1993 financial statements.
3/94	Industrial activities complete a plan to validate current balances of Inventory Not for Sale, Property, Plant and Equipment including depreciation and ensure compliance with applicable guidance to correct deficiencies reported by auditors and document the plan in the applicable footnote to the FY 1993 financial statements.
3/94	Industrial activities complete a plan to use statistical sampling techniques for inventory and conduct inventory in accordance with applicable instructions and determine when complete inventories are needed and document the plan in the applicable footnote to the FY 1993 financial statements.
3/94	Industrial activities complete a plan to determine the value of excess inventory and the disclosure of excess inventory at net realizable value in financial statements and document the plan in the applicable footnote to the FY 1993 financial statements.

Continue on next page

Date:

Milestone:

3/94

Supply activity management command monitor Inventory Accounting and Billing Operation (PX06) software implementation to ensure timely correction of deficiencies that cause imbalances between supply and financial records. Provide disclosure in financial statement of actual implementation date.

3/94

Industrial activity management command validate accrual deficiencies identified by auditors and make adjustments to FY 1993 financial statements based on errors detected.

9/94

Supply activities management command take action to develop and implement Advanced Traceability and Control Ready for Issue>Returns Redistribution Order Accountability and Control System to correct the differences between the SIT financial and inventory records.

9/94

Industrial activity conduct wall to wall inventory where accuracy is less than 65% and provide results of review in FY 1994 financial statements and footnotes.

C. Planned Milestones (Beyond FY 1994):

Date:

Milestone:

9/95

Industrial activities return unused material to appropriate inventory account and make adjustments to financial statements prior to base closure.

9/95

Verification: Plans for and progress on corrective actions will be addressed in management command submissions of the CFO financial statements supporting footnotes to DFAS with a copy to NAVCOMPT for

Continue on next page

Date:

Milestone:

monitoring. Corrective actions are also reviewed through follow-up audits, inspections, and/or quality assurance reviews.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY93

Title and Description of Material Weakness: Unmatched Disbursements. Unmatched disbursements exist in the Navy's accounting system because: (1) funding organizations do not always obligate funds promptly; (2) controls are not adequate to ensure prompt detection and correction of disbursing office errors; (3) accounting data accuracy is not maintained; and (4) unmatched disbursements are not promptly resolved. One system, which accounts for \$57 billion (57% of the Navy's overall budget), contained 12.3 billion in unmatched disbursements as of 19 February 1992.

The Department of Defense (DOD) shares a major part of the responsibility for correcting this issue. Under Defense Management Report Decision 910, the DOD capitalized the accounting and finance operations. DOD's share of responsibilities is not identified in this material weakness.

Functional Category: Comptroller and/or Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

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

Current Target Date: FY 1995

Reason For Change in Date(s): N/A

Component/Appropriation/Account Number: O&M,N (17X1804), OPN (17X1810), RDT&E,N (17X1319), O&M,NR (17X1806), WPN, (17X1507), SCN (17X1611), APN (17X1506), FMS (17X8242), O&M, Defense Agencies (100), Procurement, Defense Agencies (300), National Guard & Equipment, Defense (350) RDT&E, Defense Agencies (400), Environmental Restoration, Defense (810), Missile Procurement, Air Force (57X3020), RDT&E, Air Force (57X3600)

Validation Process: Project manager will review monthly reports of corrective actions and provide periodic status reports to the Assistant Secretary of the Navy (Financial Management/Comptroller) (ASN (FM)) for the Secretary of the Navy. The ASN (FM) will meet periodically with the comptrollers and the Defense Finance Accounting Service to review progress of the project.

Continue on next page

Results Indicators: A detailed Plan of Action and Milestones for reducing unmatched disbursements has been developed to track and measure progress. The Defense Finance Accounting Service and the Navy "tiger team" will provide a monthly "Unmatched Disbursements Progress Report" for reducing the \$12.3 billion in unmatched disbursements to the project director. Unmatched Disbursements is a topic on the agenda of the newly established Department of Defense Senior Financial Management Oversight Council.

Source(s) Identifying Weakness: GAO Report No. AFMD-93-21, "Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements" of June 1993.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Establish a Plan of Action and Milestones for reducing unmatched disbursements.
Completed	Form a Process Action Team to review the process to determine the systemic problems causing unmatched disbursements and make recommendations.
Completed	Obtain and approve additional resource requirements from Navy components to competently address the problem.

B. Planned Milestones (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/94	Reduce existing unmatched disbursements by half.
3/94	Issue message to all funding and accounting offices emphasizing the importance of recording all obligation promptly and accurately, entering disbursements correctly, and only use authorized contract numbers and payment supporting documentation to correctly match unmatched disbursements.

Continue on next page

Date:

Milestone:

9/94

Review and approve plans of the operating organizations to achieve the reductions and correct the process and system weaknesses.

9/94

Modify Navy regulations and procedures to require that copies of necessary documentation be made available to and used by the organizations responsible for resolving unmatched disbursements.

C. Planned Milestones (Beyond FY 1994):

Date:

Milestone:

9/95

Verification: The project manager will use the detailed Plan of Action and Milestones for reducing unmatched disbursements as a check list to verify that all actions have been completed. When the amount of unmatched disbursements are at an acceptable level over a time period, the Department of the Navy will assume that the material weakness is resolved.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Naval Selected Reserve Force Mobilization Requirements (OSD #92-054). Navy field activities and manpower claimants did not always use effective procedures to develop and justify Selected Reserve (SELRES) manpower requirements. Field activities did not always annually review their mobilization requirements as required. Resource sponsors did not always consider active duty personnel filling peacetime only billets as a source for filling ship and squadron mobilization requirements as required. Finally, 20 of the 22 manpower claimants interviewed did not include the function of determining SELRES manpower requirements as an assessable unit under the Navy's Management Control Program.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action

Year Identified: FY 1992

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Reports: FY 1995

Current Target Date: FY 1996

Reason for Change in Date(s): Verification milestone added.

Component/Appropriation /Account Number: Navy/RPN (17X1405)

Validation Process: Management Review or Alternate Verification Review during FY 1996.

Results Indicators: Valid mobilization manpower requirements will result in Navy activities ability to accomplish mission and functions during a mobilization. Adequate SELRES manpower authorizations result in proper RPN funding.

Source Identifying Weakness: Naval Audit Service Report No. 069-S-92, "Naval Selected Reserve Force Mobilization Requirements of 30 June 92. Naval Audit Service Report No. 049-S-91, "Naval Surface Reserve Force Personnel and Training Readiness" of 25 June 1991. DODIG Audit Report 92-116, "Naval Reserve Reinforcing and Sustaining Units" of 30 June 1992.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed 1 Sep 92	Ensure that SELRES manpower requirements is an assessable unit.
Completed 6/93	Revalidate the responsible Functional Sponsor for each Functional Category.
Completed 7/93	Revalidate all NAMOS Functional Categories (FUNCATs) for applicability under the new planning guidance.
Completed 9/93	Revise SECNAV Instruction on Navy Total Force Manpower Policies and Procedures.

B. Planned Milestones (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/94	Revise the Navy Manpower Mobilization System (NAMMOS) Users Manual.
3/94	Promulgate the new guidance/directives to Manpower Claimants and provide guidance on the procedures to be used to conduct a zero-based review of all mobilization manpower requirements.
9/94	Write and issue a SECNAV Instruction on Naval Reserve Policy.

C. Planned Milestones (Beyond FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/95	Perform FUNCAT reviews/update the Concept of Operations for each FUNCAT based on the new planning guidance.

Continue on next page

Date:

Milestone:

- | | |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3/95 | Add the determination/validation/programming procedures for mobilization manpower requirements to the PERS-51 Total Force Manpower Management course. |
| 3/95 | Revalidate all mobilization manpower requirements and submit necessary Manpower Change Requests. |
| 3/95 | Identify any cost savings/increases resulting from the revalidation/identification of alternate resourcing of SELRES requirements under the new guidance. |
| 3/95 | Update Navy guidance on Naval Reserve Policy. |
| 3/96 | Verification: Conduct management reviews to certify the effectiveness of all corrective actions. |

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

**UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92**

Title and Description of Material Weakness: Sexual Harassment (OSD# 92-064). Deficiencies in the Navy's sexual harassment program as evidenced by inappropriate behavior, improper handling of sexual harassment grievances and poor investigation of reported sexual harassment have materially damaged Navy's public image and impacted Navy morale.

Functional Category: Personnel & Organizational Management

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Reports: FY 1995

Current Target Date: FY 1995

Reason for Change in Date(s): Verification Milestone added.

Component/Appropriation/Account Number: O&M,N (17X1804)

Validation Process: Corrective actions will be validated during an internal management review during FY 1995. Sexual harassment will be included as a "special interest" item during command inspections, biannual Equal Employment Opportunity/Sexual Harassment Surveys and Unit Climate Assessments.

Results Indicators: Sexual Harassment in the Navy is now recognized as a problem that needs to be addressed. Training on sexual harassment prevention is now mandatory for all members, both civilian and military. "Core Value" training is now incorporated in all command courses as well as in all accession point training. Policy has been written to enforce mandatory separation and reinforce zero tolerance. A telephone hot line has been set up to assist in advice and counseling. All these corrective actions and training proved reasonable assurance that the Navy is strengthening the integrity of the employment relationship, morale and work productivity. The Biennial Navy Equal Opportunity/Sexual Harassment survey to be completed in FY 1995 will validate progress and realign policy/training accordingly.

Continue on next page

Source(s) Identifying Weakness: 1992 Navy Inspector General (Tailhook Investigation); 1991 Update Report on the Progress of Women in the Navy, 1989 & 1991 Navy Equal Opportunity/Sexual Harassment Results, 1987 Navy Women's Study Group; 1991 Navy Personnel Research and Development Center Study on Sexual Harassment in the Civilian Work force.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Mandatory administrative separation directed to reinforce the Zero Tolerance policy on sexual harassment.
Completed	Re-emphasize Zero Tolerance Policy for sexual harassment.
Completed	Establish Standing Committee on Military and Civilian Women in the Department of the Navy.
Completed	Complete one day Stand Down prevention training for sexual harassment.
Completed	Upon receipt of the Sexual Harassment Feedback and Lessons Learned Report, the Standing Committee will chart further actions required to achieve Navy Zero Tolerance Policy.
Completed	Incorporate "Core Values" training into all accession point training (officer and enlisted), all command courses, recruiter and boot camp supervisory positions and key leadership courses.
Completed	Completed CNET lesson plan for Sexual Harassment Course.*
Completed	Issue new Sexual Harassment Instruction.*
Completed	Completed DON Informal Resolution System (IRS).*

Continue on next page

Date:

Milestone:

- The IRS encourages resolution of sexual harassment complaints informally, at the individual work center level. The IRS is an adjunct to the formal sexual harassment complaint system established by SECNAVINST 5300.26B which can be entered into if the IRS is not appropriate or successful for the individual or specific circumstance of the incidents.

