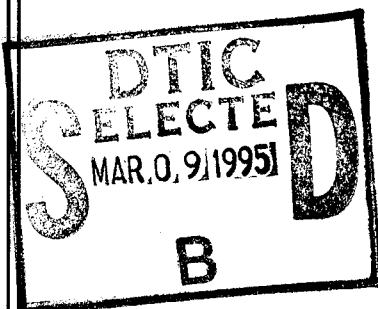
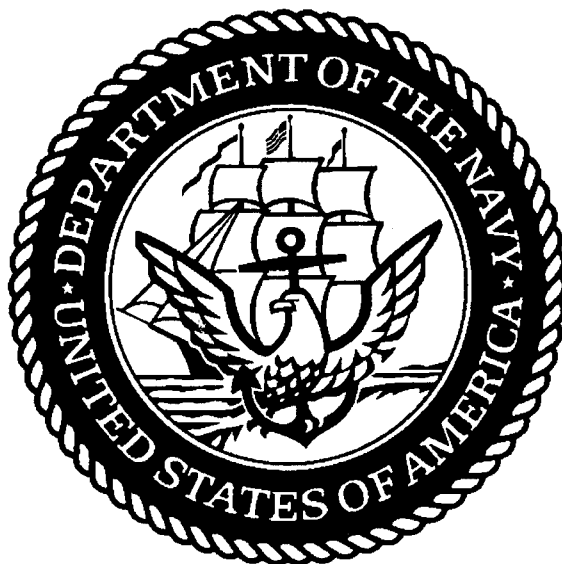


# FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

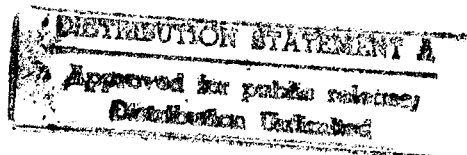


FY 1994  
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

19950307 042





DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT)  
WASHINGTON, D.C. 20350

JAN 24 1995

MEMORANDUM FOR DISTRIBUTION

Subj: DEPARTMENT OF THE NAVY MANAGEMENT CONTROL PROGRAM

Encl: (1) FY 1994 DON Annual Statement of Assurance

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.

As executive agent for the DON Management Control Program, I am distributing the Fiscal Year (FY) 1994 DON Annual Statement of Assurance, enclosure (1), 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 maintaining an effective Management Control Program, we will be able to certify with reasonable assurance in our FY 1995 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 327-3333 or commercial (703) 607-3333.

*Deborah P. Christie*

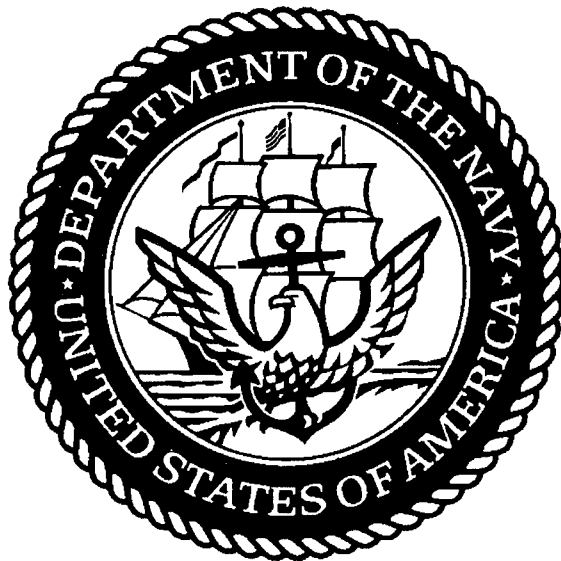
DEBORAH P. CHRISTIE

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# **FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT**

## **FY 1994 STATEMENT OF ASSURANCE**



THIS QUALITY INSPECTED 2

**DEPARTMENT OF THE NAVY**



THE UNDER SECRETARY OF THE NAVY  
WASHINGTON, D.C. 20350

EXECUTIVE SUMMARY/COVER BRIEF

MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: DEPUTY SECRETARY OF DEFENSE  
FROM: Richard J. Danzig *R. Danzig 11/14/94*  
Under Secretary of the Navy

SUBJECT: DEPARTMENT OF THE NAVY (DON) FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE FOR  
FISCAL YEAR 1994

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 1994.

DISCUSSION: The DON has evaluated the system of internal  
administrative and accounting controls in effect  
during Fiscal Year (FY) 1994 in a conscientious  
and thorough manner. To the degree that  
information has been made available, despite  
issues identified in the FY 1994 audits, and  
except for identified material weaknesses, the  
system of internal control in effect during FY  
1994 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 1994 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 1994

**TABS:**

- A - Management Control Evaluation Process
- B - DOD High Risk Areas
- C-1 - Uncorrected and Corrected Material Weaknesses, A Listing
- 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 1994, 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:

(1) obligations and costs are in compliance with applicable law;

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

(3) 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

(4) 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 statements.

TAB A

## **2. Determination of Reasonable Assurance Status.**

a. Structure. The organization and structure of the DON and daily actions taken to maintain a modern, quality naval force are major factors that contribute to the Secretary of the Navy (SECNAV) having reasonable assurance that the system of management controls are operating as intended. DON's Management Control Program is decentralized and covers all shore commands and afloat forces. SECNAV, through the Assistant Secretary of the Navy for Financial Management (ASSTSECNAV FM), 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 (CNO), the Commandant of the Marine Corps (CMC), 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 SECNAV'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 (GAO), the Department of Defense Inspector General (DODIG), the Naval Audit Service (NAVAUDSVC) the Naval Inspector General (NAVINGEN), and the Director, Naval Criminal Investigative Service (DIRNAVCRIMINVSVC) are reviewed to identify potential DON-wide issues.

Except for limited scope audits, the NAVAUDSVC 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 Commanding Officers of Echelon 2 and those commands/activities below 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 (AUDGEN) in collaboration with the ASSTSECNAV FM'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 AUDGEN issues an independent assessment of the statement that is provided to SECNAV. This independent assessment serves as a check and balance and becomes another source for giving assurance to SECNAV 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. The Executive Steering Committee weekly progress reviews are held to discuss the progress on issues that are discovered through the inspection program. Such issues as safety-related deficiencies on weapons elevators, high rates of communication system degradation and ineffective maintenance practices of amphibious ships are given immediate attention. These regular progress reviews ensure that pending corrective action of identified deficiencies or other remedial action is accomplished.

Another key component of the DON's Management Control Program is senior management's involvement. Before the FY 1994 annual statement was presented to SECNAV for signature, the Assistant Secretaries of the Navy, the AUDGEN, CNO, CMC, NAVINSGEN, and DIRNAVCRIMINVSVC and other echelon I organizations review the statement and provide comments/concurrence. 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 1994, Navy and Marine Corps components reviewed, for necessary adjustments, 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 3,154 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, DON analyzed the results of over 140 GAO, DODIG, and NAVAUDSVC audit reports. Also, the results from DON investigative and inspector general organizations were considered. Generally, significant weaknesses selected for reporting to the Secretary of Defense (SECDEF) are either within a GAO high risk area, related to a Consolidated Information Management issue, a high visibility item as a result of congressional/media interest, or represent either a DON-wide pervasive problem or issues which should be highlighted to the SECDEF.

DON distributed the DOD FY 93 Annual Statement, both Volumes I and II to the Assistant Secretaries of the Navy, CNO, CMC, and other Echelon I organizations. DON functional managers were encouraged to use the DOD Statement as a source as they reviewed their areas of responsibility. They also were encouraged to review and use the document as they worked with the DOD functional managers in identifying material weaknesses effecting not only DON but DOD as well.

The DON Secretariat staff offices and Echelon 1 components identified and reported during FY 1994 nine new uncorrected weaknesses and two corrected weaknesses. The DON maintains a tracking system to provide status of corrective actions for reported material weaknesses. During FY 1994, the DON tracked prior year weaknesses and reported corrective actions for six of those material weakness covering 52 milestones.

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 1994, 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 with the appropriate DOD components gave DON management information on the status of programs and issues affecting organizations across the services. Through these status reports managers assessed the effectiveness of controls.

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 1994. Therefore, to the degree that information has been made available, despite issues identified in the FY 1994 audits, and except for the material weaknesses reported, SECNAV has reasonable assurance that the systems of management controls are operating as intended.

3. Consolidating Material Weaknesses. Direction four, "Concise Reporting of Weaknesses" of the new DOD Management Control initiatives, encourages the services to aggregate weaknesses which have a common functional basis whenever possible. DON consolidated several prior year weaknesses into newly reported material weaknesses for the FY 1993 DON Certification Statement. When consolidating issues, corrective actions may take longer to correct than single issues. Upon reviewing sources, component input, and other data for the FY 1994 statement, DON added sources and milestones to several of the broad pervasive weaknesses reported in the DON FY 1993 statement. For example, we made adjustments to milestones and target dates for the "Unmatched Disbursements (OSD # 93-022)" weakness that reflects our commitment to solving the problem and the progress we made during FY 1994. Those issues that were addressed in the FY 1993 Chief Financial Officers Act audit of the Defense Business Operations Fund were documented in the "Department of the Navy Revolving Funds Chief Financial Office (CFO) Financial Statements Accountability (OSD # 93-021)" reported in FY 1993. Several sources documenting those milestones for corrective action already noted were added to the "Requirements Determination (OSD #93-061)" weakness reported in 1993.

4. 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 245 individuals received extensive instructions in this training forum in FY 1994.

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.

e. Senior level managers were encouraged to attend the DOD Internal Management Control Conference. The conference emphasized the six new Management Control directions issued by SECDEF.

5. **Accomplishments.** The following paragraphs address accomplishments of the DON's Management Control Program during FY 1994.

a. SECNAV released an ALNAV message in March reminding all commanding officers and managers to get involved and stay involved with the Management Control Program. Each commanding officer and manager is accountable for reviewing their area of responsibility.

b. ASSTSECNAV FM distributed the FY 1993 DON Annual Statement of Assurance to all shore activities. The purpose of this distribution was to make managers aware of DON material weaknesses and the actions underway to correct them. Managers were encouraged to use the results of the statement as they reviewed their areas of responsibility.

c. During FY 1994, DON continued performing quality assurance reviews to ensure FMFIA implementation and documentation. Twenty-six 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. At the majority of the commands reviewed, the Management Control Program was satisfactorily implemented and appeared to be working effectively. Commands that are delinquent prepared a plan of action and milestones to implement the program. DOD also conducted field evaluations at three DON sites and with selected Echelon I staff. The purpose of their field visit was to review the new DOD six directions with senior management. DON found quality assurance reviews to be an effective means to ensure Management Control Program compliance and quality. We plan to continue the Quality Assurance Review Program for FY 1995.

d. 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 Management. DON continues to evaluate the prototype that is being piloted within an activity group. The inventory of assessable units parallel those responsibilities assigned by the standard organization manual. This parallel of assessable units and manager responsibilities tie the Management Control Program directly to the managers' responsibilities (processes), and return ownership of the program to the managers.

e. Reorganizations are continually occurring. Consequently, the responsibility for specific functions and the related internal controls are transferring within or between components of the DOD. 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.

f. DON continues to take appropriate actions to effectively manage supply and inventory issues. Navy's Critical Piping (Level) 1)/Submarine Safety (SUBSAFE) program was established to

enhance quality control over material used in critical shipboard systems. During FY 1994 internal control procedures and corrective actions were initiated to ensure compliance with inventory accounting procedures and to ensure timely settlement for quality deficient material under warranty provisions of the contracts (NAVAUDSVC Report No. 065-W-93).

The Deputy Secretary of Defense approved the transfer of approximately 1.2 million Service-managed consumable items from the Services to the Defense Logistics Agency (DLA). DON had adequate procedures and internal controls in place to ensure an orderly transfer of item management responsibilities for consumable items to DLA. Some of these controls and actions included: inventory control points continuously reviewing their consumable items to ensure compliance with the DOD Item management Code (IMC) filter; participating in the Joint Services and DLA Working Group to develop a plan for automating the transfer of non-demand based programmed requirements; and initiating an intense inventory reduction program to eliminate inventory that is excess to the retention level (DODIG Report No. 94-071).

g. During FY 1994 DON management took corrective actions to ensure that safety lessons are learned and that the Reserve Forces are medically and physically fit. Navy lacked the sufficient data to adequately assess the Navy Reserve physical fitness program. DON management revised guidance and now places significant emphasis on the Reserve physical fitness programs, both in the execution and reporting phases (GAO Report NSIAD-94-36).

To solve the problems that existed in Navy's internal controls for conducting legal investigations of fatal training mishaps, DON issued guidance establishing specific procedures for reporting this type of mishap. A training module on "Lessons Learned From Analysis of Serious Incidents and Fatalities" was developed and included in appropriate training courses (GAO Report NSIAD-94-82).

h. Navy continues to convert instructions from paper to compact disk, read only memory (CD ROM). One example of this action is the Naval Aviation Maintenance Program (NAMP) Instruction. By issuing the instruction on CD ROM, Navy will realize annual cost avoidance of \$1 Million in production and distribution costs and nine years of labor. Conversion also allows for an annual revision/issue of the NAMP Instruction rather than every two years. DON also consolidated over 80,000 maintenance instructions and lower level supplemental instructions into the NAMP Standard Operating Procedures. By consolidating these instructions Navy will save over 400,000 man-hours annually used for administrative support that now can be used for hands-on aircraft maintenance.

i. In the spirit of acquisition reform, DON established a Navy Acquisition Reform Senior Oversight Council to review and direct on-going acquisition reform implementation and issues. DON senior acquisition officials were briefed on the principles of acquisition reform. A DON Standards Improvement Executive Office was also established and funding was budgeted to implement standards reform per SECDEF direction with a plan of action and milestones to plan and track all necessary actions.

To improve current acquisition practices, DON initiated contractor surveys to search for ways to reduce costs, streamline acquisition and promote development of Navy/industry partnerships. A "lessons learned" data base is being developed to give program managers support in making acquisition decisions. Several types of teams were formed. The Acquisition Coordination Teams facilitate cooperation between requirements, budget and the acquisition personnel, while the Integrated Process Teams are a primary management tool for all DON acquisition personnel. Finally, in an effort to cut costs without adverse impact on program development, an executive level steering committee was established. The committee promotes wider use of simulation based design and modeling early in the system life cycle.

j. Various levels of Navy organizations forming a cooperative partnership received the 1994 Presidential Award for Quality. The Federal Quality Institute, a quasi-independent organization representing ten different governmental agencies, issued the award to the DON partnership group for providing high quality technologically superior service, affordable products and support to the fleet and the Marine Corps.

**6. Other Accomplishments.** Other accomplishments during FY 1994 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 consolidation, continued emphasis upon initiative operations, and improved awareness through briefing programs. For FY 1994, 173 procurement fraud cases were opened and 168 were closed for a total Navy benefit of \$16 million. The area of concern is the lack of compliance by field activities to provide suspension/disbarment reports to the proper procurement office.

b. DON participated in a multi-agency investigation involving an individual who defrauded the DON of over \$3.025 million by filing bogus invoices for material allegedly supplied to the shipyard. This individual pleaded guilty and was sentenced to serve time in prison and must repay the \$3.025 million.

c. An investigation initiated by DON for false construction contract bonds submitted to the U.S. Government resulted in the owner being found guilty and having to pay \$502,687.

d. A joint investigation stemmed from a DOD Hotline complaint that alleged a company had mischarged the DON on a cost plus award fee contract, for the maintenance of advanced jet training aircraft. The investigation centered around the suspicion that the company had charged the DON for expenses associated with employee benefits which the company had not actually paid. The company agreed to pay a civil settlement of \$1,042,000.

e. Other fraud cases investigated during FY 1994 identified deficiencies related to:

(1) Mischarging of labor hours on labor intensive contracts;

(2) Misrepresenting manpower resources by companies during the bid process;

(3) Violating of federal wage and standards under the Davis-Bacon Act;

(4) Substituting less expensive labor to perform work bid at a higher rate;

(5) Bribing procurement officials;

(6) Providing kickbacks by subcontractors to higher tier subcontractors and/or prime contractors;

(7) Dumping, disposing, storing and transporting of hazardous waste or toxic pollutants illegally;

(8) Submitting false claims with respect to pay and allowances and official travel.

f. During FY 1994 DON conducted 1,474 larceny of government property investigations with a total reported loss value of approximately \$10 million. Recoveries through investigative efforts totaled approximately \$2 million. Administrative buildings, Navy Exchanges, warehouses, storage areas and maintenance buildings continue to be the prime locations where larcenies occur.

g. DON continues efforts to investigate fraud cases related to Federal Employees Compensation Act (FECA). Over 100 FECA related cases were initiated during the first nine months of 1994. This is a 150% increase from the number of cases opened for the same period in 1993. Navy continues to work on effective

strategies to prosecute fraudulent claimants through criminal and civil adjudication and to reduce FECA costs.

h. Missing, lost, stolen, and recovered (MLSR) government property reporting program received 24,606 reports. The total value of government property reported missing, lost, and stolen was \$96,000,000. Stolen property accounted for \$1,250,000 of this total, and \$33,300 worth of stolen property was recovered. The total value of all property recovered was \$76,500.00.

i. 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.

j. DON's Occupational, Safety and Health unit conducted 99 oversight inspections at Navy installations world-wide. The majority of commands had viable programs to protect the safety and health of their employees. One area of concern was the training program. The training programs needed some attention.

#### 7. Significant Issues:

a. Navy continues to consider alternatives to manning of Navy auxiliary ships. During FY 1994 evidence suggested that the Military Sealift Command could operate auxiliary ships with thousands fewer personnel than the Navy Auxiliary and at less cost. Additionally, maintenance and repair costs could be reduced by placing some auxiliary ships in an inactive or reduced operating status. Finally, Navy funds could be put to better use by canceling scheduled fleet modernization programs on existing Combat Logistics Force ships. Management continues to collect appropriate data to make informed decisions to correct this issue (NAVAUDSVC Report No. 034-C-94).

b. DON's military medical treatment facilities are allowed to collect from an insurance company, a medical service, or health plan for reasonable inpatient hospital care costs. This program is known as the Third Party Collection Program. Procedures have improved for collecting from primary health insurance plans for inpatient hospital costs. DON will review the Third Party Collection Program to ensure that DON medical treatment facilities establish adequate procedures to identify all patients with health insurance coverage and to validate the integrity of collections (DODIG Report 94-017).



8. **Plans.** During FY 1995 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, if revised and issued this year, and DOD revised guidance.

b. Continue to review opportunities to streamline and improve Management Control Program processes with the objective to 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 and those related identified DOD systemic weaknesses.

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.

d. Following DOD's emphasis on senior level involvement, 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.

9. **DOD Systemic Weaknesses:** DON has many ongoing initiatives relating to the DOD Systemic Weaknesses, however we listed only those material weaknesses that were identified and reported during FY 1994 or prior FYs.

a. **Acquisition Reform**

**DON Material Weakness**

- (1) Requirements Determination
- (2) Inadequate Operational Testing for the Acquisition of Systems and Poorly Defined Program Initiations

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|  | <b><u>Page</u></b> |
| (1) Material Retention and Disposal Procedures   | 1                  |
| (2) Base Realignment and Closure Commission<br>(BRAC) Military Construction Costs (MILCON)<br>Data | 3                  |
| (3) Excess Material and Unrecorded Inventories   | 28                 |
| (4) Inaccurate Inventory Management of<br>Torpedo Propulsion Batteries and Sonobuoys               | 85                 |
|  | <b>C-3</b>         |
|  | <b><u>Page</u></b> |
| (5) Receipt Confirmation   | 14                 |
| (6) Excess Property  | 16                 |

10. **Point of Contact.** The DON point of contact for the Management Control Program and issues dealing with material weaknesses reported in the FY 1994 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:       | 8        |
| Less: Corrected            | <u>2</u> |
| Net Uncorrected Weaknesses | 6        |

**For Each High Risk Area**

Supply Operations:

|                            |          |
|----------------------------|----------|
| Weaknesses Reported:       | 5        |
| Less: Corrected            | <u>1</u> |
| Net Uncorrected Weaknesses | 4        |

Automated Data Processing  
and Automated Data Processing Security:

|                            |          |
|----------------------------|----------|
| Weaknesses Reported:       | 3        |
| Less: Corrected            | <u>1</u> |
| Net Uncorrected Weaknesses | 2        |

Financial Accounting Process and Systems

N/A

**WEAKNESS STATUS**  
**SUPPLY OPERATIONS**

**UNCORRECTED MATERIAL WEAKNESSES**

| <b><u>Title of Weakness</u></b>  | <b><u>OSD #</u></b> | <b><u>C-2<br/>Page #</u></b> |
|--|---------------------|------------------------------|
| Material Retention and Disposal Procedures                                       | FY-94               | 1                            |
| Requirements Determination   | 93-061              | 22                           |
| Excess Material and Unrecorded Inventories                                       | 93-062              | 28                           |
| Inaccurate Inventory Management of Torpedo<br>Propulsion Batteries and Sonobuoys | 86-16               | 85                           |

**MATERIAL WEAKNESSES CORRECTED THIS PERIOD**

|                      |        | <b><u>C-3</u></b> |
|----------------------|--------|-------------------|
| Receipt Confirmation | 89-016 | 14                |

### Supply Operations

Material weaknesses as identified by the DON components for the high risk area of Supply Operations continue to center around inaccurate inventory, excess material and unrecorded inventories, overstated requirements and material retention and disposal procedures. These weaknesses deal with DON activities not purging uneconomical and unserviceable stock excesses, not adequately determining the proper requirements for equipment, supplies, and materials and inadequate retention and disposal of unrequired and/or inactive inventory.

During FY 1994, DON reviewed and revalidated requirements in view of force structure reductions. For example, DON reduced the E2/C2 Pilot Training Rate from 53 to 36. Aircraft and simulator requirements were adjusted accordingly. Don also improved the procedures for verifying requirements data before initiating purchases and awarding contracts. Determining the proper requirements for equipment, supplies, materials, training force structure and systems acquisition to achieve the proper balance will continue to be a priority with the DON.