Completed

Establish a database to track sexual harassment and assault.

- Database completed in August 1993.

Completed

Complete next Biennial Navy Equal Opportunity/Sexual Harassment Survey to determine progress and realign training/policy initiatives accordingly.

- Survey was made Sep 1993

B. Planned Milestones (FY 1994): N/A

C. Planned Milestones (Beyond FY 1994):

Date:

Milestones:

9/95

Verification: Complete Biennial Navy Equal Opportunity/Sexual Harassment Survey to determine progress and realign training/policy initiatives, accordingly.

* Additional milestones completed during FY 1993 to support ongoing corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Poor Utilization of Bachelor Enlisted Quarters (BEQs) Berthing Spaces and Transient Bachelor Officer Quarters (BOQs) (OSD #92-069). Deficiencies identified were:

1. Transient BQs/Government Quarters have an inefficient reservation system.

2. Some Navy commands are accumulating monies collected from billeting service charges, rather than restricting or identifying them for projects, services, or amenities to benefit transients.

3. Some navy commands inappropriately exempted employees from using BQs/Government Quarters while on temporary duty travel.

4. Revisions in Navy policy and procedures to establish a reasonable commuting distance (15 miles/30 minutes) could result in economies.

5. Navy field activities did not properly allocate or utilize adequate available BEQ space prior to authorizing permanent duty and transient enlisted personnel to live off base.

6. Field activity management reviews were not adequate to ensure maximum utilization of adequate housing.

7. The Navy's BEQ guidance on geographical bachelor personnel drawing Basic Allowance for Quarters and living in BEQs was not in conformance with DOD policy.

Functional Category: Property Management

Component/Appropriation/Account Number: MPN (17X1453), O&MN (17X1804)

Face of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1993

Continue on next page

Current Target Date: FY 1994

Reason For Change in Date: Verification milestone added.

Results Indicators: Claimant per diem costs will be saved, and therefore training and mission essential travel costs. Funds from billeting service charges are not being identified or used as intended. BOQ cost avoidances totaling \$22.3 million for FY 1993 through FY 1998 could be achieved. Economy and efficiency of BEQ will improve with a FY93 - FY98 cost avoidance of approximately \$156.7 million.

Validation Process: Management Review of these areas during FY 1994.

Sources Identifying Weakness: Naval Audit Service Report No. 090-S-92, "Navy's Management of Berthing Spaces at Bachelor Enlisted Quarters" of 30 September 1992, Naval Audit Service Audit Report (004-S-93), "Utilization of Transient Bachelor Quarters", of 27 October 1992. GAO Report No. GAO/NSIAD-92-27, OSD-8819 "Transient Lodging Operations Need Effective Management Control" of October 1991 and Pers-6 internal management reviews during 1991 and 1992.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Issue policy prohibiting billeting offices from issuing Certificates of Non-availability (CNAs) when government quarters are available.
Completed	Revise Navy guidance to require that results of quarterly space utilization reviews be documented and retained for record purposes. Issue guidance to terminate geographical bachelor space assignments when the BEQ space is needed by higher priority personnel.
Completed	Identify appropriate management controls to ensure compliance with policies and directives.

Continue on next page

Date:

Milestone:

Completed

Clearly identify potential uses of billeting funds, and urge commands to maximize use. Require commands with identified projects to restrict funds appropriately.

Completed

Issue message requiring claimants to transfer excess billeting funds which have not been restricted for projects to activities in need of non-appropriated funds.

Completed

Require that during periodic inspections, steps are included in inspection guides to perform reviews to ensure that geographical bachelor space assignments are terminated when the spaces are needed for higher priority personnel.

Completed
1 Feb 93

Advise field activities to utilize all available spaces prior to authorizing unaccompanied enlisted personnel to live off base.

Completed
1 Mar 93

Require that data be developed that depicts total BEQ capacity, total occupancy achieved, and total authorizations to live on the economy due to high BEQ utilization; report the results at least quarterly for review by local and upper management.

Completed
1 Oct 93

Require that periodic inspections of field activities include reviews to certify BEQ space allocations are consistent with optimum utilization needs, and authorization to live off-base are limited to those instances where BOQ space is fully utilized or personnel are qualified for such entitlement.

Continue on next page

Date:

Milestone:

Completed
3/93

Identify magnitude/costs involved.

Completed
4/93

Issue policy and procedures requiring official travelers to make billeting arrangements through Commercial Travel Offices (CTOs).

Completed
4/93

Require use of BOQs located within reasonable distances of temporary duty travel locations.

Completed
9/93

Issue clarifying guidance regarding the use of adverse effect statements for temporary duty travel by defining specific reasons where the statement would be justified.

Completed
9/93

Establish a review of adverse effect exemptions as an issue in all Inspector General inspections.

- An interim transient lodging policy has been submitted which directs that use of adverse effect exemption statements must be fully justified. Estimated release date is 31 May 93.

Completed
7/93

Establish procedures to monitor the adequacy of BOQs through unannounced inspections and establish feedback procedures from users of those government quarters to include appropriate corrective action that should be implemented by the BOQs.

Completed
4/93

Require BOQs located within local commuting areas to coordinate availability prior to issuance of certificates of non-availability.

Completed
10/93

Issue guidance to BOQs to correct deficiencies in regard to climate control, furnishings, cleanliness, maid service, and privacy, and to issue certificates of non-availability if not corrected.

Continue on next page

Date:

Milestone:

9/93
On Target

Implement standardized BOQ reservation system.

B. Planned Milestones (FY 1994):

Date:

Milestone:

Completed
9/94

Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Enlisted Member "Mess Separately" (RATSSEP) Authorization and Food Service Operations (OSD #92-071). \$10.9M of the \$15.5M RATSSEP authorizations paid to enlisted personnel were invalid. Authorizations were either not justified or lacked proper documentation to substantiate the payment. Invalid authorizations occurred because of noncompliant local policies and a lack of internal controls to ensure adherence to and enforcement of established policies and procedures. The absence of a regional coordinator, required by Navy policy, also contributed to inconsistent and noncompliant local policies. Also, inadequate cash controls over food service operations resulted in the embezzlement of funds.

Functional Category: Support Services

Component/Appropriation/Account Number: MPN (17X1453),
O&M,MC (17X1106)

Face of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Reports: FY 1993

Current Target Date: FY 1994

Reason for Change in Date: Verification milestone added.

Validation Process: Corrective actions implemented at Food Service operations will be validated by the responsible component either by an audit, inspection, quality assurance review or a management control evaluation. Corrective actions related to RATSSEP authorizations will be validated by a management control review during FY 1994.

Results Indicators: Economy and efficiency of Basic Allowance for Subsistence (BAS) and RATSSEP operations could be improved at the field level with an annual cost avoidance of approximately \$6.8M (\$10.9M offset by \$4.1M cost to O&MN for rations-in-kind for those personnel who would no longer receive BAS/RATSSEP). Note: \$6.8M annual cost avoidance savings has been used to offset an unfunded BAS requirement.

Continue on next page

Source(s) Identifying Weakness: Naval Audit Service Audit Report No. 001-C-93, "Authorization and Payment of Basic Allowance for Subsistence," of 1 October 1992 and a Naval Investigative Service investigation.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Direct activities to disapprove all RATSSEP not adequately supported.
Completed	Complete a review of controls overcash in Food Operations. Implement appropriate internal control procedures.
Completed (3/93)	Eliminate unauthorized RATSSEP payments by revising guidance to: clearly state when full BAS, RATSSEP, and emergency BAS should be paid; indicate what documentation is required to support BAS authorizations and where the documentation must be retained; require annual RATSSEP authorization reviews.
- Changes to Navy Personnel Manual were approved 26 July 93.	
Completed (3/93)	Emphasize the requirement for a regional coordinator to preclude inconsistent local BAS policies.
- Changes to Navy Personnel Manual were approved 26 July 93.	

B. Planned Milestones (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
9/94	Verification: Perform management reviews to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY92

Title and description of Material Weakness: Environmental issues relating to major systems acquisition (OSD #92-078). The Department of the Navy (DON) must ensure all directives, instructions, manuals or other guidance implementing DoD directives 5000.1 and 500.2 require environmental consideration during all acquisitions (new systems and major modification to existing systems) and include a requirement for all program managers to incorporate environmental considerations in the logistics support analysis.

The DON did not assess the environmental consequences, prepare and process environmental documents, integrate environmental considerations or initiate programmatic environmental analysis into its decision making process for major systems acquisitions or prior to the engineering and manufacturing development phase. Internal controls were not effective to ensure assessment of the environmental consequences of the programs.

Functional Category: Other-Environmental

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1995

Reason For Change in Date(s): New completion date for environmental is 1995 due to new verification milestone.

Component/Appropriation/Account Number : RDT&E, N (17X1319); WPN (17X1507)

Validation Process: Review of environmental considerations within the acquisition cycle is a continuous process. Successive changes to applicable laws and regulations require constant monitoring to ensure current and future compliance. DoD Directive 5000.1, DoD Instruction 5000.2 and DoD Manual 5000.2-M incorporate system safety, health hazards, and environmental impact into the Defense Acquisition Management Policies and Procedures. Subsequent to the identification of this material weakness, DON issued SECNAVINST 5000.2A which implements the

Continue on next page

environmental review and other requirements of DoD requirements of DOD acquisition management policies and procedures. Additional DON environmental guidance to clarify scope and depth of environmental analysis requirements and review procedures for acquisition programs is being prepared for incorporation into SECNAVINST 5000.2. This material weakness will be corrected by the inclusion of this additional guidance in SECNAVINST 5000.2A. These policies/procedures will provide necessary ongoing review of environmental issues within the acquisition cycle as envisioned by the DOD Inspector General report.