DON managers are dealing with excess material and unrecorded inventories by providing specific guidance on inventory accountability, classification, reporting, and disposition in appropriate guidance and tasking documents. Managers are also required to make periodic spot check for unrecorded inventory. During FY 1994, DON revised internal controls to ensure timely recording of receipts assuring that the DON either receives what it paid for or recovers payments for items not received. DON now requires storage and user activities to acknowledge initial spares receipts, process them within 60 days of shipment and establish a system to follow-up on shipments not received through the "Push to Pull" initiative.

DON clarified material retention and disposal procedures. During FY 1994 DON issued guidance requiring activities that turn in materials to document and prove to the Defense Reutilization and Marketing Office the basis for condemning material along with any related repair estimate performed that support the decision to condemn repairable items. Physical inventories of sonobuoys continue to be accomplished concurrently with the implementation of Fleet Optical Scanning Ammunition Marking System. During FY 1995 DON will validate current inventories at stock points against the Conventional Ammunition Integrated management System quantities and reconcile discrepancies with each activity.

Many of DON's efforts to improve supply operations are under the cognizance of the DOD Information Management Program initiatives such as the development of an Interservice Material Accounting and Control System that will improve interservice and supply reporting.

**WEAKNESS STATUS**  
**AUTOMATED DATA PROCESSING**

**UNCORRECTED MATERIAL WEAKNESSES**

| <b><u>Title of Weakness</u></b>                                      | <b><u>OSD #</u></b> | <b><u>C-2<br/>Page#</u></b> |
|--|---------------------|-----------------------------|
| Navy's Military Personnel Records System<br>(MPRS) Needs Replacement | FY-94               | 6                           |
| Controls Over Operating System and Security<br>Software              | FY-94               | 9                           |

**MATERIAL WEAKNESSES CORRECTED THIS PERIOD**

|                               |        | <b><u>C-3</u></b> |
|-------------------------------|--------|-------------------|
| Copyrighted Computer Software | 93-013 | 6                 |

## AUTOMATED DATA PROCESSING

Material weaknesses as identified by DON components for the high risk area of Automated Data Processing (ADP) centered around the areas of replacing a personnel records system and establishing controls over operating system and security software. Even with significant enhancements and updated equipment, DON's Military Personnel Records System is now saturated by user requirements. Overall, the many users of the system are not satisfied with its current accuracy and response times. In particular, the selection board function is inadequately supported. DON is in the process of replacing the system. DON plans to complete documentation of the Defense Personnel Record Imaging System (DPRIS)/Electronic Military Personnel Records System (EMPRS) life cycle management Milestones (LCM) 1 and II early in FY 1995. Upon completion the system will provide for timely and accurate update of member records; authorized user access in a timely and accurate fashion; protection of records from unauthorized use and inadvertent disclosure; and effective records retention at the lowest cost to DON.

Internal control discrepancies over the operating systems and software at the Marine Corps Computer and Telecommunication Activity were identified during FY 1994. Selected features of the Top Secret security software were improperly installed or not installed on appropriate Marine Corps computers as well as the Defense Information Service Organization computers. The Marine Corps has established appropriate procedures for software installation. Also procedures to designate system programmer positions as critical sensitive were implemented.

During FY 1994 DON completed and distributed a Guidebook emphasizing the importance of following copyright law and the need to follow copyrighted computer software licensing agreements. Though the issue of compliance with license agreements relies on the integrity of the software user, DON management will continue to emphasize with employee the importance of compliance with the agreements.



**WEAKNESS STATUS**  
**FINANCIAL ACCOUNTING PROCESS AND SYSTEMS**

NOT APPLICABLE

**UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES  
A LISTING**

**Identified During Current Period:**

| <u>Title</u>   | <u>Correction<br/>Date</u> | <u>C-2<br/>Page<br/>No.</u> |
|--|----------------------------|-----------------------------|
| Material Retention and Disposal Procedures   | 9/95                       | 1                           |
| Base Realignment and Closure Commission<br>(BRAC) Military Construction Costs (MILCON)<br>Data | 9/96                       | 3                           |
| Navy's Military Personnel Records System<br>(MPRS) Needs Replacement                           | 9/99                       | 6                           |
| Controls Over Operating System and Security<br>Software  | 9/96                       | 9                           |
| Navy Personnel and Transition Services   | 9/96                       | 11                          |
| Defense Civilian Pay System (DCPS)   | 9/95                       | 13                          |
| Unliquidated and Invalid Obligations   | 9/96                       | 15                          |
| Improved Labor Estimates Can Reduce<br>Shipyard Costs  | 9/95                       | 18                          |
| Productivity Gain Sharing (PGS)  | 9/95                       | 20                          |

**TAB C-1**

**Identified During Prior Periods:**

| <u>Title</u>  | <u>FY<br/>Reported</u> | <u>Correction<br/>Date in Annual<br/>Statement of</u> |             | <u>C-2<br/>Page<br/>No.</u> |
|---|------------------------|---|-------------|-----------------------------|
|   |                        | <u>FY93</u>   | <u>FY94</u> |                             |
| Requirements Determination  | 93                     | 9/96  | 9/96        | 22                          |
| Excess Material and<br>Unrecorded Inventories   | 93                     | 9/97  | 9/97        | 28                          |
| Inadequate Operational Testing<br>for the Acquisition of Systems<br>and Poorly Defined Program<br>Initiations                                 | 93                     | 9/97  | 9/97        | 37                          |
| Federal Employees' Compensation<br>Act (FECA) Case Management   | 93                     | 9/95  | 9/95        | 42                          |
| Navy Enlisted Classification<br>(NEC) Code Training   | 93                     | 3/96  | 3/95        | 45                          |
| Aviation Continuation Pay (ACP)<br>Bonus Program  | 93                     | 3/95  | 9/95        | 48                          |
| Department of the Navy Revolving<br>Funds Chief Financial Office<br>(CFO) Financial Statements<br>Accountability                              | 93                     | 9/95  | 9/95        | 50                          |
| Unmatched Disbursements   | 93                     | 9/95  | 9/98        | 56                          |
| Naval Selected Reserve Force<br>Mobilization Requirements   | 92                     | 3/96  | 3/96        | 59                          |
| Sexual Harassment   | 92                     | 9/95  | 9/96        | 62                          |
| Poor Utilization of Bachelor<br>Enlisted Quarters (BEQs)<br>Berthing Spaces and Transient<br>Bachelor Officer Quarters (BOQs)                 | 92                     | 9/94  | 9/96        | 65                          |
| Environmental Issues Relating To<br>Major Systems Acquisition   | 92                     | 9/95  | 9/95        | 70                          |
| Compliance with Environmental<br>Laws and Regulations by the<br>DON Concerning Management and<br>Elimination of Ozone Depleting<br>Substances | 92                     | 9/96  | 9/95        | 73                          |

**Identified During Prior Periods (con't):**

| <u>Title</u>   | <u>FY<br/>Reported</u> | <u>Correction<br/>Date in Annual<br/>Statement of</u> |             | <u>C-2<br/>Page<br/>No.</u> |
|--|------------------------|---|-------------|-----------------------------|
|  |                        | <u>FY93</u>   | <u>FY94</u> |                             |
| Environmental Compliance Deficiencies  | 92                     | 9/94  | 9/95        | 76                          |
| Hazardous Waste Management   | 92                     | 3/94  | 9/96        | 78                          |
| Material Handling and Container Requirements   | 90                     | 9/94  | 3/95        | 80                          |
| Family Service Centers   | 90                     | 9/94  | 3/96        | 83                          |
| Inaccurate Inventory Management  | 86                     | 9/94  | 3/95        | 85                          |
| <b><u>Corrected Material Weaknesses</u></b>  |                        |   |             | <b><u>C-3</u></b>           |
| Procurement Through the Tennessee Valley Authority (TVA) Technology Brokering Program  | 94                     | -   | 9/94        | 1                           |
| Formal Cost of Operational Effectiveness Analysis (COEA) Lacking                       | 94                     | -   | 9/94        | 4                           |
| Copyrighted Computer Software  | 93                     | 9/95  | 9/94        | 6                           |
| Enlisted Member "Mess Separately" (RATSSEP) Authorization and Food Service Operations  | 92                     | 9/93  | 9/94        | 8                           |
| Compliance with Environmental Laws and Regulations by the Department of the Navy (DON) | 92                     | 9/95  | 9/94        | 10                          |
| Management of the Metrology and Calibration (METCAL) Program                           | 90                     | 9/93  | 9/94        | 12                          |
| Receipt Confirmation   | 89                     | 9/93  | 9/94        | 14                          |
| Excess Property  | 89                     | 9/94  | 9/94        | 16                          |
| Military Manpower/Hardware Integration (HARDMAN) Program                               | 88                     | 9/93  | 9/94        | 22                          |

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Material Retention and Disposal Procedures. Internal controls were either not established or not effective to ensure that unrequired and inactive inventory were reviewed for retention or disposal. Items were retained when there was either no requirement or significantly reduced requirement. Material was often obsolete, but still retained and unneeded material was pulled back from disposal when there was no known need. Navy also did not obtain maximum reutilization of assets available through cancelled or completed programs. Assets no longer required were being stored instead of making them available to other Government agencies.

Inappropriate condition codes were assigned to material turned into Defense Reutilization and Marketing Service (DRMS). Material for reutilization was withdrawn and adequate control and accountability of the material after withdrawal was not maintained.

**Functional Category:** Supply Operations

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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:** Various

**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 review of the milestones.

**Results Indicators:** Compliance with guidance will ensure that material is not withdrawn without a valid requirement and that proper controls and accounting were established. Reutilization of assets available through canceled or completed program should be maximized. Material categorized as potential reutilization and disposal will be validated which should reduce inactive and unrequired inventory. Increased oversight will ensure that excess assets are effectively and efficiently reutilized.

Continue on next page

TAB C-2

**Source(s) Identifying Weakness:** Department of Defense Inspector General (DODIG) Report No. 93-132, "Condition and Economic Recoverability of Material in the Disposal Process" of 30 June 1993. DODIG Report No. 94-070 "Material Retention and Disposal Procedures for Secondary Items" of 28 March 1994. DODIG Report No. 94-093, "Disposition of Test Assets From Canceled or Completed Programs" of 4 May 1994.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| Completed           | Issue guidance to require activities that turn in materials to document and prove to the Defense Reutilization and Marketing Office (DRMO) the basis for condemning material along with any related repair estimate performed that support the decision to condemn repairable items. |
| Completed           | Issue message emphasizing the policy of having only authorized personnel withdraw material from the DRMO for valid requirements and provide for periodic reviews and oversight.  |
| Completed           | Establish procedures for reviews of contracting officers' justification for storing excess equipment from canceled or completed programs for a period of one year or more.   |
| Completed           | Review all items with potential reutilization and disposal material and reclassify material that is retained, and dispose of material that is obsolete and unneeded.   |

**B. Planned Milestones (FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 9/95                | Verification: Review milestones to certify the effectiveness of all corrective actions. |

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

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Base Realignment and Closure Commission (BRAC) Military Construction Costs (MILCON) Data. Internal control procedures were not adequate or were not followed when developing cost estimates for Department of the Navy (DON) BRAC MILCON projects. The lack of internal control procedures resulted in requirements not adequately being supported with valid or proper documentation; project costs estimates being developed without considering existing facilities; and funding ceilings being established before developing project cost estimates. The time constraint dictated by the BRAC process was a contributing factor.