Results Indicators: Environmental requirements are impacting acquisition programs. The elimination of CFCs and Halons have a major impact on current and future programs. In addition, reduction of toxic materials used in the operation, maintenance and disposal of material and equipment requires full consideration of environmental issues during the entire life cycle of equipment/material.

Source(s) Identifying Weakness:

1. DODIG Report No. 93-077, "Environmental Consequence Analyses For The V-22 Osprey Program" of 29 March 1993.
2. DODIG Report No. 93-127, "Environmental Consequence Analyses For The Joint Standoff Weapon Program" of 25 June 1993.

OSD Case #92-078

1. Final Report on the Inspection of Hazardous Waste Minimization, Inspector General, Department of Defense, Inspection Report 93-INS-06.

Major Milestones in Corrective Action:

A. Completed Milestones for OSD Case # 92-078:

Date:

Completed

Milestone:

Initiate review of the Federal Acquisition Regulation (FAR) and the Defense Supplemental (DFARS) and other guidance documents to identify opportunities to incorporate environmental considerations.

Continue on next page

Date:

Milestone:

- Originally, proposed ASN (I&E) review of the FAR and the DFARS was not required. The FAR and DFARS provide the framework by which programs and equipment identified by the acquisition process are procured. Environmental considerations cannot be retrofitted into a program or system under procurement procedures governed by FAR and DFARS. Further, the Office of Federal Procurement Policy initiated a review of the FAR in 1993 that resulted in several proposed changes to encourage the purchase of environmentally sound products.

B. Planned Milestones (FY 1994):

Date:

Milestone:

9/94

Conduct and document programmatic environmental analyses (PEA) and initiate, if needed, supporting NEPA documentation for the V-22 and JSOW programs.

9/94

Incorporate the results of the PEA and completed NEPA actions, including mitigating actions, into the Integrated Program Summary, life-cycle cost estimates, and other documentation per DOD Instruction 5000.2 and provide a summary of completed PEA and NEPA actions for the JSOW and V-22 programs for appropriate DAB review.

B. Planned Milestones for OSD Case #92-078 (FY 1994):

Date:

Milestone:

3/94

Draft and issue proposed changes to SECNAVINST 5000.2A to clarify scope and depth of environmental requirements for acquisition programs.

Continue on next page

C. Planned Milestones (Beyond FY 1994):

Date:

3/95

Milestone:

Verification: All corrective actions are certified by the responsible components upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews.

Point of Contact: Mr. Richard Gloss, (703) 706-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Compliance with environmental laws and regulations by the Department of the Navy (DON). (OSD #92-079). Failure of Navy and Marine Corps installations to comply with environmental laws and regulations; lack of formal Department of the Navy guidance on policy, roles and responsibilities.

Functional Category: Other-Environmental

Component/Appropriations/Account Number: Various

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1995

Reason for Change in Date: Verification milestone added.

Validation Process: Internally, Navy and Marine Corps commands, the Navy Inspector General conduct environmental compliance audits. Externally, EPA and state inspectors check environmental compliance. Violation are reported to CNO and CMC and reviewed during quarterly program reviews with ASN (I&E) and OSD.

Results Indicators: Reduced Notices of Violation and development of new SECNAVINST.

Source(s) Identifying Weaknesses: Internal (DON) self evaluations and external regulatory inspections.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

Completed

Initiate quarterly DON Compliance reviews.

Continue on next page

Date:

Completed

Milestone:

Sign six Federal Facilities
Agreements

B. Planned Milestone (FY 1994):

Date:

9/94

Milestone:

Issue DON Instruction on
environmental policy, roles, and
responsibilities.

C. Planned Milestone (Beyond FY 1994):

Date:

9/95

Milestone:

Verification: Based on inputs
received from DON Operational
Components concerning the adequacy
of the revised guidance.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Compliance with environmental laws and regulations by the Department of the Navy concerning management and elimination of ozone depleting substances. (OSD #92-080). Navy has not set policy for, assigned responsibility for, or reviewed plans for complying with the Montreal Protocol on Substances that Deplete the Ozone Layer and the President's accelerated phaseout schedule; however the Montreal Protocol was only announced in March 1992 and the National Science Foundation has yet to delineate all the conditions or requirement to be met.

The Montreal Protocol has been modified several times since 1992. The National Science Foundation has yet to solidify the requirements which are to be met; however, DON remains committed to adhering to those policies once they are approved.

Functional Category: Other - Environmental

Component/Appropriation/Account Number: Navy O&M,N

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1996

Targeted Correction Date in Last Year's Report: FY 1996

Current Target Date: FY 1996

Reason For Change in Date: Publication of revised SECNAVINST 5090.5, "Management and Elimination of Ozone Depleting Substances," will bring all Department of the Navy policy and instructions into compliance with current laws and regulations.

- Reduction and elimination of ODS procurement will result from Clean Air Act prohibitions on the manufacture of ODSs.

- Replacement of ODSs will occur as alternatives are identified and approved. Continued use of ODSs from reserve stocks is permitted under the Clean Air Act until alternatives are identified and approved. The Defense Logistics Agency was tasked by the Department of Defense with responsibility to establish and maintain reserves of ODSs.

Continue on next page

Validation Process: GAO, the Congress and OSD require periodic reports/reviews on DON progress.

Results Indicators: Production of Class I ODSs will cease December 31, 1995. Production of new Class I ODSs after that date will not be possible. Establishment of Navy ODS stockpile and recovery and recycling programs is necessary to maintain support of mission critical equipment and non-mission critical equipment until Class I ODS substitutes are identified or equipment is replaced. Mission critical applications -- those uses of ODSs which impact combat mission capability -- may be met through the Navy ODS stockpile. Failure to properly plan, fund and manage the ODS stockpile and recovery and recycling programs could result in mission critical system failures.

Sources Identifying Weakness: The Montreal Protocol on Substances that Deplete the Ozone Layer, Clean Air Act (CAA), the Presidential accelerated ODS production phase-out issued in 1992, and Executive Order 12843.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

9/93

Complete and institute plans to recover, recycle, and reclaim ODCs during training, operation, service, maintenance and disposal of military owned equipment by publishing Department of the Navy Ozone Depleting Substances Policy Guidance. This policy is focused on the following areas: ODS Reserve for Mission Critical Applications, Recovery/Recycling/Reclamation, Refrigerant Use, Fire Fighting Use, Solvent Use, Disposal, Alternatives, Waivers

9/93

Completed and institutes actions to eliminate new procurement and use of Class I ODS (unless specifically approved) in future acquisition programs by issuing an advance change to the Navy Acquisition Procedures Supplement.

Continue on next page

B. Planned Milestones (FY 1994):

Date:

Milestone:

3/94
(3/93)

Issue revised SECNAVINST 5090.5, Management and Elimination of Ozone Depleting Substances."

3/96

Reduce the procurement of newly manufactured ozone depleting substances as required by the Montreal Protocol. The Protocol bans production of Halons by January 1, 1994 and production of chlorofluorocarbons by January 1, 1996. The DON will fully comply with the requirements of the Montreal Protocol and subsequent amendments as embodied in the Clean Air Act Amendments, and Executive Order 12843 - "Procurement Requirements and Policies for Federal Agencies for Ozone Depleting Substances."

3/96

Acquisition of ozone depleting substances shall be in accordance with Public Law 102-484 (Section 326), Executive Order 12843 (April 21, 1993), SECNAV memorandum of 28 May 1993: "ELIMINATION OF CLASS I OZONE DEPLETING SUBSTANCES IN DON CONTRACTS", and all implementing procurement regulations. In addition, the DON has issued policy establishing a method for the transition away from the use of Class I ozone depleting substances in all weapons systems and facilities as suitable substitutes are found, evaluated and approved.

9/96

Verification: Conduct reviews required by the Clean Air Act, specific Congressional action and the Office of the Secretary of Defense on the DON progress.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESSES
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Environmental Compliance Deficiencies (OSD #92-081). An environmental management deficiency includes the lack of a method to stay abreast of changing environmental regulations at the state and local levels. As a consequence, Navy guidance is not always current, and deficiencies are often uncovered during audits and inspections. In light of the fact that Navy facilities are subject to fines and penalties under the Clean Air Act, deficiencies uncovered by regulatory agencies on environmental regulations subjects the Navy to additional and often unnecessary costs.

Functional Category: Other-Environmental

Component/Appropriation/Account Number: O&M,N (17X1804)

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Completion Date: FY 1993

Targeted Correction Date in Last Year's Reports: FY 1993

Current Target Date: FY 1994

Reason for Change in Date(s): To allow time for state revision/additions to air program emission inventory permit requirements to be approved by the Environmental Protection Agency (EPA). The date for verifying implementation of the state tracking system changed because of the change in date for major claimant environmental program evaluation.

Validation Process: Measure revised guidance during coordination of draft, verify that personnel are in place to fulfill the functions and are operational, ensure all necessary facilities are included and assess implementation of the Navy Training Plan to determine if the programs contained in the plan have been initiated.

Results Indicators: The failure to effectively track state actions, conduct adequate training or conduct air emission inventories could potentially lead to violations of statutory and regulatory requirements. Failure to update implementing guidance

Continue on next page

on air compliance or to educate field personnel on the budget cycle could result in inefficient management of the air program. Because the corrective actions are in various stages of implementation, minimal impact to operations is expected while the corrective actions are being fully implemented.

Source(s) Identifying Weaknesses: Naval Inspector General Reports of Hazardous Waste and Environmental Program Assessments for the following activities: Charleston Naval Shipyard, Naval Submarine Base, Bangor, Naval Air Station, Adak, Naval Air Station, Brunswick, Naval Aviation Depot, Jacksonville, Naval Shipyard, Mare Island, the Norfolk Complex, Pearl Harbor Naval Shipyard, Public Works Center, Pearl Harbor, Naval Activities, San Diego Area, and Naval Air Station Whidbey Island; Management Control Review.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

Completed

Update implementing guidance Second Half, FY 1993 to reflect recent regulatory requirements enacted by the Environmental Protection Agency.

- Navy Environmental and Natural Resources Program Manual draft revision is complete.

Completed

Assess the progress on implementing a Navy-wide training plan for environmental awareness.

- QMB was updated on the Environmental Navy Training Plan to include progress on implementation in June 1993.

Completed

Revise implementing guidance to more comprehensively address the budget cycle and its aspects as it relates to environmental compliance.

B. Planned Milestones (FY 1994):

Continue on next page

Date:

Milestone:

3/94
(9/93)

Finalize a schedule for conducting necessary activity Clean Air Act inventories.

- Not all installations will need to revise emission inventories as originally assumed. Some States are not requiring installations to submit inventories for volatile organic carbon and nitrogen oxides. An informative message was sent in August 1993 to major claimants listing known inventory and permit requirements and deadlines. States are required to submit their operating permit program to EPA for approval by November 1993. During the first half of FY 1994 information will be collected from major claimants on inventory schedules.

3/94
(9/93)

Verify implementation of a state tracking system.

- Verification date has been changed because of a change in the date of the annual program review. The state tracking system is being reviewed and will be verified during the major claimant environmental program evaluations in November 1993.

9/94

Verification: Measure revised guidance during coordination of draft, verify that personnel are in place to fulfill the functions and are operational, ensure all necessary facilities are included and assess implementation of the Navy Training Plan to determine if the programs contained in the plan have been initiated.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Hazardous Waste Management (OSD #92-082). Several activities were not fully compliant with Federal, State and the Department of the Navy regulations in the management of hazardous waste operations. The activities did not provide sufficient management attention and oversight to hazardous waste generation, storage and disposition. Hazardous waste generated, stored and disposed of was not accurately reported in the Hazardous Waste Annual Status Report.

Functional Category: Other-Environmental

Component/Appropriations/Account Number: O&M, MC (17X1106)

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1994

Targeted Correction Date in Last Year's Report: FY 1994

Current Target Date: FY 1994

Reason for Change in Date: Verification milestone added.

Validation Process: All corrective action(s) are certified by the responsible component(s) upon completion and reviewed through audits, inspections, quality assurance reviews and or management control reviews.

Results Indicators: Failure to comply with hazardous waste laws and regulations could further damage the environment, cause potential curtailment of operations at activities and produce possible legal action against Marine Corps commands and managers.

Source(s) Identifying Weaknesses: Naval Audit Service Report No. 028-W-91, "Hazardous Waste Management at Naval Shipyards" of 26 April 1991; Naval Audit Service Report No. 070-W-50, "Hazardous Waste-Marine Corps" of 21 July 1992; and Management Control Reviews.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Revise guidance to require activities to report hazardous waste generated and to submit hazardous waste generation data by weight.
Completed	Require reporting activities to use the Hazardous Waste Annual Report Guide when compiling and reporting hazardous waste data.
Completed	Update and distribute the Environmental Compliance and Protection Manual.
Completed	Increase environmental staff and contractor support to provide better oversight and guidance to installations.
Completed	Develop a comprehensive Environmental Training Compliance and Education Program to enhance compliance with all environmental rules and regulations.

B. Planned Milestones (Beyond FY 1994):

3/94	Verification: Will be accomplished by an on site review.
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Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY91

Title and Description of Material Weakness: Requirements Determination for Ammunition and Centrally-Controlled Operating Stocks(OSD #91-015). Data used to determine requirements for ground ammunition were based on outdated war reserve requirements, incorrectly computed training requirements, and incomplete inventory statistics. The management of centrally-controlled operating stocks was not effective as on-hand quantities were not adjusted to reflect authorized allowances.

Functional Category: Supply Operations

Note: This prior year weakness has been incorporate into the new "Requirements Determination" Weakness for FY 1993.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY91

Title and Description of Material Weakness: Requirements Determination for Aircraft Acquisitions (OSD #91-024). Inadequate internal controls prevented the Navy from using the best available data and techniques to develop accurate acquisition estimates. Consequently, Navy overstated procurement and flight hour requirements for several aircraft including advanced capability aircraft and training aircraft and flight hours. Navy's guidance on updating and validating planning factors needs revision. Use of inaccurate planning/usage data hampered Navy's ability to correctly forecast requirements. Improved controls are needed to improve the accuracy of major acquisition baseline calculations.

Functional Category: Major Systems Acquisition

Note: This prior year weakness has been incorporated into the new "Requirements Determination" weakness for FY 1993.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY90

Title and Description of Material Weakness: Material at Commercial Repair Facilities (OSD #90-020). Supply and financial records did not accurately reflect the quantity of material sent to commercial activities for repair. The inaccuracies occurred because the Navy did not have adequate systems for monitoring material sent to commercial facilities and because of inadequate commercial repair facility status reports. Facilities that reported through the automated Commercial Asset Visibility (CAV) program and non-CAV facilities that reported manually failed to provide adequate accountability for the material.

The scope of this material weakness was expanded during FY 1991. The same deficiencies previously identified for material that was sent to commercial repair facilities were also detected for material sent to Department of Defense repair facilities through Depot Maintenance Interservice Support Agreements. Additionally, the Navy Material Center was not informed of excess on-hand material at one facility which could have been utilized by other services/activities.

Functional Category: Supply Operations

Component/Appropriation/Account Number: NSF (17X4911)

Note: This prior year weakness has been incorporated into the new "Excess Material and Unrecorded Inventories" weakness for FY 1993.

Point of contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY90

Title and Description of Material Weakness: Potential Excess Aircraft, Ship and Submarine Parts (OSD #90-022). Navy's secondary item inventories have grown significantly since 1980. Inventories of spares and repair parts grew by \$20 billion during the 1980s. While this is due in part to the force modernization and growth of the 1980s, there is concern over the quantity of material retained on hand above the Approved Force Acquisition Objective (AFAO). The AFAO is the current inventory requirement, and includes assets for inventory levels (e.g., repair cycle level, safety level), anticipated issues, and for funded war reserve projects. Material on hand that exceeds AFAO quantities is categorized for retention or as potential excess, depending on each item's weapon system application, essentiality, and anticipated demand. Material in this category grew by over \$8 billion from FY80 to FY89. Primarily, the increase was the result of turn-in and subsequent retention in inventory of repairable items, both installed components and supporting spares, that were removed from active fleet units due to modernization and equipment upgrade. A second major reason was the phase-out of major weapon systems, including many Poseidon fleet ballistic missile submarines and most A-4 and F-4 aircraft, with subsequent reduction in inventory requirements for their support. Material in these categories were retained on hand due to a DOD-imposed restriction on the disposal of inventory that had application to any active weapon system. Additional concerns are the controls to better forecast future requirements, particularly as configurations are altered in active platforms, or as reliability improvements change expected use rates.

Functional Category: Supply Operations

Component/Appropriation/Account Number: NSF (17X4911) and O&M,N (17X1804)

Note: This prior year weakness has been incorporated into the new "Excess Material and Unrecorded Inventories" weakness for FY 1993.

Point of contact: Mr. Richard Gloss, (703) 607-3333.

**UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY90**

Title and Description of Material Weakness: Material Handling and Container Requirements (OSD #90-027). Mission area analyses were not conducted to determine the numbers and types of container handling equipment planned to support amphibious landings. Activities did not adequately analyze and review the requirements to acquire new forklifts for the Fleet Marine Forces, did not consider overlapping capabilities of new equipment in setting allowances, and set allowances for artillery units higher than needed. Also allowances were established for Intermediate Size containers which exceeded previously approved quantities and user requirements.

Functional Category: Property Management

Component/Appropriation/Account Number: PMC (17X1109), O&M,MC (17X1106), NSF (17X4911), and RDT&E (17X1319)

Pace of Corrective Action:

Year Identified: FY 1990

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1993,
30 Aug 1992

Current Target Date: FY 1994

Reason For Change in Date: New required milestone.

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through subsequent audits, inspections, quality assurance reviews or management control reviews. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: The numbers and types of container handling equipment, forklifts, and total life cycle cost for acquisition of Intermediate Size Containers could be overstated. A potential, substantial one-time cost avoidance may be realized.

Source Identifying Weakness: Naval Audit Service Report No. 053-W-90 "New and Replacement Material Handling Equipment and Intermediate Size Container Requirements of the Fleet Marine Forces," of 20 June 1990.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed 15 May 1990	Terminate the Container Handler All Purpose program.
Completed 15 May 1990	Review and approve all changes to Fleet Marine Force Intermediate Size Container requirements.
Completed 15 May 1990	Delete insert and rack completed acquisitions for 332 quadruple containers.
Completed 23 Oct 1990	Cancel the product improvement program for Intermediate Size Containers.
Completed 4 Apr 1991	Conduct a mission area analysis of container handling requirements.
Completed 10 Jul 1991	Correct the life cycle estimate for one Intermediate Size Container and reduce planned procurement of horizontal connectors from four to three.
Completed 30 Aug 1991	Reduce Intermediate Size Container requirements.
Completed 9/93	Determine the feasibility of increasing the off load time for Assault Echelon supplies.
Completed 9/93	Perform mission analysis for forklift requirements for the Fleet Marine Force.
Completed 9/93	Review and revalidate forklift requirements for artillery units.
Completed 1/93	Develop consolidated Required Operational Capability document for all container handling equipment.

Continue on next page

Date:

Milestone:

Completed
9/93

Develop consolidated Required
Operational Capability document for
forklifts.

B. Planned Milestone (FY 1994):

9/94

Verification: Validation of the
implementation of corrective
milestones will be accomplished by
on-site reviews.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY90

Title and Description of Material Weakness: Management of the Metrology and Calibration (METCAL) Program (OSD #90-028). The METCAL Program is neither effective nor efficient. Calibration actions are not always documented because of inadequate oversight and guidance. Systems of reviewing calibration intervals is ineffective. Equipment remains in service beyond its scheduled calibration due dates because of poor maintenance practices. Data used to manage the program are inaccurate and incomplete. Activities retain equipment not currently needed to accomplish their mission. Personnel do not always document the procedures and calibration test equipment used when calibrating equipment.

Functional Category: Property Management

Component/Appropriation/Account Number: O&M,N (17X1804),
OPN (17X1810)

Pace of Corrective Action:

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1993,
(31 Dec 1991)

Current Target Date: FY 1994

Reason For Change in Date: Verification milestone added.

Validation Process: All corrective actions will be certified by the responsible component(s) through an Internal Management Review. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: Incomplete interval reviews could result in \$23.7 million annually in unnecessary calibration actions for non-critical test equipment. Poor record maintenance could result in unnecessary expenditures of \$1.6 million annually and unjustified retention of redistributable equipment could result in unnecessary purchases of about \$81 million.