In previous years, BRAC funds controls were at the total appropriation level without regard to the FY. Since BRAC funds control, beginning in FY 95, will be by FY rather than by the "X-year" appropriation, an edit to the current accounting system is necessary. Without this change allocations could exceed individual FY authorizations and result in a possible violation of the Antideficiency Act.

**Functional Category:** Property Management

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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(s):** N/A

**Component/Appropriation/Account Number:** MILCON 17Y1205

**Validation Process:** All corrective actions 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:** Strengthening DON internal controls will ensure the accuracy of data for BRAC MILCON projects and will allow DON to put to better use BRAC MILCON funds. Proper accounting edits should prevent over obligating funds.

Continue on next page

**Source(s) Identifying Weakness:** Internal Control Review. NAVAUDSVC Report 023-S-94, "Military Construction Projects Budgeted and Programmed for Bases Identified for Closure or Realignment" of 14 January 1994. NAVAUDSVC Report 019-S-94, "Military construction, Navy Projects Proposed for Fiscal Year 1995" of 22 December 1993. DODIG Report 94-040, "Summary Report on the Audit of Defense Base Closure and Realignment Budget Data for FYS 1993 and 1994" of 14 February 1994. DODIG Report 94-105, "Defense Base Realignment and Closure Budget Data for a Tactical Support Center at Naval Air Station Whidbey Island, Washington" of 18 May 1994. DODIG Report 94-108, "Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for Naval Station Treasure Island, Realignment and Closure Budget Data the Closure of Naval Air California" of 19 May 1994. DODIG Report 94-126, "Defense Base Station Glenview, Illinois, and Realignment Projects at Fort McCoy, Wisconsin, and Carswell Air Reserve Base, Texas" of 10 June 1994.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <u>Date:</u> | <u>Milestone:</u>  |
|--------------|--|
| Completed    | Issue guidance establishing a requirement at all Navy activities to validate BRAC MILCON requirements and improve the budget estimating process. |

**B. Planned Milestones (FY 1995):**

| <u>Date:</u> | <u>Milestone:</u>  |
|--------------|--|
| 3/95         | Issue to all appropriate DON activities a listing of "lessons learned" during previous BRAC MILCON reviews.  |
| 3/95         | Issue guidance instructing all appropriate DON activities to establish BRAC MILCON as a separate assessable unit or include it as part of an existing assessable unit.   |
| 3/95         | Conduct management control reviews of BRAC MILCON.   |
| 9/95         | Report results of the management control review via the chain of command in FY 1995 Annual Management Control Certification Statements. Provide a plan of action and milestones for corrective action if material weaknesses are identified. |

Con : on next page



**Date:**

**Milestone:**

9/95

Notify Defense Finance Accounting Service of the "edit" requirement to ensure that allocations do not exceed authorization in the BRAC appropriation.

**C. Planned Milestones (Beyond FY 1995):**

**Date:**

**Milestone:**

9/96

Verification: Perform quality assurance review of BRAC funding to verify accuracy of management reviews and that controls are in place and working.

**Point of Contract:** Mr. Richard Gloss (703) 607-3333.

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Navy's Military Personnel Records System (MPRS) Needs Replacement. MPRS administers, maintains and controls official Navy military personnel records. MPRS is a stand-alone hybrid system of electro-mechanical, photographic, manual and automated processes. Originally designed to accommodate 760,000 records with the capability to "pull" and refile 66,000 per day, the system has grown to 1,170,500 records and file actions in excess of 72,000.

Overall, the many users of the system are not satisfied with its current accuracy and response times. In particular, the selection board function is inadequately supported and this has adversely affected the careers of Navy members in the past. Almost all the equipment are from single sources making MPRS vulnerable to procurement problems. The MPRS is heavily dependent upon dedicated key individuals with specific functional, managerial and technical skills.

**Functional Category:** Information Technology

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**Original Targeted Correction Date:** FY 1999

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

**Current Target Date:** FY 1999

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

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

**Results Indicators:** Navy will have a single authoritative official system containing records for each military member. The system will provide for timely and accurate update of member records; authorized user access in a timely and accurate fashion; protection of records from unauthorized use and inadvertent disclosure to those not having a legitimate need-to-know; and effective records retention at the lowest cost to Navy.

**Source(s) Identifying Weakness:** Alternative Management Control Review and DON Automated Information system (AIS) Program Life Cycle Management (LCM) Documentation, "Electronic Military Personnel Records System (EMPRS)" of June 1993.

Continue on next page

**Major milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| Completed           | Plan and budget for a MPRS replacement system which employs proven digital storage of imagery.  |
| Completed           | Awarded Digital Camera System contract.   |
| Completed           | Provide Statement of Work for backfile conversion of microfiche to Navy Regional Contracting Center.  |
| Completed           | Award documentation contract for Defense Personnel Record Imaging System (DPRIS)/Electronic Military Personnel Records System (EMPRS) life cycle management Milestone (LCM) I/II. |
| Completed           | Request for procurement for Backfile Conversion contract issued.  |
| Completed           | Complete factory acceptance test for digital camera system.   |
| Completed           | Establish selection source evaluation board for backfile conversion contract.   |
| Completed           | Expand digital camera system contract for additional digital storage  |
| Completed           | Install digital camera system and the storage and retrieval system.   |

**B. Planned Milestones (FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 3/95                | Award contract and begin converting present holdings of microfiche records to digital format.           |
| 3/95                | Complete LCM Milestone I/II documentation. Provide EMPRS system decision paper milestone I/II briefing. |
| 3/95                | Initiate microfiche to digital backfile conversion project.   |

Continue on next page

**Date:****Milestone:**

3/95 Release DPRIS/EMPRS statement of work and request for procurement.

9/95 Award DRPIS/EMPRS contract.

**C. Planned Milestones (Beyond FY 1995):****Date:****Milestone:**

9/96 Install pre-installation officer fitness report, enlisted evaluation, and selection board modules.

3/97 Complete microfiche to digital backfile conversion project.

3/97 Install DPRIS/ EMPRS at various locations.

9/97 Begin DPRIS/EMPRS user/staff training.

9/97 Complete DPRIS/EMPRS third-party operational acceptance testing and have system fully operational.

9/97 Complete LCM Milestone III documentation. Plan system decision paper III briefing.

9/98 Complete LCM Milestone IV documentation. Plan system decision paper IV.

9/99 Verification: Perform LCM system effectiveness review (Milestone IV).

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

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Controls Over Operating System and Security Software. Specific internal control discrepancies over the operating systems and software at the Marine Corps Computer and Telecommunication Activity were identified. Selected features of the Top Secret security software were improperly installed or not installed on appropriate Marine Corps computers as well as the Defense Information Service Organization (DISO) computers. Critical operating system software and data backup files were not stored off-site which flawed the automated data processing (ADP) recovery plan and threatened the integrity of the computer system and operations. System programmers were not designated as a sensitive position thus the required background investigations for sensitive system programmer positions were not being conducted.

**Functional Category:** Information Technology

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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(s):** N/A

**Component/Appropriation/Account Number:** Various

**Validation Process:** All corrective actions(s) are certified by the responsible command upon completion and reviewed through on-site verifications, subsequent audits, inspections, quality assurance reviews, and or management control reviews.

**Results Indicators:** Unauthorized person(s) could get access to sensitive DON information through unauthorized access to the ADP system and an ADP recovery plan could be impaired due to not storing critical program backup data off-site.

**Source(s) Identifying Weakness:** DODIG Report No. 94-065, "Controls Over Operating System and Security Software Supporting the Defense Finance and Accounting Service" of 24 March 1994.

Continue on next page

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| Completed           | Establish appropriate procedures for software installation.   |
| Completed           | Implement procedures to designate system programmer positions as critical sensitive and perform background investigations of these personnel. |

**B. Planned Milestones (FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 3/95                | Establish off-site storage of DON critical backup files and programs. |

**C. Planned Milestones (Beyond FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 3/96                | Validation: implementation of the corrective milestones will be accomplished by an onsite quality assurance review. |

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

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Navy Personnel and Transition Services. Many Navy separatees and their spouses were not getting timely transition services. Navy officials responsible for providing transition services did not know who was separating from the DON.

**Functional Category:** Personnel and/or Organizational Management

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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(s):** N/A

**Component/Appropriation/Account Number:** Various

**Validation Process:** All corrective actions(s) are certified by the responsible command upon completion and reviewed through on-site verifications, subsequent audits, inspections, quality assurance reviews, and or management control reviews.

**Results Indicators:** Navy centrally maintains adequate transition assistance data. This data will be reviewed periodically to ascertain completeness of the transition assistance program.

**Source(s) Identifying Weakness:** GAO Report HEHS-94-39, "Military Downsizing: Persons Returning to Civilian Life Need more Help from DOD" of 21 January 1994.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:** N/A

**B. Planned Milestones (FY 1995):**

**Date:**

**Milestone:**

3/95

Develop a Plan of Action and Milestones to ensure that Navy separatees and their spouses receive timely transition services.

Continue on next page

**C. Planned Milestones (Beyond FY 1995):**

**Date:**

**Milestone:**

3/96

Validation: implementation of the corrective milestones will be accomplished by an onsite quality assurance review.

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



**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Defense Civilian Pay System (DCPS). A review of the current payroll procedures at some Navy activities found serious internal control weaknesses in the DCPS. Several weaknesses surfaced during the review. There is a lack of notification given to the Navy activity when attempts to illegally access the system occurs; a lack of an audit trail for late pay adjustments input directly into the DCPS to determine if input information is accurate; and no record count of labor transactions e.g., numbers of hours worked, overtime, high pay, etc. The lack of controls resulted in duplicate payments to employees and duplicate Phase I Voluntary Early Retirement Act payments.

The Defense Finance Accounting Service (DFAS) shares a major part of the responsibility for correcting this issue. DFAS' share of responsibilities is not identified in this material weakness.

**Functional Category:** Comptroller/Resource Management

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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:** DBOF (97X4930).

**Results Indicators:** Defense Finance and Accounting Service (DFAS) will develop procedures to improve internal controls and establish guidelines to alleviate the problems occurring in the present pay system.

**Source Identifying Weakness:** Management Control Review.

**Major Milestones in Corrective Action:**

Continue on next page

**A. Completed Milestones:**

| <u>Date:</u> | <u>Milestone:</u>   |
|--------------|---|
| Completed    | Conduct a working conference to determine commonality of problems with DCPS at Navy activities. |

| <u>Date:</u> | <u>Milestone:</u>  |
|--------------|--|
| Completed    | Research and document problems associated with the DCPS. |
| Completed    | Report documented problems to DFAS.                      |

**B. Planned Milestones (FY 1995):**

| <u>Date:</u> | <u>Milestone:</u>   |
|--------------|---|
| 3/95         | Establish a plan of action and milestones (POAM) for obtaining improvements.  |
| 3/95         | Apprise DFAS of the POAM so they may correct the internal control problems with DCPS.   |
| 3/95         | Conduct a management control review of DCPS to determine if problems and issues with the system are Navy-wide and not within a segment of the Navy. |
| 9/95         | Verification: DON's official notification to DFAS of issues, the POAM and the findings of the management control review of DCPS.                    |

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

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Unliquidated and Invalid Obligations. Internal controls regarding the validation of unliquidated obligations were not adequate. Navy activities did not have adequate procedures for validating funds obligated for commercial repair of aviation depot level repairables. The lack of sufficient guidance to ensure identification and deobligation of all invalid obligations "tied up" funds when they could have been used for valid unfunded requirements.

Activities had invalid undelivered orders and commitments because they did not comply with the Navy requirements for: periodically validating accuracy of recorded obligations and commitments; promptly recording obligations and receipt documents for material and services; and properly accruing costs for contractual services.

Activities placed insufficient emphasis on the day-to-day validation of financial transactions. Fund administrators were not sufficiently reviewing unliquidated obligations to ensure validity and proper matching of obligations and disbursements.

**Functional Category:** Comptroller and/or Resource Management

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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:** Defense Business Operation Fund (DBOF) (97X4930), Other Procurement, Navy (17Y1810), Aircraft Procurement, Navy (17X1506), Operation and Maintenance, Marine Corps (O&MMC) (17X1106).

**Validation Process:** Management Control Review or Alternative Management Control Review during 1995.

**Results Indicators:** Navy activities could deobligate and reuse funds for other procurements, repairs or returned to funding sponsors.

Continue on next page

**Source(s) Identifying Weakness:** Naval Audit Service (NAVAUDSVC) Report 025-W-93, "Other Procurement, Navy Funds Obligated for the Navy Outfitting Program" of 23 March 1993. NAVAUDSVC Report 003-N-94, "Funds Obligated for Commercial Repair of Aviation Depot Level Repairables" of 15 October 1993. NAVAUDSVC Report 009-W-94, "Undelivered Orders at Navy Industrial Fund Ordnance Activities" of 12 November 1993. NAVAUDSVC Report 044-W-94, "Validation of Selected Obligations of Fiscal Year 1991 Aircraft Procurement, Navy Appropriation" of 19 May 1994. NAVAUDSVC Report 050-W-94, "Validity of Selected Unliquidated Operation and Maintenance, Marine Corps Obligations" of 17 June 1994.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| Completed           | Identify unliquidated obligations as a separate assessable unit or include it as part of an existing assessable unit.  |
| Completed           | Require training for fund administrators on procedures for properly recording, reviewing and reporting status of obligations incurred against authorized funds.  |
| Completed           | Establish requirements for quarterly obligation report of amounts adjusted due to unliquidated obligation validations.   |
| Completed           | Develop and implement comprehensive procedures for validating unliquidated obligations and deobligate unused funds.  |
| Completed           | Modify Navy policies and procedures to increase the scope of validation reviews performed by Navy activities to determine material status and cancel invalid obligations.  |
| Completed           | Establish and implement undelivered order validation procedures; update and review commitment records; process obligation and receipt documents to accounting records; and establish and comply with accrual procedures. |

Continue on next page

**Date:**

**Milestone:**

Completed

Request the customers to become involved with the reviews of outstanding obligations by verifying the continued need for the undelivered material.

**B. Planned Milestones (FY 1995):**

**Date:**

**Milestone:**

9/95

Issue guidance emphasizing fund administrators responsibilities to reduce unliquidated obligations.

**C. Planned Milestones (Beyond FY 1995):**

**Date:**

**Milestone:**

9/96

Verification: Review milestones to certify the effectiveness of all corrective actions.

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

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Improved Labor Estimates Can Reduce Shipyard Costs. Labor estimates for ship repairs are frequently overstated. These inflated estimates increase repair costs and create erroneous labor efficiency data. The problem occurs because shipyard planners do not always follow estimating policies, internal controls are not in place to ensure compliance, and labor standards are not always current to aid planners in preparing accurate estimates. Also, savings resulting from labor saving improvements often are not reflected in reduced benchmarks for efficiency measurements or in lower repair prices. This occurs because planners are not always aware of labor saving production processes or equipment.

**Functional Category:** Comptroller/Resource Management

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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:** All corrective actions will be certified by the responsible component (s) through audit follow-up processes and management reviews. Certification will commence upon completion of final corrective action.

**Results Indicators:** Accurate labor efficiency data is essential for managers to effectively measure labor performance and identify areas needing attention. Also, labor estimates are a key factor in determining prices charged to customers for ship repairs. Having access to correct data avoids unnecessary increases in costs to customers and decreases in shipyard workload.

**Source(s) Identifying Weaknesses:** GAO Report NSIAD-93-199, "Navy Maintenance: Improved Labor Estimates Can Reduce Shipyard Costs" of 22 July 1993.

Continue on next page

**Major Milestones in Corrective Action:**

**A. Completed Milestones: N/A**

**B. Planned Milestones (FY 1994):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 3/95                | Implement the new training program for shipyard planners.   |
| 3/95                | Incorporate an audit process to independently assess labor estimates for accuracy and compliance with estimating policies.                                  |
| 3/95                | Establish a labor standards improvement initiative to ensure that frequently performed repair tasks are covered by independently developed labor standards. |
| 3/95                | Establish a procedure to inform planners of all new production processes, methods, and equipment that improve work efficiency.                              |
| 9/95                | Verification: Perform management reviews to certify the effectiveness of all corrective actions.  |

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

**UNCORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Productivity Gain Sharing (PGS). Execution of PGS programs in the DON needs improvement. Weaknesses identified in the PGS program included: limited independent review and approval of final PGS award calculations to ensure adherence to approved financial constraints; insufficient guidance on productivity measurement requirements; and a lack of program effectiveness reviews to assess the approved programs.

DON suspended the PGS programs to allow time for the development of a comprehensive policy document which provides clear guidance and procedures for executing the program.

DOD actions impact on the extent to which DON PGS policy and guidance will need to be modified. DOD actions have not been finalized. Financial management policy issues referred to DOD included our concern about the extent to which current Defense Business Operating Fund (DBOF) accounting methods and systems can support the detailed measurements and accounting data needed to withstand financial audits. Current DOD policies do not address accounting methods and systems for PGS programs at non-DBOF and unit cost activities. Any proposed revisions and guidance are subject to review by the Defense Partnership Council.

**Functional Category:** Other - Productivity Improvement

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**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:** Various

**Validation Process:** Oversight will be through implementing policies and controls. Independent reviews and validation of program effectiveness and PGS award calculations will be required.

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**Results Indicators:** Sufficient guidance will enhance productivity measurement requirements, ensure proper PGS award calculations and program effectiveness reviews.

**Source(s) Identifying Weakness:** NAVAUDSVC Report No. 007-S-94, "Productivity Gain Sharing" of 16 November 1993.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| Completed           | Suspend the PGS programs to allow time for the development of a comprehensive policy document which provides clear guidance and procedures for executing the program. |
| Completed           | Require DON activities to follow DOD Accounting Manual and deduct extraordinary expenses from revenue in arriving at net operating results.                           |
| Completed           | Require appropriate Navy activities to disclose in financial statement footnotes that general and administrative expenses were understated.                           |

**B. Planned Milestones (FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 3/95                | Issue a revised DON PGS instruction subject to constraints imposed by DOD and the Nation Performance Review requirements and recommendations to include: requiring second echelon commanders to review and approve final PGS award calculations; use of unit cost to determine productivity measurement; requiring program effectiveness reviews periodically; and require Navy commands to implement controls governing PGS program compliance implementation and effectiveness. |
| 9/95                | Verification: Quality assurance reviews will be conducted to validate program effectiveness and PGS award calculations.   |

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

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

**Title and Description of Material Weakness:** Requirements Determination (OSD #93-061). 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:**

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

Continue on next page

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

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

**Current Target Date:** FY 1996

**Reason For Change in Date:** N/A

**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;
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;

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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.

11. NAVAUDSVC Report No. 038-C-94, "Acquisition of AN/ARC-182 and AN/ARC-210 Radios" of 20 March 1994;

12. NAVAUDSVC Report No. 001-C-94, "Floating Crane Requirements" of 12 October 1994;

13. NAVAUDSVC Report No. 025-N-94, "Portable High Pressure Calibrator Requirements for Trident Submarines" of 26 January 1994;

14. GAO NSID-93-151, "Better Controls Needed Over Planned Program Requirements" of 1 July 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.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 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:**

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

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

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| Completed           | Cancel the FY 1992 POM planned procurement of the EA-6B and consider options to eliminate the remainder of the planned buy. |

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**Date:****Milestone:**

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

**B. Planned Milestones (FY 1995):****Date:****Milestone:**

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

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**B. Planned Milestones for OSD Case #91-024 (FY 1995):**

**Date:**

**Milestone:**

9/95

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.

**C. Planned Milestones for OSD Case #91-024 (Beyond FY 1995):**

**Date:**

**Milestone:**

9/96

Obtain independent validation of aircraft requirements data when developing major acquisition baselines.

9/96

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**  
**FY93**

**Title and Description of Material Weakness:** Excess Material and Unrecorded Inventories (OSD #93-062). 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:

**OSD 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 that exceeds AFAO quantities is categorized for retention or as potential excess, depending on each item's weapon system

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application, essentialness, 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:** FY 1997

**Current Target Date:** FY 1997

**Reason For change in Date(s):** N/A

**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 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:**

| <u>Date:</u> | <u>Milestone:</u>  |
|--------------|--|
| Completed    | Establish internal controls for all non-DBOF (sponsor) material.   |
| 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.                           |

**Date:****Milestone:**

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.

Completed  
(3/94)

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

**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.

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.

**Date:**

**Milestone:**

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.

Completed

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

Completed  
(9/94)

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

Continue on next page

**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.

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.

Continue on next page

**Date:**

**Milestone:**

Completed

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.

Completed

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.

Completed

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

Completed

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.

Completed

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

Completed

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

Continue on next page

**B. Planned Milestones (FY 1995):**

**Date:**

**Milestone:**

3/95 (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.

3/95 (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.

**B. Planned Milestones for OSD Case #90-020 (FY 1995):**

**Date:**

**Milestone:**

3/95  
(3/94)

Perform quarterly reconciliation between financial & supply records.

3/95  
(9/94)

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

9/95  
(3/94)

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

**B. Planned Milestones for OSD Case #90-022 (FY 1995):**

**Date:**

**Milestone:**

9/95 (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.

Continue on next page

**C. Planned Milestones for OSD Case # 90-022 (Beyond FY 1995):**

**Date:**

**Milestone:**

9/96 (9/94)

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

**B. Planned Milestones for OSD Case #90-020 (FY 1995):**

**Date:**

**Milestone:**

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.

**B. Planned Milestones (FY 1995):**

**Date:**

**Milestone:**

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.

**C. Planned Milestones (Beyond FY 1995):**

**Date:**

**Milestone:**

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 PRIOR PERIOD**  
**FY93**

**Title and Description of Material Weakness:** Inadequate Operational Testing for the Acquisition of Systems and poorly defined program initiations (OSD #93-063). 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

**Pace 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:** 1997

**Current Target Date:** FY 1997

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

**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. 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.

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**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. GA/NSIAD 93-272 "Inadequate Testing Led to Faulty SLQ-32s on Ships" of August 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.