Source Identifying Weakness: Naval Audit Service Report No. 033-S-90, "Management of the Metrology and Calibration Program," of 27 April 1990.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

Completed
25 Sep 1990

Direct all commands to perform a management control review on the METCAL Program.

Completed
19 Jan 93

Include all calibration equipment into the automated interval analysis system.

Completed
10 Sep 92

Revise "The MEASURE Users Manual" to provide guidance for documenting the procedures and test equipment used for calibrating.

- The new "MEASURE Users Manual" was promulgated 10 Sep 92.

Completed
26 Oct 92

Establish procedures to review equipment requirements periodically to identify excesses and deficiencies.

Completed
26 Oct 92

Direct equipment custodians to report equipment that is excess to their immediate requirements.

B. Planned Milestone (FY 1994):

3/94

Verification: Conduct Internal Management Review.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY90

Title and Description of Material Weakness: Family Service Centers (OSD #90-046). Navy Military Family Service Centers serve as a focal point for information, referral and coordination of "family support system" programs and activities which work to prevent or reduce family and personal stress, and promote healthy community environments. However, program responsibilities at the installation level are not clear because of a lack of integration and an overlap of functions; standard criteria have not been established to assess future needs of the military community; and a system to measure program effectiveness is not in place.

Functional Category: Personnel and/or Organizational Management

Component/Appropriation/Account Number: O&M,N (17X1804)

Pace of Corrective Action:

Year Identified: FY 1990

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1993,
(1 Aug 1992)

Current Target Date: FY 1994

Reason For Change in Date: The initial standardized needs assessment survey, requires time to develop, analyze, and prepare the survey instrument.

Validation Process: All corrective actions will be certified by the responsible component(s) through either a management control review or an on-site audit verification review. Certification will commence upon the completion of the final milestones of corrective action with an estimated completion date of 30 March 94.

Results Indicators: Navy will fully determine the degree Family Service Centers are accomplishing Navy requirements. A Navy system to measure customer needs and Family Service Center program's effectiveness is being implemented. Improvements to overall Family Advocacy Program polices are underway.

Source Identifying Weakness: DOD Inspector General Inspection, "Military Department Family Centers," of 27 June 1990.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed 30 Jan 1992	Identify data elements and develop a management information report which will allow Family Centers to reflect actual Center workloads accurately.

- Data elements have been identified and included in the Family Service Center automated reporting system to be reported system to be reported on an as-required basis.

B. Planned Milestones (FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/94 (9/93)	Review Family Advocacy Program (FAP) policies and implementation to improve community awareness, controls, training, emphasis, oversight, and assignment of responsibilities.

- The draft revised SECNAV FAP Instruction (1752.3A) is still being reviewed and is expected to be issued in January 1994. DOD promulgated Family Advocacy Standards and a self-assessment instrument (DOD 6400.1M). Compliance with the first set of 60 mandatory standards is expected by October 1994. A comprehensive Family Advocacy Desk Guide has been distributed, and a Spouse Abuse Manual will be distributed to all commands between September-December 1993. New films describing the FAP Program and how it can assist members are currently under production.

3/94 (9/93)	Conduct quality of life surveys on regular basis, conduct trend analysis, and furnish them to the appropriate command personnel.
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- Survey instruments will be going out to the field between September-October 1993. The responses are due in December 1993. The first reports summarizing local and Navy wide needs assessment data will be available in April 1994.

Continue on next page

Date:

9/94

Milestone:

Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY89

Title and Description of Material Weakness: Receipt Confirmation (OSD # 89-016). Under the source acceptance method of expedited receipt, payments are made based on government inspection and acceptance of material at vendors' plants rather than upon receipt at government facilities. Navy systems did not have adequate controls to ensure that depots received material paid for on the basis of source acceptance. Additionally, controls over initial spares shipped from contractors to storage and user activities were inadequate. Internal control procedures had not been established to ensure that activities received initial spares and recorded the receipts in a timely manner.

Functional Category: Supply Operations

Component/Appropriation/Account Number: O&M,N (17X1804), WPN (17X1507), APN (17X1506), SCN (17X1611), and OPN (17X1810)

Pace of Corrective Action:

Year Identified: FY 1989

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1993,
(31 Jan 1992)

Current Target Date: FY 1995

Reason for Change in Date: Verification milestone added.

Validation Process: All corrective actions will be certified by the responsible component(s) through their command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: Receipt confirmation and timely recording of receipts are the only basis for assuring that the government either receives what it paid for or recovers payments for items not received.

Source Identifying Weakness: GAO Audit NSIAD 88-179, "Inventory Management, Receipt Confirmation Problems" of July 1988; and DoD Inspector General Audit No. 89-114, "Control Over Spares For New Weapon Systems," of 22 Sep 1989.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Establish interim procedures to ensure follow-up and recognition of in-transit source accepted shipments.
Completed	Implement revised Navy systems containing automated procedures to accomplish the necessary reconciliation and follow-up of in-transit source accepted shipments.
Completed 26 Aug 1992	Establish a system to follow-up on initial spares shipments that storage and user activities have not acknowledged as being received.
Completed August 1993	Establish and implement controls to require storage and user activities to acknowledge and record initial spares receipts within 60 days of date of shipment.

B. Planned Milestones (FY 1994): N/A

C. Planned Milestones (Beyond FY 1994):

<u>Date:</u>	<u>Milestone:</u>
3/95	Verification: Perform management reviews to certify the effectiveness of all corrective actions.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY89

Title and Description of Material Weakness: Excess Property (OSD #89-020). The Navy and Marine Corps did not effectively manage property in the areas of requirements determination and on hand inventories. Problems included:

- lack of oversight capability
- retention despite insufficient demand
- failure to review demand data to determine whether material should be retained
- inaccurate property records and property accountability
- untimely preservation of war reserve material
- misclassification and erroneous computation of supply requirements
- requisitions exceeding authorized quantities
- failure to comply with MILSTRIP regulations for validation and cancellation of unneeded, on-order material.

The problems occurred in the following categories: property furnished to repair contractors as spares; aviation spares material; ground support equipment; prepositioned war reserve material; planned program requirements for aviation material; AV-8B and CT-39 aircraft spares; Maritime Prepositioned Ship program; Harpoon missiles; and training devices.

Functional Category: Property Management

Component/Appropriation/Account Number: NSF (17X4911), O&M,N (17X1804), OPN (17X1810), SCN (17X1611), WPN (17X1507), APN (17X1506), O&M,MC (17X1106), and PMC (17X1109).

Pace of Corrective Action:

Year Identified: FY 1989

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1993

Continue on next page

Current Target Date: FY 1994

Reason for Change in Date: Verification milestone added.

Validation Process: All corrective actions will be certified by the responsible component(s) through the command inspection and audit follow-up program. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: Excessive and wasteful budgetary requests can be made. Funds and property, in excess of needs, have been wasted and misused.

Source(s) Identifying Weakness: Audits and MCR's:

1. Naval Audit Service Report No. 054-N-89, "Government Material Furnished to Navy Aviation Contractor" of 29 June 1989.
2. Naval Audit Service Report No. 045-S-89, "Intermediate Maintenance of Marine Corps Aircraft" of 21 April 1989.
3. Naval Audit Service Report No. 028-C-89, "Management of the Support Equipment Program" of 6 April 1989.
4. Naval Audit Service Report No. 073-W-89, "Management of Automotive, Construction, and Other Specialized Equipment Designated as Prepositioned War Reserve Material Stock" of 7 July 1989.
5. Naval Audit Service Report No. 033-N-89, "Selected Planned Program Requirements For Aviation Material" of 24 February 1989.
6. Naval Audit Service Report No. 048-N-89, "Selected Planned Program Requirements For Nonaviation Material" of 1 May 1989.
7. Naval Audit Service Report No. 030-C-89, "Logistics Planning For the Maritime Prepositioning Ships Program" of 28 February 1989.
8. GAO Report No. 89-103, "Navy Supply, Questionable Decisions Increased Initial Spare Costs For AV-8B Aircraft" of March 1989.
9. DOD Inspector General Audit No. 89-046 "Validation of Requirements For Unfilled Material Orders" of 18 January 1989.

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10. DOD Inspector General Audit No. 89-049, "Acquisition and Management of Equipment at DOD Major Range and Test Facilities" of 30 January 1989.

11. DOD Inspector General Audit No. 89-088, "Training and Training Support For the Harpoon Weapon System" of 30 June 1989.

12. Naval Audit Service Report No. 137-S-88, "Management of the CT-39 Operational Support Aircraft" of 7 September 1988.

13. Naval Audit Service Report No. 021-S-89, "Requirements Determination, Utilization, and Effectiveness For Training Devices" of 18 January 1989.

14. Naval Audit Service Report "Naval Air Maintenance Training Program" 078-S-89 of 28 July 1989.

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

Completed

Review stock on hand for the MPS program and eliminate excesses by redistributing equipment and supplies.

Completed

Develop guidance for writing local procedures and publish guidance in NAVSUP P-437 for proper processing of Material Obligation Validations (MOV). Include distribution of MOV requests to appropriate levels, and improved internal control oversight of the program.

Completed

Establish central points of authority to implement the policies for management of aviation Government Furnished Material.

Completed

Review fixed allowance Marine Aircraft Group allowance reparable to determine if demand warrants retention; and when appropriate, decrease inventory levels.

Continue on next page

Date:

Milestone:

Completed

Establish the Marine Aviation Logistics Squadron (MALS) as responsible for Industrial Material Readiness Level (IMRL) management. Implement a Local Asset Management System (LAMS) to reduce the work load on the personnel assigned to MALS.

Completed

Establish a central activity to coordinate management of support equipment.

Completed

Emphasize compliance with all aspects of support equipment inventory management, reporting and requisitioning.

Completed

Establish controls to reduce unauthorized requisitions.

Completed

Require activities to use the Local Asset Management Systems (LAMS) for IMRL accountability.

Completed

Establish or validate retention limits at least annually for PWRM stock and make available to other Government agencies or dispose of PWRM stock in long supply.

Completed

Develop guidance and execute comprehensive plan and prepare written procedures for performing quality assurance reviews of funded PPRs.

Completed

Conduct a complete and thorough inventory of all MPS warehouses and report all inventory losses.

Completed

Establish controls at each warehouse to include limiting access to warehouses, maintaining appropriate physical security over inventory.

Continue on next page

Date:

Milestone:

Completed

Consolidate locations of similar items at the warehouses and correct location codes.

Completed

Direct retail activities to make follow-up status requests resulting from records reconciliation in accordance with MILSTRIP procedures.

Completed

Reduce procurement of 8 Training Vehicles; cancel requirement to procure 21 additional Encapsulated Harpoon Certification and Training Vehicles in program years 1990 through 1994.

Completed

Establish internal control procedures to ensure that all allocation requests for noncombat Harpoon missile firings are reviewed and approved by the Harpoon program sponsor.

Completed

Revise contract to reflect stockage levels needed to support CT-39 aircraft based on demand history.

Completed

Establish controls necessary to ensure that authorized CT-39 stockage levels are not exceeded without review; and when justified, authorize increases by contract modifications.

Completed

Establish training device standards and utilization goals for aviation, surface and subsurface training devices, require training activities to provide an explanation for failure to reach such standards and goals, and use this information to ensure devices are effectively and efficiently used.

Continue on next page

Date:

Milestone:

Completed

Issue guidance and procedures for conducting Training Effectiveness Evaluations on training systems.

Completed

Study the possibility of consolidating major training device utilization and application data collection systems so the duplicate systems can be eliminated.

Completed

Conduct a Navy-wide inventory of ground support equipment to establish an accurate baseline.

Completed
15 May 1991

Develop the Contractor Aviation Material Management System (CAMMS) to process designated GFM transactions.

Completed
8 Jan 1992

Determine which stored items are needed by Maritime Prepositioning Ship and can be economically shipped. Declare all other items excess to needs and follow appropriate disposal procedures.

Completed
27 Sep 1991

Revise appropriate DON guidance to provide for appropriate visibility, accountability, control of GFM and establish procedures to prevent excess GFM from accumulating at contractor facilities.

Completed
5 Jan 93

Establish procedures to provide for appropriate visibility, accountability, control of GFM in the possession of contractors.

Completed
5 Jan 93

Establish specific guidance to prevent excess GFM from accumulating at contractor facilities, including formulas for determining when items are excess, and establish requirements to regularly review contractor GFM to determine when GFM has become excess to contractor needs.

Continue on next page

B. Planned Milestone (FY 1994):

Date:

9/94

Milestone:

Verification: Conduct management reviews to certify the effectiveness of all corrective actions.

Point of Contact: Richard Gloss (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY88

Title and Description of Material Weakness: In-Process Reviews and Operational Test and Evaluation of Non-Major Systems (OSD #88-1). The effectiveness of in-process reviews of non-major systems has been hampered by documentation requirements not always being met; instances of programs being managed under an incorrect Acquisition Category (ACAT) designation and inaccuracies in ACAT data base. A non-major system project, a downsized Demand Assigned Multiple Access (Mini-DAMA) satellite, with an urgent fleet need has had development delays due to programmatic changes and funding deferrals that resulted from non-adherence to research, development and acquisition procedures for establishing program definition, need, and resource commitments.

The scope of this material was weakness expanded during FY 1991 to describe additional problems. Additional milestones were added.

Operational test and evaluation results were not given adequate consideration in production decisions. Consequently, portions of total systems requirements are being fielded under Low Rate Initial Production (LRIP) approvals prior to successful completion of operational test and evaluation. Heavy use of FRIP contributes to the acquisition and fielding of large portions of total system requirements before full rate production approvals and before system deficiencies were corrected. Proper documentation for operational test and evaluation test results were not being adequately reported, stored and cross referenced, and safeguards were inadequate to prevent conflict of interest in contract award for operational testing for non-major systems. These conditions were caused by noncompliance with regulations, insufficient and conflicting regulating guidance, and inadequate oversight of the test and evaluation process.

Functional Category: Procurement

Note: This prior year weakness has been incorporated into the new "Systems Acquisition" weakness for FY 1993.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY88

Title and Description of Material Weakness: Military Manpower/Hardware Integration (HARDMAN) Program (OSD #88-3). The Department of the Navy (DON) has not, in all cases, effectively integrated manpower, personnel, and training resource requirements and constraints into design decisions for new weapon systems.

Functional Category: Procurement

Component/Appropriation/Account Number: O&M,N (17X1804) and MPN (17X1453)

Face of Corrective Action

Year Identified: FY 1988

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1994

Reason For Change in Date: Verification milestone added.

Validation Process: Planned certification methodology is either a management control review or an on-site audit verification review. Certification will commence upon completion of the final milestone of corrective action.

Results Indicator: Because of HARDMAN's limited use and incomplete development, DON cannot be sure it has designed new weapon systems that use people efficiently and that can be staffed with sufficient numbers of people with appropriate skills. Early manpower planning problems that existed prior to the introduction of the HARDMAN program still remain unsolved.

Source Identifying Weakness: Naval Audit Service Report No. 141-C-88.

Major Milestones in Corrective Action:

A. Planned Milestones (FY 1993):

Continue on next page

Date:

Milestone:

Completed

Revise current instructions and establish administrative controls to ensure HARDMAN use.

Completed

Establish a methodology for projecting availability of billets, personnel, and training requirements.

-- Implementing the Total Force Manpower Management System (TFMMS). TFMMS consolidates manpower data bases and projects all long-range manpower requirements. TFMMS was operational as of 1 Sep 1992.

-- Final manpower and personnel procedures were documented in February and March of 1993. Actions considered completed.

-- Action on training procedures is considered complete.

-- Document procedures for conducting manpower, personnel and training supportability assessment of individual weapon systems. Initial manpower and personnel procedures have been developed and documented. Initial training procedures are to be completed after issuance of the new SECNAVINST 5000.2 instruction.

B. Planned Milestones (FY 1994):

Date:

Milestone:

3/94

Verification: Conduct a management control or an on-site review.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY87

Title and Description of Material Weakness: New Research Acquisition Program Initiations (OSD #87-2). Some new acquisition program research and development initiations faced cancellation or deferral because objectives and requirements were occasionally poorly defined, threat definitions were not always specific and supported by validated intelligence studies, and program oversight was lacking. Program initiation guidelines require revision to improve the development of documentation needed to support budget requests for RDT&E funding.

Functional Category: Research, Development, Test and Evaluation (RDT&E)

Note: This prior year weakness has been incorporated into the new "Systems Acquisition" weakness for FY 1993.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

**UNCORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY86**

Title and Description of Material Weakness: Inaccurate Inventory Management of Torpedo Propulsion Batteries and Sonobuoys (OSD #86-16). Unserviceable propulsion batteries with recoverable silver valued at \$6 million were being held needlessly in storage because of improper recording procedures. Coding errors also led to the disposal of batteries prior to reclaiming silver. In addition, inadequate controls over sonobuoy inventories resulted in considerable amounts of unrecorded assets, failure to investigate losses by accounting, and improper stock rotation procedures and failure to claim silver. Navy's ability to properly determine sonobuoy requirements was impaired which could lead to unnecessary procurements or shortages.

Functional Category: Supply Operations

Pace of Corrective Action:

Year Identified: FY 1986

Original Targeted Correction Date: FY 1992

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1994

Reason For Change in Date: Physical inventory of the sonobuoys has not been completed.

Component/Appropriation/Account Number: OPN (17X1810)

Validation Process: All corrective actions are certified by the responsible component(s) upon completion and reviewed through inspections and monitoring of the Conventional Ammunition Integrated Management System. Certification will commence upon completion of final milestone of corrective action.

Results Indicators: N/A

Source Identifying Weakness: Navy Audit Service Draft Report T20055

Major Milestones in Corrective Action:

Continue on next page

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Review and evaluate battery inventory to properly identify and code excess and unserviceable batteries.
Completed	Screen excess batteries for Foreign Military Sales requirements and direct shipment of excess assets to Defense Property Disposal Office, as appropriate.
Completed	Establish a uniform reporting system to inventory sonobuoys.
Completed	Implement a Fleet Optical Scanning Ammunition Marking System (FOSAMS) and train appropriate personnel.

B. Planned Milestones (FY 1994):

3/94 On Target	Complete a physical inventory of all sonobuoys and provide full visibility of assets in the Conventional Ammunition Integrated Management System (CAIMS).
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- Physical inventories of sonobuoys continue to be accomplished concurrently with the implementation of FOSAMS. To date, 137 sites have been implemented and 3 more are scheduled for completion by the end of 3/94.

9/94	Verification: Conduct management reviews and monitor the Conventional Ammunition Integrated Management System to certify the effectiveness of all corrective actions.
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Point of contact: Mr. Richard Gloss, (703) 607-3333.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Development, Acquisition, and Distribution of Test, Measurement, and Diagnostic Equipment (OSD #92-049). The Consolidated Automated Support System Program (CASS) was initiated by the Navy to reduce the proliferation of unique automatic test equipment being procured for each of the Navy's weapon systems. Since the start of CASS in 1985 the program has not been fully effective because there was a lack of adequate coordination among Naval activities to determine the needs for CASS equipment. Moreover, potential saving opportunities were missed because workload and economic analyses were not performed by several Navy activities to determine if it was feasible and economical to make the transition from existing test equipment for their weapon systems to CASS equipment. Finally, there was a lack of an effective internal control management system for monitoring the Navy-wide development, acquisition, and distribution of test, measurement, and diagnostic equipment.

Functional Category: Major Systems Acquisition

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Target Correction Date in Last Year's Reports: FY 1993

Current Target Date: FY 1993

Reason for Change in Date: N/A

Component/Appropriation/Account Numbers: RDT&E,N (17X1319)

Validation Process: Corrective actions are certified by the responsible DON component upon completion and reviewed through subsequent audits, inspections, and/or quality assurance reviews. Certification will commence upon completion of the final milestone of corrective action.

Results Indicators: Lack of coordination and Navy-wide oversight will result in a less than effective effort by Navy activities using CASS and potential savings will be missed.

Continue on next page

TAB C-3

Source Identifying Weakness: DODIG Audit Report No. 92-022, "Development and Acquisition of DOD Maintenance and Diagnostic Systems-Navy", of 17 December 1991.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Assign clear and undivided management responsibility for overseeing the development, acquisition, and distribution of all test, measurement, and diagnostic equipment.
Completed	Require justification of automatic test equipment acquisition to include workload and economic analysis.
Completed	Establish a transition strategy from existing automatic test equipment to Consolidated Automated Support System equipment.
Completed	Create a consolidation database of test, measurement and diagnostic equipment for effective management of the inventory.
Completed	Ensure maximum reuse of the Consolidated Automated Support Systems after developing test program sets for maintenance support to weapon systems.
Completed 9/93	Verification: Corrective actions will be verified through subsequent audits, inspections, and/or quality assurance reviews.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY92

Title and Description of Material Weakness: Overseas Ship Repairs (OSD # 92-056). Public Law 100-456 amended Section 7309 of Title 10 U.S. Code to prohibit overhauls, repairs, or maintenance on ships not homeported overseas, except for voyage repairs. Voyage repairs consist of emergency work that is necessary to enable a ship to continue its mission and that can be accomplished without a change to the ship's deployment schedule. The Department of the Navy (DON) does not have an adequate internal control process which ensures or verifies that ship repairs performed on U.S. homeported ships at overseas locations are necessary for those ships to complete their mission.

Functional Category: Manufacturing, Maintenance, and Repair.

Pace of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1993

Reason For Change in Date: N/A

Component/Appropriation/Account Number: O&M,N (17X1804)

Validation Process: Internal management reviews report to Congress.

Results Indicators: Validation that overseas repairs are performed in accordance with the restrictions mandated by Section 7309 (c) of Title 10 USC, which limits repairs of U.S. homeported ships to only "voyage repairs." There is minimal risk that any overseas repairs may not be in accordance with the statutory requirements of Section 7309 (c) of Title 10 USC.

Source Identifying Weakness: Internal review and General Accounting Office draft report: "Navy Maintenance: Overseas Ship Repairs and Associated Costs," dated September 11, 1992 (GAO Code 394463), OSD Case 9199.

Continue on next page

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed 3/93	Develop a process which validates that all overseas ship repairs, for ships homeported in the U.S., are in compliance with the provisions of Section 7309(c) of Title 10 USC.
Completed 3/93	Revise SECNAVINST 4790.4 to implement DOD Instruction 4151.18, "Maintenance of Military Material," and incorporate provisions of Section 7309(c) of Title 10 USC.
Completed 3/93	Verification: Report sent to Congress on the Navy's overseas ship repair and maintenance workload and certification process as required by Section 1015 of the DOD Authorization Act for FY 1993. Review of quarterly shipyard reports by ASN (RD&A) staff.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY92

Title and Description of Material Weakness: Lack of Adequate Training for Physical Security Officers and Contracting and Acquisition Personnel (OSD #92-065). The Department of the Navy has experienced deficiencies in the area of training Physical Security officers. The lack of an adequate formalized training program for all Naval Physical Security officers leaves this entire discipline susceptible to weaknesses regarding inconsistencies and non-standardization within the Navy community. The lack of establishing a formal Navy officer billet for personnel whose primary duty is that of security officer creates difficulty in centralized management and oversight of this area. Further, this problem has also existed within the United States Naval Reserve for Law Enforcement/Physical Security (LEPS) Reserve Officers. For example, there have been cases where individuals have transferred into physical security positions without proper training prior to filling the positions.

In addition, the Defense Acquisition Workforce Improvement Act requires significant improvements in training and experience for contracting and acquisition personnel. A recent audit of the Navy's progress in implementing this program determined that only half of the contracting personnel had completed mandatory training for their career level, effective procedures were not in place to accurately determine training requirements, individual development plans were not established, completed training was not fully documented, and Acquisition Enhancement (ACE) funds were not being effectively administrated.

Functional Category: Personnel and/or Organization Management

Pace of Corrective Action

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction Date in Last Year's Report: FY 1993

Current Target Date: FY 1993

Reason For Change in Date: N/A

Component/Appropriation/Account Number: O&M,N (17X1804)

Continue on next page

Validation Process: Program managers to conduct follow-up management review and an analysis of the data management system to ensure adequacy of corrective actions.

Results Indicators: Absence of a formal training program for DON Physical Security personnel could result in ineffective execution of security measures, loss of resources, and a threat to classified programs. Absence of fully trained contracting personnel increases the risk of fraud, waste, and abuse in the acquisition process.

Sources Identifying Weakness: NAVINSGEN Command Inspection; and DODIG Audit Report No. 92-041 "Training of Contracting and Acquisition Personnel" of 6 Feb 1992.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Navy effects the designation of a 1991 Physical Security Officer via Chief of Naval Personnel.
Completed	Develop a formalized training course for Naval Physical Security Officers.
Completed	Develop and provide billet descriptions, training requirements, and training plans for reservists assigned to LEPS duties.
Completed	Establish a ACE Program Office to centrally control ACE funds.
Completed	Provide guidance to all Navy activities on procedures for central control of ACE funds.
Completed 3/93	Ensure that newly appointed Physical Security Specialists receive required training prior to assuming the position of Physical Security Officers.

Continue on next page

Date:

Milestone:

Completed
3/93

Ensure that at least 85% of the personnel in contracting positions complete the mandatory training required for their career field.

Completed
3/93

Establish procedures to accurately determine training requirements, maintain individual development plans on the contracting community, and document completed training.

- A schedule has been developed and initiated to train acquisition personnel on a continuous basis until 85% goal is achieved.

Completed
3/93

Verification: Conducted on-site reviews of training.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING THE PERIOD
FY92

Title and Description of Material Weakness: Under Reporting of Contracted Advisory and Assistance Services Contracts (OSD #92-070). Improved management controls over Contracted Advisory and Assistance Services (CAAS) are needed. DOD reported expenditures of \$2 billion for CAAS and \$1.8 billion for contractor support services in FY 1987, but did not report an estimated \$4 to \$9 billion. As a result, CAAS data reported for FY87 were not reliable for oversight and policy-making purposes. CAAS efforts were not identified and reported because guidance contained terminology that was unclear and undefined, and because the implementing regulations were not updated in a timely fashion or disseminated to field activities. These circumstances led to dissimilar reporting systems which were not uniformly reconciled. Additionally, CAAS efforts were not reported accurately because personnel did not have a working knowledge of the CAAS definition and had not received adequate training to improve their understanding of the definition of CAAS.

This weakness mirrors the deficiencies identified in the Defense Management Review Decision 905 for Contractor Advisory and Assistance Services and the ongoing plan for strengthening the management and reporting controls over CAAS within the Department of Defense.

Functional Category: Support Services

Face of Corrective Action:

Year Identified: FY 1992

Original Targeted Correction Date: FY 1993

Targeted Correction in Last Year Report: FY 1993

Current Target Date: FY 1993

Reason For Change in Date: N/A

Component/Appropriation/Account Number: DON, Various

Validation Process: Internal controls on the identification and reporting of CAAS is an item of review in Navy procurement management reviews.

Continue on next page

Results Indicators: The inaccurate CAAS data reported was not reliable for oversight and policy making purposes.

Sources Identifying Weakness: DODIG Audit Report No. 91-041 "Contracted Advisory and Assistance Services Contracts" of 1 February 1991 and DODIG Audit Report 92-112 "The Ultra High Frequency Follow-on Satellite System" of 30 June 1992.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Initiate CAAS Definition Revision, CAAS Planning and Budgeting, CAAS Reporting and Tracking, CAAS Evaluation Requirements, and CAAS Education and Training
Completed	Review CAAS Acquisition Regulations and Guidelines
Completed	Provide consistent policies and procedures for the preparation of PB-27 CAAS exhibit.
Completed	Submit PB-27 CAAS exhibit to Comptroller under new CAAS definitions.
Completed	Issue revised guidance on CAAS. - Revised guidance on CAAS has been issued in SECNAVINST 4200.31C, "Acquiring and Managing Consulting Services" dated 22 June 93. Field level implementing instructions and training plans will not be requested from each claimant. Instead, the identification and reporting of consulting services will be an item of review in Navy procurement management reviews.
Completed 9/93	Verification: Conducted Navy procurement management reviews.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

CORRECTED MATERIAL WEAKNESS
IDENTIFIED DURING PRIOR PERIOD
FY89

Title and Description of Material Weakness: Contracting via Interagency Agreements (OSD #89-007). Current regulations require a contracting officer determination that interagency transfer is the appropriate method of contracting. Many Navy program officials are unaware of this and other requirements governing interagency agreements. As a result, adequate competition has not been obtained, obligations have not been accurately recorded in the DD350 system, and numerous other irregularities have occurred.

Functional Category: Procurement

Face of Corrective Action:

Year Identified: FY 1993, (FY 1989, Prior Year Weakness)

Original Targeted Correction Date: FY 1991

Targeted Correction Date in Last Year's Report:
FY 1993, (3/93)

Current Target Date: FY 1993

Reason for Change in Date: N/A

Component/Appropriation/Account Number: O&M,N (17X1804), OPN (17X1810), WPN (17X1507), SCN (17X1611), and APN (17X1506)

Validation Process: Including as special interest item for at least one Procurement Management Review cycle. Certification will commence upon completion of final milestone of corrective action.

Results Indicators: Contracting via interagency agreements without obtaining required approvals can result in by-passing documentation and competition requirements, and inaccurate recording of obligations, evasion of end-of-year funding restrictions, and payment of unnecessary fees to other Government agencies.

Source(s) Identifying Weakness:

1. DODIG Report No. 93-042 "Allegations of Improprieties Involving DOD Acquisition of Services Through the Department of Energy" of 21 January 1993.

Continue on next page

OSD Case #89-007:

1. Management reviews and DODIG report No. 92-069 "Quick Reaction Report on DOD Procurements Through the Tennessee Valley Authority" of 3 April 1992.

Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed 3/90	Issue an alert to all program officials and contracting officers advising them of the need to ensure compliance with statutory and regulatory requirements governing interagency acquisitions.
Completed 3/90	Designate the implementation of DOD/DON policy on interagency transfers a special interest item for at least one Procurement Management Review cycle.
Completed 9/93	Issue Navy guidance on interagency acquisition, requiring activities to establish appropriate financial and administrative controls.
Completed 9/93	Verification: Begin conducting Navy procurement management reviews.

Point of Contact: Mr. Richard Gloss, (703) 607-3333.

ANNUAL REPORT ON OPERATING ACCOUNTING SYSTEMS
FOR FISCAL YEAR 1993

Pursuant to Section 4 of the Federal Managers' Financial Integrity Act of 1982, the Department of the Navy has reasonably complied in reviewing its primary and administrative accounting systems as defined by the General Accounting Office (GAO), during the fiscal year ending September 30, 1993. The review of each system or system segment was performed by Navy operating personnel and encompassed the accounting principles, standards and related requirements prescribed by the DoD Financial Management Regulation 7000.14-R. The method of review was the DoD System Manager/User Review (SM/UR) guide. An inventory of operating accounting systems is included as an attachment.

The Department of the Navy has 31 operating accounting systems. The results of the evaluations described in the above paragraph, the approvals of accounting system design documentation already provided by the GAO for certain accounting systems, assurances given by system managers, and other information show that 28 of the 31 operating accounting systems are substantially in compliance with GAO accounting principles, standards, and related requirements. The remaining three accounting systems contain nonconformances which preclude certification that the system is in substantial compliance with GAO accounting principles, standards, and related requirements.

The attachment lists 28 compliant systems and three noncompliant systems with completion dates for upgrade actions.

**DEPARTMENT OF THE NAVY
ANNUAL INVENTORY OF OPERATING
ACCOUNTING SYSTEMS
FISCAL YEAR 1993**

**A. OPERATING ACCOUNTING SYSTEMS SUBSTANTIALLY IN COMPLIANCE WITH
GAO ACCOUNTING PRINCIPLES, STANDARDS, AND RELATED REQUIREMENTS**

SYSTEM NAME

GENERAL ACCOUNTING SYSTEMS

- N001 Navy Headquarters Financial Systems (NHFS) *
- N004 Responsibility Office Automated Resource System (ROARS)
- N006 Military Assistance Program Accounting System (MAPAS) *
- N063 Authorization Accounting Activity - Resource Management System (AAA, RMS)
- N066 Non-Mechanized Resource Management System Activities (NON-MECHANIZED RMS) *
- N072 Permanent Change of Station Reservation/Obligation Database (PCS PRODS)
- NR25 Reserve Personnel, Navy, New Orleans, Financial Management System (RPN, NEW ORLEANS, FMS)

DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING SYSTEMS

- N017 Department of the Navy Industrial Budget Information System (DONIBIS) *

TRUST FUND ACCOUNTING SYSTEMS

- N044 Trust Funds Accounting Systems

CIVILIAN PAYROLL SYSTEMS

- N098 Naval Activities, United Kingdom, London (CIVPAY)
- N099 Commander, Fleet Activities, Okinawa (CIVPAY) *
- N101 Naval Medical Research Unit, Cairo, Egypt (CIVPAY)

- N102 U.S. Naval Facility, Argentia, Newfoundland (CIVPAY)
- N103 U.S. Naval Office, Singapore (CIVPAY)
- N104 U.S. Naval Station, Rodman, Panama Canal Zone (CIVPAY)
- NR22 Personnel Support Detachment, Panama Canal Zone (Bond)
- NR44 Naval Station Rota Spain Civilian Payroll System (Frgn Natl)
- NR45 Personnel Support Detachment, Keflavik (CIVPAY) (Frgn Natl)
- NR46 Naval Support Activity Naples Italian Civilian Payroll System (Frgn Natl)
- NR47 Naval Air Station Sigonella Italian Civilian Payroll System (Frgn Natl)
- NR48 U.S. Naval Station, Rodman, Panama Canal Zone (CIVPAY) (Frgn Natl)
- NR49 Naval Activity, United Kingdom, London (CIVPAY) (Frgn Natl)
- NR51 Naval Medical Research Unit, Cairo, Egypt (CIVPAY) (Frgn Natl)
- NR52 U.S. Naval Facility, Argentia, Newfoundland (CIVPAY) (Frgn Natl)
- NR53 Personnel Support Detachment, Bermuda (CIVPAY) (Frgn Natl)
- NR54 U.S. Navy Office, Singapore (CIVPAY) (Frgn Natl)
- NR55 Naval Support Office, New Zealand (CIVPAY) (Frgn Natl) *
- NR56 U.S. Naval Purchasing Department, Hong Kong (CIVPAY) (Frgn Natl)

* Annotated systems did not submit 1993 SM/UR. Compliancy rating based on 1990-1992 ratings.

B. OPERATING ACCOUNTING SYSTEMS NOT IN COMPLIANCE WITH GAO ACCOUNTING PRINCIPLES, STANDARDS, AND RELATED REQUIREMENTS

<u>System Name(Acronym)</u>	<u>Planned Date to be Brought into Compliance, footnote/</u>
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GENERAL ACCOUNTING SYSTEMS

N014 Resale Operations Management System (ROMS)	None 1/
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N071 Military Personnel, Navy, Financial Management System (MPN) (MFS)	FY 1994
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TRUST FUND ACCOUNTING SYSTEMS

N046 Foreign Military Training Financial Management System (FMTFMS)	FY 1995
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Footnotes

1/ System manager does not consider ROMS an accounting system; therefore, conformance with DoD accounting policies and requirements is not applicable.

**REPORT ON ACCOUNTING SYSTEM NONCONFORMANCE TO COMPTROLLER GENERAL
ACCOUNTING PRINCIPLES, STANDARDS AND RELATED REQUIREMENTS**

Tab D

PART 1

SUMMARY TABLE - CONTENTS OF MATERIAL NONCONFORMANCES

Name of System/ Title(s) of Nonconformance(s)	First Reported	Year		Page
		Target for Correction in last year's FMFIA Report	Current Target for Correction	
N014 Resale Operations Management System (ROMS)				1/
KAR 01 General Ledger Control and Financial Reporting	FY 1993	N/A	None 1/	
KAR 05 Accrual Accounting	FY 1993	N/A	None 1/	
KAR 07 System Controls	FY 1993	N/A	None 1/	
KAR 08 Audit Trails	FY 1993	N/A	None 1/	
KAR 10 System Documentation	FY 1993	N/A	None 1/	
KAR 11 System Operations	FY 1993	N/A	None 1/	
KAR 12 User Information Needs	FY 1993	N/A	None 1/	
N014 Military Personnel, Navy, Financial Management System (MPN) (MFS)				3
KAR 10 System Documentation	FY 1993	N/A	FY 1994	
N046 Foreign Military Training Financial Management System				5

KAR 10 System
Documentation

FY 1992

N/A 2/

FY 1994

Footnotes:

1/ System manager does not consider ROMS an accounting system; therefore, conformance with DoD accounting policies and requirements is not applicable. No effort is in progress to make ROMS compliant with KARs.

2/ Navy did not report a target completion date for corrective action in the FY 1992 FMFIA Statement of Assurance, Section 4.

PART 2
DESCRIPTION OF PENDING MATERIAL NONCONFORMANCES

Name of System: Military Personnel, Navy, Financial Management System (MPN) (MFS)

Name of Responsible System Manager: Bureau of Naval Personnel (BUPERS)

Title of Material Nonconformance:

KAR 10 System Documentation

Functional Category in Statistical Summary: General Accounting System

Bureau/Appropriation/Account Number: Military Pay, Navy (MPN)
Reserve Pay, Navy (RPN)

Pace of Corrective Action

Year Identified: FY 1993

Original Targeted Correction Date: N/A

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

Current Target Date: FY 1994

Reason for Change in Date(s): N/A

Description of Material Nonconformance and Its Impact on Agency Operations:

System documentation is completely out of date. End users have difficulty using output products.

Source of Discovery of Material Nonconformance: FY 1993 System Manager/User Review

Critical Milestones in Corrective Action:

BUPERS will eliminate the system; merge with other systems. MFS is composed of four modules. Merge the MFS(PCS) and MFS(ExpMon) modules with the PRODS system. Migrate the MFS(FISCAL) module to the Pers-7 AAS system. Merge MFS(P&A) module with BOATS

<u>Critical Milestones:</u>	<u>Completion Date</u>		
	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>

A. **Completed actions/events**

B. **Planned actions/events (short term - next 12 months)**

Complete merging
of modules with
other systems

FY 1994

C. Planned actions/events (longer term)

Validation Process to be Used: FMFIA Section 4 review for FY 1994

DESCRIPTION OF PENDING MATERIAL NONCONFORMANCE

Name of System: Foreign Military Training Financial Management System (FMTFMS)

Name of Responsible System Manager: Naval Education and Training Command (CNET - NETSAFA Code N-3)

Title of Material Nonconformance:

KAR 10 System Documentation

Functional Category in Statistical Summary: Trust Fund Accounting System

Bureau/Appropriation/Account Number:

Operations and Maintenance Navy, Military Pay Navy, General Fund Receipt Accounts, Aircraft Procurement, DBOF, Operations and Maintenance Marine Corps, Military Pay Marine Corps, Other Procurement Marine Corps

Pace of Corrective Action

Year Identified: FY 1992

Original Targeted Correction Date: None reported in FY 1992

Targeted Correction Date in Last Year's Report: None reported in FY 1992

Current Target Date: FY 1994

Reason for Change in Date(s): N/A

Description of Material Nonconformance and Its Impact on Agency Operations:

Inadequate documentation

Source of Discovery of Material Nonconformance: FY 1992 System Manager/User Review

Critical Milestones in Corrective Action:

There is an on-going effort of document preparation of functional descriptions, flow charts, user guides, and system documentation to provide compliancy with KAR 10.

<u>Critical Milestones:</u>	<u>Completion Date</u>		
	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>

A. **Completed actions/events**

B. **Planned actions/events (short term - next 12 months)**

Prepare adequate documentation

FY 1994

C. Planned actions/events (longer term)

N/A

Validation Process to be Used: FMFIA Section 4 review for FY 1994 and 1995

PART 3
DESCRIPTION OF MATERIAL NONCONFORMANCE CORRECTED IN
THE CURRENT REPORTING PERIOD

Name of System: Foreign Military Training Financial Management System (FMTFMS)

Name of Responsible Manager: Naval Education and Training Command (CNET - NETSAFA Code N-3)

Title of Material Nonconformance(s):

KAR 04 Cost Accounting
Other claimants' costs in support of CNET's specialized training were being understated.

Bureau/Appropriation/Account Number:

Operations and Maintenance Navy, Military Pay Navy, General Fund Receipt Accounts, Aircraft Procurement, DBOF, Operations and Maintenance Marine Corps, Military Pay Marine Corps, Other Procurement Marine Corps

Year Identified: FY 1989

Corrective Actions Taken:

Improved cost collection process. Requested major claimants to provide their cost data.

Validation Process Used: System Manager/User Review for FY 1993
A CSE of the system would provide additional assurance of the effectiveness of corrective action.

Results of Validation Actions Taken: System is compliant with KAR 04.