4. DODIG Report 94-014, "Low-Rate Initial Production in Major Defense Acquisition Programs" of 9 November 1993.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <u>Date:</u> | <u>Milestone:</u>   |
|--------------|---|
| Completed    | Correct system deficiencies detected during technical and operations evaluations consisting of software and hardware modifications. |
| Completed    | Modify acoustic software to correct system deficiencies observed during operational evaluation.                                     |
| Completed    | Conduct test to demonstrate capability in a realistic operational environment.  |
| Completed    | Postpone the procurement and installation of improvements for tactical system until OT&E is successfully completed.                 |

**Date:****Milestone:**

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.

Completed

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

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

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**Year Identified:** FY 1993

**Original Targeted Correction Date:** FY 1995

**Targeted Correction Date in Last Year's Report:** 1995

**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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| Completed           | Completed reviews of 175 of 575 cases which were not identified to a major claimant or activity. |
| Completed           | Complete reviews of 272 unassigned cases.  |

Continue on next page

**B. Planned Milestones (FY 1995):**

**Date:**

**Milestone:**

3/95

Complete reviews of remaining 128 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 PRIOR PERIOD**  
**FY93**

**Title and Description of Material Weakness:** Navy Enlisted Classification (NEC) Code Training (OSD #93-049). 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:** 1996

**Current Target Date:** FY 1995

**Reason for change in date:** Verification will be conducted earlier than previously reported.

**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:**

Continue on next page

**A. Completed Milestones:**

| <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.   |
| Completed<br>9/94 | 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. |
| Completed<br>3/94 | Require detailers to use NEC Manual, to determine qualifications for course assignments to NEC producing courses.   |
| Completed<br>9/94 | 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   |
| Completed<br>3/94 | Investigate interface problems between NITRAS and the personnel system including transmission errors not appearing on reject listings.  |
| Completed<br>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.   |

Continue on next page



**Date:**

Completed  
3/94

**Milestone:**

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

**B. Planned Milestones (FY 1995):**

**Date:**

9/95

**Milestone:**

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 PRIOR PERIOD**  
**FY93**

**Title and Description of Material Weakness:** Aviation Continuation Pay (ACP) bonus program (OSD #93-020). 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.

**Pace of Corrective Action:**

**Year Identified:** FY 1993

**Original Targeted Correction Date:** FY 1995

**Targeted Correction Date in Last Year's Report:** FY 1995

**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 1995):****Date:****Milestone:**

3/95

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

9/95

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 PRIOR PERIOD**  
**FY93**

**Title and Description of Material Weakness:** Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statements Accountability (OSD #93-021).

**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.

**Industrial Activities and Supply Activities:** Accounts Payable - Federal were not liquidated because of erroneous and untimely recording of payment information; insufficient or nonexistent supporting documentation; late posting of receipt of goods and services; and price or quantity variances\*\*.

\*FY 1993 reported material weakness still exists in FY 1994 and corrective actions continue. \*\*FY 1994 identified material weakness.

**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:** FY 1995

**Current Target Date:** FY 1995

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

**Component/Appropriation/Account Number:** 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 Office of the Comptroller of the Navy (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 DON.

**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. NAVAUDSVC Audit Report No. 053-H-94, "Fiscal Year 1993 Consolidating Financial Statements of the Department of the Navy DBOF", of 29 June 1994.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

**Date:**

**Milestone:**

Completed

Supply activities perform required quarterly supply and financial record reconciliations to ensure supply and financial record accuracy.

Continue on next page

**Date:****Milestone:**

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.

Completed (4/94)

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.

Completed (12/93)

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.

Completed (7/94)

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.

**B. Planned Milestones (FY 1995):****Date:****Milestone:**

3/95 (3/94)

Supply activity adjust SIT for invalid transactions reported by auditors and make adjustments to FY 1993 financial statements. Completed. \*Milestone remains open with only FY changing to 1995.

Continue on next page

**Date:**

**Milestone:**

3/95 (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.  
\*Milestone remains open with FY changing to 1995. FY 1994 footnote will include quantitative results of adjustments made as a result of this validation.

3/95 (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.  
\*Milestone remains open with FY changing to 1995. FY 1994 footnote will include quantitative results of adjustments made as a result of this validation.

3/95 (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.  
\*Milestone remains open with FY changing to 1995 except excess inventory will not be revalued on financial statements to the net realizable value until clarifying DOD guidance is distributed. FY 1994 footnote will include quantitative results of adjustments made as a result of this validation.

Continue on next page

**Date:**

**Milestone:**

3/95 (3/94)

Industrial activity management command validate accrual deficiencies identified by auditors and make adjustments to FY 1993 financial statements based on errors detected. \*Milestone remains open with FY changing to 1995 and now applies to more than one activity. FY 1994 footnote will include quantitative results of adjustments made as a result of this validation.

3/95\*

\*Industrial activities complete a plan to validate the balance of Accounts Payable, Non-Federal to determine the extent of invalid accruals and document the plan in the applicable footnote to the FY 1994 financial statements. The footnote will include quantitative results of adjustments made as a result of this validation.

3/95\*\*

\*\*Supply and Industrial activities complete a plan to periodically validate the balance of Accounts Payable, Federal to assure that only valid liabilities are recorded and reported and document the plan in the applicable footnote to the FY 1994 financial statements. The footnote will include quantitative results of adjustments made as a result of this validation.

9/95 (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.

\*FY 1993 reported material weakness still exists in FY 1994 and corrective actions continue.

Continue on next page



**Date:****Milestone:**

3/95

Supply Activity monitor and report on actions taken to develop and implement PX02 and PX04 to ensure corrections of systemic problems that cause invalid MIT and Progress Payments balances. New milestone based on current and prior audit reports.

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

\*\*FY 1994 identified material weakness.

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

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

**Title and Description of Material Weakness:** Unmatched Disbursements (OSD #93-022). 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:** FY 1995

**Current Target Date:** FY 1998

**Reason For Change in Date(s):** To accomplish the process action Team's report additional milestones and time are needed.

**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) (ASSTSECNAV FM) for the Secretary of the Navy. The ASSTSECNAV FM will meet periodically with the comptrollers and the Defense Finance Accounting Service (DFAS) to review progress of the project.

**Results Indicators:** A detailed Plan of Action and Milestones for reducing unmatched disbursements has been developed to track and measure progress. DFAS and the Navy will provide a monthly Unmatched Disbursements Progress Report to the Principal Deputy Assistant Secretary of the Navy (Financial Management).

**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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 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.  |
| Completed (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. |
| Completed<br>9/94   | Review and approve plans of the operating organizations to achieve the reductions and correct the process and system weaknesses.  |

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**Date:****Milestone:**

Completed  
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.

**B. Planned Milestones (FY 1995):****Date:****Milestone:**

Superseded  
3/94

Reduce existing unmatched disbursements by half.

--Achieved a 24% reduction in unmatched disbursements. Achieving this milestone is dependent on first completing the new milestones added in FY 1994. Process Action Team recommended establishing criteria and setting clearance priorities for reducing unmatched disbursements, therefore resulting in additional milestones.

3/95

Advise DFAS of clearance priorities for reducing the backlog of unmatched disbursements using age and type of transaction criteria developed during FY 1994.\*

3/95

Support DFAS in reducing the number of unmatched disbursements. Provide unmatched disbursements clearance priorities to the Navy management commands with definitive guidance on their role in support of DFAS-CL and DFAS-CO.

**C. Planned Milestones (Beyond FY 1995):****Date:****Milestone:**

9/97

Support DFAS to facilitate process and system changes to reduce the inflow of unmatched disbursements.\*

9/98

Verification: 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.

\*New milestones added to weakness in FY 1994.

**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 1996

**Current Target Date:** FY 1996

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

**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.

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## **Major Milestones in Corrective Action:**

### **A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| Completed<br>9/92   | Ensure that SELRES manpower requirements is an assessable unit.  |
| Completed<br>6/93   | Revalidate the responsible Functional Sponsor for each Functional Category.  |
| Completed<br>7/93   | Revalidate all Navy Manpower Mobilization System (NAMMOS) Functional Categories (FUNCATs) for applicability under the new planning guidance.   |
| Completed<br>9/93   | Revise SECNAV Instruction on Navy Total Force Manpower Policies and Procedures.  |
| Completed<br>4/94   | Revise the Navy Manpower Mobilization System (NAMMOS) Users Manual.  |
| Completed<br>8/94   | 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. |
| Completed<br>9/94   | Write and issue a SECNAV Instruction on Naval Reserve Policy.  |

### **B. Planned Milestones (FY 1995):**

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

Continue on next page

**Date:**

**Milestone:**

3/95

Identify any cost savings/increases resulting from the revalidation/identification of alternate resourcing of SELRES requirements under the new guidance.

**C. Planned Milestones (Beyond FY 1995):**

9/96

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 1996

**Reason for Change in Date(s):** Corrected verification date.

**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.

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**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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 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:**

Completed

Establish a database to track sexual harassment and assault.

Completed

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

**B. Planned Milestones (FY 1995): N/A**

**C. Planned Milestones (Beyond FY 1995):**

**Date:**

**Milestones:**

3/96

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)

**Pace of Corrective Action:**

**Year Identified:** FY 1992

**Original Targeted Correction Date:** FY 1993

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

Continue on next page

**Current Target Date:** FY 1996

**Reason For Change in Date:** Revision in schedule to implement standardized BQ Reservation System. Delay from 2nd quarter FY 94 until 2nd quarter FY 95 was due to need to further refine prototype system. Validation now occurs in FY 1996.

**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 1995.

**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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| 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.

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.

**B. Planned Milestones (FY 1995):****Date:****Milestone:**

Revised  
3/95

Implement standardized BOQ reservation system.

Continue on next page

**Date:**

**Milestone:**

Reopened  
9/95

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

**C. Planned Milestones (Beyond FY 1995):**

**Date:**

**Milestone:**

9/96  
(9/94)

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

Due to delay in above milestones.

**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 1995

**Current Target Date:** FY 1995

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

**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:**

**Milestone:**

Completed

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

Completed

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

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**B. Planned Milestones (FY 1995):**

**Date:**

**Milestone:**

|      |  |
|------|--|
| 3/95 | Conduct and document programmatic environmental analyses (PEA) and initiate, if needed, supporting NEPA documentation for the V-22 and JSOW programs.  |
| 3/95 | 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. |
| 3/95 | Coordinate proposed changes for incorporation.   |
| 3/95 | Issue change to SECNAVINST 5000.2A and monitor compliance through established acquisition program review.  |
| 9/95 | 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 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 1995

**Reason For Change in Date:** Milestones due for completion in FY 1996 were superseded due to ban on production of halons.

**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

Continue on next page

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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| 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.   |

**B. Planned Milestones (FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| 3/95<br>(3/94)      | Issue revised SECNAVINST 5090.5, "Management and Elimination of Ozone Depleting Substances." |

**C. Planned Milestones Beyond FY 1995:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| *Superseded<br>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."

\*Superseded  
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.

\* The above milestones are superseded by the following statement:

" The Montreal Protocol bans production of Halons after 1 Jan 94 therefore, the Navy, nor anyone else can purchase what is not produced."

9/95

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 1994

**Current Target Date:** FY 1995

**Reason for Change in Date(s):** New corrective action. Guidance being prepared to track permanent submittals and due dates and to designate responsible official to review state and local laws.

**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 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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| Completed           | Update implementing guidance Second Half, FY 1993 to reflect recent regulatory requirements enacted by the Environmental Protection Agency. |
| Completed           | Assess the progress on implementing a Navy-wide training plan for environmental awareness.  |
| Completed           | Revise implementing guidance to more comprehensively address the budget cycle and its aspects as it relates to environmental compliance.    |

**B. Planned Milestones (FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| 9/95<br>(3/94)      | Finalize a schedule for conducting necessary activity Clean Air Act inventories.   |
| 9/95<br>(3/94)      | Verify implementation of a state tracking system.  |
| 9/95<br>(3/94)      | 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 1996

**Reason for Change in Date:** All the corrective actions have been completed, however it is too early to determine the results. Benchmark Environmental Compliance Evaluations (ECEs) of all Marine Corps installation are scheduled during FY 1996 - FY 1997 time frame. These ECEs will identify Marine Corps compliance status with regard to federal, state, and local regulations as well as the DON and Marine Corps policies. Results of these ECEs will be compared to the Baseline ECEs conducted during FY 1992 to evaluate the impacts of the corrective actions.

**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.

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**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-92, "Hazardous Waste-Marine Corps" of 21 July 1992; and Management Control Reviews.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 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 (FY 1995): N/A**

**C. Planned Milestones (Beyond FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>                                 |
|---------------------|--|
| 9/96                | Verification: Will be accomplished by an on site review. |

**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 1994

**Current Target Date:** FY 1995

**Reason For Change in Date:** Verification milestone revised.

**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.

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**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b>      | <b><u>Milestone:</u></b>  |
|--------------------------|---|
| Completed<br>15 May 1990 | Terminate the Container Handler All Purpose program.  |
| Completed<br>15 May 1990 | Review and approve all changes to Fleet Marine Force Intermediate Size Container requirements.  |
| Completed<br>15 May 1990 | Delete insert and rack completed acquisitions for 332 quadruple containers.   |
| Completed<br>23 Oct 1990 | Cancel the product improvement program for Intermediate Size Containers.  |
| Completed<br>4 Apr 1991  | Conduct a mission area analysis of container handling requirements.   |
| Completed<br>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<br>30 Aug 1991 | Reduce Intermediate Size Container requirements.  |
| Completed<br>9/93        | Determine the feasibility of increasing the off load time for Assault Echelon supplies.   |
| Completed<br>9/93        | Perform mission analysis for forklift requirements for the Fleet Marine Force.  |
| Completed<br>9/93        | Review and revalidate forklift requirements for artillery units.  |
| Completed<br>3/93        | 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 Milestones (FY 1995):**

3/95

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:** 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 1994

**Current Target Date:** FY 1996

**Reason For Change in Date:** Unexpected delays in coordination of Family Advocacy Program Instruction and promulgation of new DOD guidance on Family Advocacy Standards.

**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 96.

**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 policies 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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| Completed           | Identify data elements and develop a management information report which will allow Family Centers to reflect actual Center workloads accurately. |
| Completed<br>(9/94) | Conduct quality of life surveys on regular basis, conduct trend analysis, and furnish them to the appropriate command personnel.                  |

**B. Planned Milestones (FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>  |
|---------------------|---|
| 3/95<br>(9/94)      | Review Family Advocacy Program (FAP) policies and implementation to improve community awareness, controls, training, emphasis, oversight, and assignment of responsibilities. |

**C. Planned Milestones (Beyond FY 1995):**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| 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**  
**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 1994

**Current Target Date:** FY 1995

**Reason For Change in Date:** Revised verification milestone.

**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 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.  |
| Completed    | Complete a physical inventory of all sonobuoys and provide full visibility of assets in the Conventional Ammunition Integrated Management System (CAIMS). |

**B. Planned Milestones (FY 1995):**

|                |   |
|----------------|---|
| 3/95<br>(3/94) | Verification: Conduct management reviews and monitor the Conventional Ammunition Integrated Management System to certify the effectiveness of all corrective actions. |
|----------------|---|

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



**CORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Procurement through the Tennessee Valley Authority (TVA) Technology Brokering Program. The DON issued Economy Act orders and project orders to the TVA Brokering Program that circumvented the requirements of the Federal procurement process. Transferring Economy Act orders to the TVA Technology Brokering Program permitted DON program officials to obtain supplies and services non competitively, without justifying the use of other than full and open competition, as required by the Federal Acquisition Regulation and Defense Federal Acquisition Regulation. In addition, the DON did not provide for adequate contract administration and contract audits for the work performed under TVA Technology Brokering Program Cooperative agreements.

The Department of Defense (DOD) and the other service components share part of the responsibility for correcting this issue. Only DON's share of the responsibilities is identified in the milestones of this material weakness.

**Functional Category:** Contract Administration

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**Original Targeted Correction Date:** FY 1994

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

**Current Target Date:** FY 1994

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

**Component/Appropriation/Account Number:** Operations & Maintenance, Navy (17X1804)

**Validation Process:** Management Review or Alternate Verification Review During FY 1996.

**Results Indicators:** Lucid DOD guidance will provide the needed instruction on the use and completion of memorandums of agreement for interagency support. This guidance will help DON distinguish between the proper use of contracts, cooperative agreements, and grants by the Government agency providing the support.

Continue on next page

TAB C-3

**Source(s) Identifying Weakness:** DODIG Report 94-008, "DOD Procurements Through the Tennessee Valley Authority Technology Brokering Program" of 20 October 1993.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| Completed           | Stop issuing Economy Act orders to the Tennessee Valley Authority pending revised DOD guidance.  |
| Completed           | Request TVA to provide a list of active orders and request the Defense Contract Audit Agency to perform close-out audits of all orders under their cognizance which are of a size or complexity warranting it. |
| Completed           | Request TVA to notify the appropriate Navy office prior to accepting any additional orders until suitable guidance is in place.  |
| Completed           | Negotiate payment terms with TVA to govern all Navy transactions similar to those utilized by other government agencies for interagency acquisitions.  |

-TVA now utilizes payment terms similar to those of other agencies.

|           |  |
|-----------|--|
| Completed | Require contracting officers and legal personnel to review all interagency agreements and Economy Act orders to identify amendments needed to clarify contract administration and contract audit responsibilities. |
|-----------|--|

- SECDEF assigned the responsibility to make policy in this area to Under Secretary of Defense for Acquisition and Technology (USD(A&T)). The contracting officer's role is now limited to providing advice if requested.

Continue on next page

**Date:**

Completed

**Milestone:**

Verification: Due to the nature of the completed corrective actions further review of the adequacy of these actions is not necessary. Currently there are no active Navy orders with TVA. USD(A&T) will address policy issues in DODI 4000.19.

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

**CORRECTED MATERIAL WEAKNESS**  
**IDENTIFIED DURING THE PERIOD**  
**FY94**

**Title and Description of Material Weakness:** Formal Cost of Operational Effectiveness Analyses (COEA) Lacking. Lack of COEA allowed program acquisition decisions to be rendered without an important decision tool. COEA evaluates the costs and benefits, i.e., the operational effectiveness or military utility, of alternative courses of action to meet recognized needs. The COEA analyzes the comparative cost effectiveness of alternatives prior to concept, development, and production approvals (Milestones I - III). The 5000 series DOD instructions initiated the formal requirement to conduct a COEA. SECNAV instruction 5000.2 dated December 1992 implemented this requirement into the DON, but allowed those programs which had already reached Milestone II to continue without a formal COEA. While there is no evidence that poor program decisions were made due solely to an informal COEA, it places additional unknown variables into an already complex decision making environment.

**Functional Category:** Major Systems Acquisition

**Pace of Corrective Action:**

**Year Identified:** FY 1994

**Original Targeted Correction Date:** FY 1994

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

**Current Target Date:** FY 1994

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

**Component/Appropriation/Account Number:** O&M,N (17X1804), RDT&E,N (17X1319), WPN (17X1507), OPN (17X1810), APN (17X1506).

**Validation Process:** Navy Program Decision Meeting (NPDM) and Pre-Defense Acquisition Board (Pre-DAB) briefs.

**Results Indicators:** During NPDMs and Pre-DAB briefs a cost analysis of the program is presented. This analysis takes the form of a COEA as each program briefs the Assistant Secretary of the Navy for Research, Development, and Acquisition (ASN(RD&A)) seeking approval to proceed to the next milestone. With the personal attention of the ASN(RD&A) there is minimal risk that any program milestone decisions will be made without a COEA.

Continue on next page

**Source(s) Identifying Weakness:** DODIG Report No. 94-019, "The DDG-51 Destroyer Program as Part of the Defense Acquisition Board Review Process--FY 1993" of 10 December 1993. DODIG Report No. 94-116, "Milestone Review Process for the Consolidated Automated Support System" of 2 June 1994. NAVAUDSVC Report No. 054-N-93, "E-2C Hawkeye Block Upgrade II Program" of 30 June 1993.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

**Date:**

**Milestone:**

Completed

Programs reviewed, without a formal COEA, provided no evidence of poor program decisions.

Completed

Verification: Subsequent programs that have been brought to the ASN(RD&A) for a milestone decision have included a COEA as part of the briefing package.

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

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

**Title and Description of Material Weakness:** Copyrighted Computer Software (#OSD 93-013). 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 of management emphasis on compliance with licensing agreements.

**Functional Category:** Information Technology

**Pace of Corrective Action:**

**Year Identified:** FY 1993

**Original Targeted Correction Date:** FY 1995

**Targeted Correction Date in Last Year's Report:** FY 1995

**Current Target Date:** FY 1994

**Reason For Change in Date(s):** Milestones completed earlier than previously reported.

**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:**

Continue on next page

**A. Completed Milestones:**

**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.  |
| Completed | Distribute Guidebook on managing copyrighted computer software DON-wide.  |
| Completed | 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.

**CORRECTED 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)

**Pace 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:** N/A

**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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| Completed           | Direct activities to disapprove all RATSSEP not adequately supported.  |
| Completed           | Complete a review of controls over cash in Food Operations. Implement appropriate internal control procedures.   |
| Completed<br>(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. |
| Completed<br>(3/93) | Emphasize the requirement for a regional coordinator to preclude inconsistent local BAS policies.  |
| Completed<br>(8/94) | Verification: Perform management reviews to certify the effectiveness of all corrective actions.   |

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

**CORRECTED 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.

Department of Defense (DOD) shares a major part of the responsibility for correcting this issue. Specific DOD responsibilities are not identified in this material weakness.

**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 1995

**Current Target Date:** FY 1994

**Reason for Change in Date:** Milestone superseded by DOD action.

**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. DODIG Report No. 94-020, "Environmental Consequence Analyses of Major Defense Acquisition Program" of 20 December 1993. GAO Report No. NSIAD - 94-22, "Environmental Compliance: Guidance Needed in Programming Defense Construction Projects" of 26 November 1993.

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

**Date:**

**Milestone:**

Completed

Initiate quarterly DON Compliance reviews.

Completed

Sign six Federal Facilities Agreements

**B. Planned Milestone (FY 1995):**

**Date:**

**Milestone:**

Superseded  
3/95

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

--All environmental, safety, and health instructions will be written at the DOD level, therefore milestone is superseded by events and DOD policy; no service instructions will be issued. OSD is now working on a DOD Directive.

Complete  
9/94

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.

**CORRECTED 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

**Current Target Date:** FY 1994

**Reason For Change in Date:** N/A

**Validation Process:** The oversight/validation of the Navy Metrology and Calibration (METCAL) Program is accomplished through the following (1) The Test and Monitoring Systems (TAMS) Executive Board (with representatives from NAVSEA, NAVAIR, SPAWAR, DIRSSP and METCAL Program; (2) program reviews by the aforementioned Systems Commands of their specific TAMS/METCAL programs; and (3) reviews by the Fleet of their specific TAMS/METCAL programs.

**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.

Continue on next page

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

**Major Milestones in Corrective Action:**

**A. Completed Milestones:**

| <b><u>Date:</u></b>      | <b><u>Milestone:</u></b>  |
|--------------------------|---|
| Completed<br>25 Sep 1990 | Direct all commands to perform a management control review on the METCAL Program.   |
| Completed<br>19 Jan 93   | Include all calibration equipment into the automated interval analysis system.  |
| Completed<br>10 Sep 92   | Revise "The MEASURE Users Manual" to provide guidance for documenting the procedures and test equipment used for calibrating. |
| Completed<br>26 Oct 92   | Establish procedures to review equipment requirements periodically to identify excesses and deficiencies.                     |
| Completed<br>26 Oct 92   | Direct equipment custodians to report equipment that is excess to their immediate requirements.                               |
| Completed<br>3/94        | Verification: Conduct Internal Management Review.   |

The TAMS Executive Board meets monthly to review major issues of the Navy TAMS and METCAL program, therefore verification is ongoing. NAVSEA, NAVAIR, SPAWAR and DIRSSP perform periodic program reviews of their TAMS/METCAL programs. NAVSEA, NAVAIR, SPAWAR and DIRSSP have included the METCAL program within their Command Management Control Review program. Periodic program reviews are conducted regarding TAMS and METCAL as required.

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

**CORRECTED 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

**Current Target Date:** FY 1994

**Reason for Change in Date:** N/A

**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:**

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

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

**CORRECTED 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 1994

Continue on next page



**Current Target Date:** FY 1994

**Reason for Change in Date:** N/A

**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.

Continue on next page

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:**

| <b><u>Date:</u></b> | <b><u>Milestone:</u></b>   |
|---------------------|--|
| 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.  |
| Completed | Consolidate locations of similar items at the warehouses and correct location codes.  |

Continue on next page

**Date:****Milestone:**

|           |  |
|-----------|--|
| 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. |
| 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.   |

Continue on next page

**Date:****Milestone:**

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.

Completed  
9/94

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

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

**CORRECTED 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)

**Pace 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:** N/A

**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:**

Continue on next page

**A. Planned Milestones (FY 1993):**

**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.

Completed

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

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

**ANNUAL REPORT ON NAVY OPERATING ACCOUNTING  
SYSTEMS FOR FISCAL YEAR 1994**

Pursuant to Section 4 of the Federal Managers' Financial Integrity Act of 1982, the Department of the Navy has reviewed its primary and administrative accounting systems as defined by the General Accounting Office (GAO), during the fiscal year ending September 30, 1994. 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 28 operating accounting systems all of which are Legacy Systems. The 28 systems were identified as "Legacy" by DFAS because they are not adequate to be standard or interim migratory systems due to poor design or performance; inadequate capability and support; or nonconformance with policy, regulatory or statutory requirements. In addition, Legacy Systems are not in compliance with the integration, accounting classification codes and general ledger requirements of Revised OMB Circular A-127.

**TAB D**



**DEPARTMENT OF THE NAVY  
ANNUAL INVENTORY OF OPERATING  
ACCOUNTING SYSTEMS  
FISCAL YEAR 1994**

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

None

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

| <u>System Name<br/>(Acronym)</u>  | <u>Planned Date to be<br/>Brought into Compliance<br/>(Footnote)</u> |
|---|--|
| <b>GENERAL FUND ACCOUNTING SYSTEMS</b>  |  |
| N063 Authorization Accounting Activity<br>- Resource Management System (AAA-RMS ROTA) | FY 1997  |
| N071 Military Personnel, Navy, Financial<br>Management System (MPN-FMS)               | FY 1995  |
| N072 Permanent Change of Station Reservation/Obligation Database<br>(PRODS)           |  |
| NR25 Reserve Financial Management System (RESFMS)                                     |  |
| <b>TRUST FUND ACCOUNTING SYSTEMS</b>  |  |
| N044 USNA Trust Funds Accounting Systems  |  |
| <b>CIVILIAN PAY SYSTEMS</b>   |  |
| N098 Naval Activities, United Kingdom,<br>London (CIVPAY)                             | FY 1997  |
| N101 Naval Medical Research Unit, Cairo,<br>Egypt (CIVPAY)                            | FY 1997  |
| N102 U.S. Naval Facility, Argentia,<br>Newfoundland (CIVPAY)                          | FY 1997  |
| N103 U.S. Naval Office, Singapore (CIVPAY)  | FY 1997  |
| N104 U.S. Naval Station, Rodman,<br>Panama Canal Zone (CIVPAY)                        | FY 1997  |

| <u>System Name</u><br><u>(Acronym)</u>   | <u>Planned Date to be</u><br><u>Brought into Compliance</u><br><u>(Footnote)</u> |
|--|--|
| NR44 Naval Station Rota Spanish<br>Civilian Payroll System<br>(CIVPAY) (FNDH) (CIVPAY-ROTA)              | FY 1997  |
| NR45 Personnel Support Detachment,<br>Keflavik (CIVPAY) (FNDH)<br>(CIVPAY-KEFLAVI)                       | FY 1997  |
| NR46 Naval Support Activity Naples<br>Italian Civilian Payroll System<br>(CIVPAY) (FNDH) (CIVPAY-NAPLES) | FY 1997  |
| NR47 Naval Air Station Sigonella Italian<br>Civilian Payroll System (CIVPAY) (FNDH)<br>(CIVPAY-SIGONEL)  | FY 1997  |
| NR48 U.S. Naval Station, Rodman,<br>Panama Canal Zone (CIVPAY) (FNDH)<br>(CIVPAY-RODMAN)                 | FY 1997  |
| NR49 Naval Activity, United Kingdom,<br>London (CIVPAY) (FNDH)<br>(CIVPAY-LONDON)                        | FY 1997  |
| NR51 Naval Medical Research Unit, Cairo,<br>Egypt (CIVPAY) (FNDH) (CIVPAY-CAIRO)                         | FY 1997  |
| NR52 U.S. Naval Facility, Argentia,<br>Newfoundland (CIVPAY) (FNDH) (CIVPAY-ARGENT)                      | FY 1997  |
| NR53 Personnel Support Detachment, Bermuda<br>(CIVPAY) (FNDH) (CIVPAY-BERMUDA)                           | FY 1997  |
| NR54 U.S. Navy Office, Singapore<br>(CIVPAY) (FNDH) (CIVPAY-SINGAPO)                                     | FY 1997  |
| NR56 U.S. Naval Purchasing Department,<br>Hong Kong (CIVPAY) (FNDH) (CIVPAY-HONGKON)                     | FY 1997  |

### C. OPERATING ACCOUNTING SYSTEMS WITHOUT COMPLETED SM/UR

The system managers, or primary users, of the following systems did not complete a System Manager/User Review guide for this fiscal year. As a result the systems do not have a system manager compliancy rating. Due to the lack of a complete review, we consider them to be non-compliant.

#### System Name (Acronym)

#### GENERAL FUND ACCOUNTING SYSTEMS

- N001 Navy Headquarters Financial System (NHFS)

#### DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING SYSTEMS

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

#### FOREIGN MILITARY SALES SYSTEMS

- N046 Student Training Analysis & Tracking Information System (STATIS)

#### CIVILIAN PAYROLL SYSTEMS

- N099 Commander, Fleet Activities, Okinawa (CIVPAY)
- NR55 Naval Support Force, New Zealand (CIVPAY) (FNDH)

#### NONAPPROPRIATED FUND ACCOUNTING SYSTEMS

- NR59 Navy Base Level Accounting System (BLAS)
- NR60 Navy Recreation & Mess Central Accounting System (RAMCAS)

### D. ACCOUNTING SYSTEMS THAT WERE NOT REVIEWED

The following systems were not reviewed by DFAS-CL based on the reasons cited in the footnotes.

#### System Name (Acronym)

#### GENERAL FUND ACCOUNTING SYSTEMS

- N004 Responsible Office Automated Resource System <sup>1</sup>

#### DEFENSE BUSINESS OPERATIONS FUND ACCOUNTING SYSTEMS

- N014 NAVSUP Resale Operations Management System <sup>2</sup>

**Footnotes**

<sup>1</sup> SM/UR not required since Consolidated System Evaluation (CSE) conducted by DFAS-HQ/PA Richmond Detachment in June 1994

<sup>2</sup> SM/UR not applicable based on System Manager determination that system is not an accounting system.

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

**PART I**  
**SUMMARY TABLE - CONTENTS OF MATERIAL NONCONFORMANCES**

| Name of System/<br>Title(s) of<br><u>Nonconformance(s) Page</u>                   | <u>First<br/>Reported</u> | Target for<br>Correction in<br>last year's<br><u>FMFIA Report</u> | Year<br>Current<br>Target for<br><u>Correction</u> |
|---|---------------------------|---|--|
| N071 Military Personnel,<br><br>Navy, Financial<br>Management System<br>(MPN-FMS) |                           |   |  |
| KAR 10 System<br>Documentation  | FY 1993                   | FY 1994   | FY 1995  |

**PART II**  
**DESCRIPTION OF PENDING MATERIAL NONCONFORMANCES**

Name of System: Military Personnel, Navy, Financial Management System (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 Fund 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: FY 1994

Current Target Date: FY 1995

Reason for Change in Date(s): Program delays in switching data between systems.

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

## Critical Milestones

|   | Completion Date      |                     | <u>Actual</u> |
|---|----------------------|---------------------|---------------|
|   | <u>Original Plan</u> | <u>Current Plan</u> |               |
| A. Completed actions/events                             |                      |                     |               |
| Convert FISCAL to AAS                                   |                      | Jan 1994            |               |
| B. Planned actions/events (short term - next 12 months) |                      |                     |               |
| Complete merging of                                     |                      | Oct 1995            |               |
| modules with other systems                              |                      |                     |               |
| C. Planned actions/events (longer term)                 |                      |                     |               |

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

**PART III**  
**DESCRIPTION OF MATERIAL NONCONFORMANCE CORRECTED**  
**IN THE CURRENT REPORTING PERIOD**

Name of System: None

Name of Responsible Manager:

Title of Material Nonconformance(s):

Bureau/Appropriation/Account Number:

Year Identified:

Corrective Actions Taken:

Validation Process Used:

Results of Validation Actions Taken: