

DEPARTMENT OF DEFENSE



**ANNUAL
STATEMENT
OF ASSURANCE**

VOLUME I

FOR FISCAL YEAR 1998

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Introduction and Executive Summary

The Department of Defense (DoD) Annual Statement of Assurance is provided in two volumes. Volume I provides a synopsis of the most significant internal management control problems (DoD systemic control deficiencies) and the corrective measures underway to resolve those deficiencies. Volume II provides a detailed analysis of specific DoD Component internal management control weaknesses which have no clear correlation to the systemic weaknesses. However, DoD Component weaknesses are considered significant by the management of the DoD Component reporting them.

This year, for the first time, the requirements of Section 4 of the FMFIA, are satisfied in the Department of Defense Biennial Financial Management Improvement Plan, dated September 1998. The National Defense Authorization Act of 1998 directed DoD to create the Plan. The Concept of Operations contained in the plan will be used to guide the evolution of DoD's financial management policies, systems, functions, and improvement initiatives. The Plan is required to address financial management within DoD, including feeder systems not owned or controlled by the financial community that provide data to the Department's finance and accounting systems. Since the Plan addresses almost all aspects of DoD's financial management operations, it covers many of the financial reporting requirements specified in other regulatory legislation. The Plan is structured as a single integrated plan that incorporates these other regulatory reporting requirements. As a result, the information contained in the Plan also satisfies the requirements of Section IV of the Federal Managers' Financial Integrity Act of 1982. The Plan is available at www.dtic.mil/comptroller on the world wide web.

As noted in the table of contents, eight systemic weaknesses have been identified in the Department of Defense. Although these weaknesses closely parallel those reported in past DoD Annual Statements of Assurance, modifications have been made to their content and some of the milestones associated with the weaknesses. The systemic weaknesses are:

1. Financial Accounting Process and Systems
2. Unreliable Financial Reporting of Personal and Real Property
3. Total Asset Visibility
4. Acquisition Process and Systems
5. Management of Unexploded Ordnance
6. Information Assurance
7. Year 2000 Computer Problem
8. Third Party Collection Program

The overall effectiveness of the Department and its ability to provide assurances that it is able to achieve its mission objectives, currently and in the long-run, are the focus of Volume I. It provides an overview of the systemic concerns of the senior management of the Department of Defense and it also reflects concerns raised in Federal government arenas outside the Department of Defense. Furthermore, Volume I provides a summary of the fundamental logic being employed to resolve these problems and to provide assurance that DoD internal controls adequately support the accomplishment of mission objectives.

DoD Statement of Reasonable Assurance

As required by the Federal Managers' Financial Integrity Act (FMFIA), this statement of assurance, in its entirety, addresses the management controls and financial systems of the Department and makes disclosures required by the Act. With the exception of the disclosed weaknesses, DoD has reasonable assurance about the effectiveness of its internal controls to assure its ability to fulfill its policy and mission responsibilities.

This conclusion is predicated on findings from evaluations conducted as part of DoD implementation of the Federal Managers' Financial Integrity Act (the DoD Management Control Program) and management's assessment of other information pertaining to the effectiveness of management controls. Although this Annual Statement of Assurance reports deficiencies in some management controls, the control deficiencies are not of sufficient materiality to endanger the Department's ability to accomplish its national security responsibilities.

The methods and procedures in place serve as reasonable stewards and effective safeguards of the Department's resources. The Department's controls, where deficient, are offset by other effective controls and reliable procedures that assure the Department's ability to field forces and provide an appropriate response to actions which are adverse to the safety and security of the United States, as directed by the President of the United States.

This statement continues to reflect the February 12, 1994 guidance issued by the Secretary of Defense which initiated activity assuring the participation of the most senior managers of the Department in the identification and resolution of DoD-wide systemic control problems. Based on the Secretary's directions, both the Deputy Secretary of Defense and the Under Secretary of Defense (Comptroller) defined the responsibilities of managers for this initiative. The systemic control deficiencies identified in Volume I of this Annual Statement, and actions outlined to resolve those deficiencies, reflect the Department's commitment to address and resolve these problems. Volume I disclosures also reflect accomplishments to date.

Accounting and Finance Processes and Systems

Statement of the Problem: Financial information in the Department of Defense is not always compiled and adequately maintained within accounting, finance, and other feeder systems, is not fully compliant with regulatory and statutory requirements, and overall cannot be processed into financial statements that can withstand the rigors of financial audit. In turn, the financial information and resulting financial statements do not always adequately support the management functions of budget formulation, budget execution, proprietary accounting, and financial reporting with a high degree of reliability and confidence.

Source of Identification: DoD financial managers, General Accounting Office reports, DoD Inspector General reports, and DoD Component audit organization reports.

Potential Impact of the Problem: The Department's accounting, finance, and feeder systems do not fully comply with federal financial management systems requirements, including accounting standards, or with internal management control objectives. As a result, the financial information maintained by the systems is not always reliable. The compilation of accurate financial statements is impeded, in part, by the inadequate systems and lack of reliable information.

The Department's existing accounting, finance, and feeder systems respond slowly to new or changing functional requirements that are generated by operational needs or imposed by legislative and/or regulatory actions. Adding to the delays in upgrading systems is the complex array of separate systems or subsystems that operate within specific organizational entities or functional areas, but do not always interface with one another. Consequently, the latest technological innovations are not readily incorporated within these various systems. Data common to, or required by, more than one system is not exchanged among the systems in a timely, effective or efficient manner. In essence the systems continue to operate in a stand-alone mode rather than in an integrated environment. This lack of effective and efficient interface/integration contributes to, among other manifestations, unmatched disbursements. In some cases, managers may not have access to specific financial information when needed and, if available, the information is not in a format useful for decision making purposes. Thus, it is generally perceived that the most effective use of the Department's resources has been inhibited by the major system impediments.

Some of the broad categories of systemic problems include: deficient financial property records; inadequate control and management accountability of government-furnished property; incorrect valuation of inventory; unreliable and unverifiable financial information; inaccurate and/or incomplete cost accounting; improper reporting of the results of financial operations; and lack of systems integration. In addition, many of the systems are not Year 2000 compliant and must be reprogrammed to avoid producing miscalculations. Furthermore, inadequate controls and undocumented audit trails have contributed to unreliable financial data and exacerbated significant procedural and systemic deficiencies.

Possible Solutions: The Department has undertaken numerous initiatives directed at improving its financial management activities. A significant action was the establishment of a single DoD finance and accounting organization--the Defense Finance and Accounting Service (DFAS)--in 1991. The primary mission of DFAS is to implement standard accounting policies, procedures and systems throughout the Department and provide timely and accurate reporting, analysis and advice to internal and external customers. To accomplish this, the DFAS has consolidated its finance and accounting operations. Also, DFAS is eliminating many systems by consolidating finance and accounting functions to a select set of migration systems. Identified migration systems are being enhanced to: (1) comply with statutory and regulatory financial management systems requirements and (2) employ technology improvements that use standard data and logically integrated or interfaced databases. Systems integration/interface is expected to be achieved through implementing a central database that provides the capability to store and share standard data across functional communities within the Department. The goal is to develop a single integrated financial management process that produces reliable financial information for all levels of internal management and for external users, as well as support the preparation of auditable financial statements.

Additionally, business practices are being reengineered to reflect simplified, standardized and improved financial management regulations and procedures. The use of technologies such as electronic commerce, electronic data interchange and electronic funds transfer are expected to drive significant business process improvements.

The Department developed, for the first time, a Biennial Financial Management Improvement Plan that is a strategic financial improvement plan that includes the Department's financial management concept of operations and addresses both its financial systems and program feeder systems that originate and provide the majority of the financial source data. The Plan provides the guidance needed to ensure organizations conform to the requirements necessary to achieve compliant, auditable financial data, while allowing them the flexibility to implement processes and systems essential for their individual operations. It also provides a framework with the flexibility to adapt to new federal accounting standards and take advantage of changing technology. The concept of operations, included in the Plan, identifies the roles and responsibilities that financial managers, operational commanders, and program managers must have in financial management and describes the supporting infrastructure that is needed.

Major Milestones in Corrective Actions: (C = Completed)

Date:	Milestone:
C	Designate the DFAS as the single project office responsible for the Department's finance and accounting operations, financial management systems development and implementation.
C	Determine the overall concept of systems architecture for migration systems.
C	Determine and obtain Chief Financial Officer approval of significant financial functional requirements.

- C Standardize accounting classification coding structure and data element definitions.
- C Select migratory/interim migratory finance and accounting systems.
- C Develop an inventory of systems impacted by the Year 2000 problem and prepare a plan to implement the Year 2000 changes.
- C Reduce outstanding balance of unmatched disbursements and negative unliquidated obligations, reported as of June 1993, by 50 percent.
- C Establish senior management governing bodies to monitor operations and identify solutions for resolving financial management weaknesses and deficiencies.
- C Improve the Federal Managers' Financial Integrity Act process.
- C Develop and approve systems implementation schedule.
- C Reduce, clarify and reissue published policies and procedures through publication of all volumes of the "DoD Financial Management Regulation."
- C Publish Guide to Federal Requirements for Financial Management Systems.
- C Complete consolidation of the Department's accounting and finance sites into 5 Centers and no more than 19 standardized Operating Locations.
- Continuous Reengineer DoD finance and accounting processes.
- Continuous Resolve unmatched disbursements and negative unliquidated obligations over 180 days old.

Planned Milestones (FY 1999):

Date:	Milestone:
12/98	Complete the Year 2000 systems changes.
9/99	Develop implementation strategies for correcting material deficiencies identified by the Office of Management and Budget in their letter dated June 5, 1998.

Planned Milestones (Beyond FY 1999):

Date:	Milestone:
9/02	Resolve significant interface/integration requirements (personnel, acquisition, logistics, contracting and property).
9/03	Complete incorporation of appropriate finance and accounting systems enhancements.
9/03	Complete testing and revision of additional enhancements.
10/03	Transform migratory/interim migratory systems such that they comply with statutory, regulatory and audit requirements and standards governing financial management systems.
10/03	Commence first complete fiscal year under new system architecture that will produce auditable financial statements.

Office of the Secretary of Defense Functional Proponent Point of Contact:

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Unresolved:

Accounting for Army Working Capital Fund Cash

Control of National Guard Personnel, Army Federal Funds

Unreliable Payroll Data, Reserve Personnel, Army

Department of the Navy

Unresolved:

Department of the Navy Chief Financial Officers Act Financial Statements, Index 17

Cash Management and Contract Payments at Selected Navy Activities in Europe

Department of the Navy Revolving Funds Chief Financial Officers Act Financial Statements
Accountability

Unmatched Disbursements

Productivity Gain Sharing

Undefinitized Contracts

Resolved

Unliquidated and Invalid Obligations

Department of the Air Force

Unresolved:

Airlift Services Division Revenues

Classification of Material Shipment and Receipt Transactions

Management of Reimbursable Fund Process

Supply Management Activity Group Accounts

Management Over Free Issue of Repairable Support Division Assets

Depot Maintenance Activity Group Accounts

Inventory Management - Financial Reporting of Inventories Within the Supply Management
Activity Group

Contingent Liabilities

Resolved:

Integrated Accounts Payable System

Defense Finance and Accounting Service

Unresolved:

Interface Between Contract Payment System and Accounting Systems (Negative Unliquidated Obligations and Unmatched Disbursements)

Military Pay Internal Control Weaknesses

Inadequate General Ledger Control and Unreliable Financial Reporting

Undistributed and Unmatched Cross Disbursing and Interfund Transactions

Contingency Plans

Merged Accountability and Fund Reporting Reconciliation

Inadequate Accounting and Reporting for Defense Working Capital Funds

Interface Between Marine Corps Total Force System and Accounting System

Financial Accounting for Inventory Held For Sale

Noncompliance to Standard Working Capital Fund Procedures

Non-Reporting of Internal Revenue Service Form 1099 To Internal Revenue Service

Lack of Capital Asset Accounting System for U. S. Transportation Command

System Documentation

Lack of Reconciliation Between Defense Retiree and Annuitant Pay System-Retiree Casualty Pay Subsystem and Service Personnel Systems

Strengthen and Improve Support of Accounting Operations at Defense Finance and Accounting Service-Cleveland Center

General Ledger Control and Reconciliation

Inaccurate Data and Reporting in Marine Corps Unified Materiel Management System

Unidentified Items in Suspense Priority Clearing Report

Trial Balance Reporting for Defense Agencies

Problem Disbursements

Updating Defense Joint Military Pay System-Active Component Overseas Housing and Cost of Living Allowances Tables

Inadequate Defense Joint Military Pay System -Active Component/Defense Joint Military Pay System-Reserve Component Table Update

Lack of Consolidated Central Site Instruction for Defense Joint Military Pay System - Reserve Component

Accuracy and Credibility of Foreign Military Sales Financial Statements

Untimely Contract Fund Reconciliation Process

Inadequate On-Line History Records in Standard Materiel Accounting System

Inadequate Internal Controls Over Travel Payments

Reconciliation of Suspense Account Balances

Check Issue Reporting Discrepancies

Inadequate Safeguarding of Procurement Information

Inadequate Internal Controls Over Special Military payroll Process Through Standard Finance System - Redesign Subsystem One

Lack of Internal Controls to Ensure Timely Reconciliation of Navy Funds with Department of Treasury

Inadequate Check Issue Reconciliation

Vendor Pay Deficiencies

Inadequate System Access Controls in the Mechanization of Contract Administration Services System

Inadequate Systems Interface Between the Computerized Accounting Payable System and the Standard Finance System - Redesign Subsystem One

Inadequate Military Payroll Reconciliation of Data Elements in the Military Payroll - Reserve Component and Personnel Data System, Central Site Control

Incomplete Pre-Audits of Transportation Bills

Lack of Adjustment Audit Trails in the Defense Transportation Payment System

Non-Receipt of Costed Government Bills of Lading through Automated Interface to the Defense Transportation Payment System

Resolved:

Inventories In-transit General Ledger Account Codes

Lack of Controls to Prevent Duplicate Payments to Vendors

Lack of Controls in Processing and Distribution of Combined Federal Campaign Payroll Deductions for Military Personnel

Property and Inventory Accounting

Lack of Timeliness Adding Separation Overpayments to Debt System

Internal Management Control Deficiencies in Transportation Payments

Lack of Report 2 Reconciliation

Lack of Internal Controls Within Logistics System Supporting Troop Support Division

Inadequate Internal Controls Over Funds Availability for Defense Finance and Accounting Service Infrastructure Services Organization

Fraud Susceptibility at System Entry Points

Defense Logistics Agency

Unresolved:

Inadequate Financial Data Maintenance Regarding Unmatched Disbursements

Insufficient Guidance for Administration of Other Transactions

Resolved:

Defense Logistics Agency Distribution Cost Accounting

Defense Logistics Agency Supply Pricing Methodology

National Reconnaissance Office

Unresolved:

Lack of a Corporate Integrated Financial Management and Accounting System

On-Site Inspection Agency:

Unresolved:

Unmatched Disbursements and Negative Unliquidated Obligations Over 180 Days

Unreliable Financial Reporting of Personal and Real Property

Statement of Problem: The Department of Defense is not fully in compliance with Federal-wide accounting standards for accounting for real and personal property.

Source of Identification: DoD financial managers, and audit reports from the General Accounting Office, Office of the Inspector General, and DoD Component audit organizations.

Potential Impact of Problem: General ledger control over property, which is used to better ensure that all financial transactions are recorded in the official accounting records, often is not adequate. Recent financial statement audits found unreliable financial balances for real and personal property.

Existing accounting systems were not designed to satisfy the asset, liability and equity accounting data now required for financial reporting purposes. Instead, these systems depend on property managers at functional activities, using logistics systems, to furnish this data. These systems usually do not contain some of the following financial data: acquisition costs (versus standard prices), capitalization codes or thresholds, in-house project investment, modification costs, overhaul costs, or segmentation of the data by financial account codes. Additionally, many of these systems do not compute depreciation. This adversely affects the ability and accuracy of financial reporting at the installation, intermediate and departmental levels.

Possible Solutions: The Department has selected, and is deploying an integrated property accounting and accountability system. This system, the Defense Property Accountability System (DPAS), permits the posting of information to the financial records as a by-product of the property custodian's accountability processes and is a subsidiary ledger to the general ledger. The DPAS is not intended to necessarily encompass government property in the possession of contractors. Many DoD contractors already have adequate automated property management systems. In addition, the Department, with the cooperation of OMB and the audit community, is developing an implementation strategy with the goal of achieving an unqualified audit opinion on our financial statements. The issues relating to property associated with the implementation strategy include: property, plant and equipment existence and completeness; valuation of general property, plant and equipment; government property in the hands of contractors; national defense property, plant and equipment; and deferred maintenance.

Major Milestones in Corrective Actions: (C = Completed)

Date:	Milestone:
C	Establish requirements for DoD-wide property system.
C	Review existing systems to determine which could be fielded throughout DoD.
C	Obtain migratory status approval.

C Begin fielding system in DoD Agencies and Military Services.

Planned Milestones (FY 1999):

Date:	Milestone:
6/99	Complete fielding DPAS at all Defense Working Capital Fund Sites for General Property, Plant & Equipment.

Planned Milestones (Beyond FY 1999):

Date:	Milestone:
9/00	Finish fielding DPAS in Military Services and Agencies.

Reason for Change in Milestones: When the system was selected, it was anticipated that it would be interfaced with single standard systems in tangential business areas (i.e., accounting, supply, procurement). Since the Department of Defense has chosen multiple systems in these areas, many additional interfaces need to be built, resulting in an incremental system deployment.

Office of the Secretary of Defense Functional Point of Contact:

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Navy

Unresolved:

Excess Material and Unrecorded Inventories

Department of the Air Force

Unresolved:

Financial Reporting of Personal and Real Property

Asset Valuation

Defense Finance and Accounting Service

Unresolved:

Unreliable Financial Reporting of Personal and Real Property

Unreliable Financial Reporting on Tactical Military Equipment

Property Management Within the Defense Finance and Accounting Service

Defense Logistics Agency

Unresolved:

Inaccurate Reporting of Property, Plant, and Equipment Accounts on the Financial Statements

Inadequate Control Reviews for Inventory Other Than Stock On-Hand

Property Accounting Inputs for Defense Property Accountability System (DPAS)

Defense Commissary Agency

Unresolved:

Commissary Accountability

Defense Special Weapons Agency

Unresolved:

General Ledger Control Over Property

National Reconnaissance Office

Unresolved

Deficiencies in Financial Accounting for Property, Plant, and Equipment

National Security Agency

Unresolved:

Fixed Asset and Other Personal Property Accountability, Control and Reporting

On-Site Inspection Agency:

Unresolved:

Unreliable Financial Reporting of Personal and Real Property

Total Asset Visibility

Statement of the Problem: The Department does not have a capability to share logistics information concerning the location, condition, quantity, and availability of assets within and between Components and the Unified Commands (CINCs). The Department needs this capability across the functional areas of supply, transportation, maintenance, procurement, personnel, medical, and throughout all management levels from wholesale through retail. Additionally, the information must be provided to the operational Joint Task Force commanders, as well as logistics and weapons systems managers. The Components have developed their own systems which give them an asset visibility capability within their own respective organizations. Those systems must now be integrated and voids satisfied so that the Department may effectively and efficiently manage, deploy, and ship assets to meet critical readiness, contingency, and other requirements.

Source of Identification: Experience during deployment and sustainment of forces in times of war/emergency situations, as evidenced in Operation Desert Storm and, to a lesser extent, in Rwanda and Haiti.

Potential Impact of the Problem: The problem has an adverse impact on both readiness, contingencies, and other operations and results in overspending for items of supply. The inability of a unit to “see” where its requisitions are in the pipeline causes that unit to lose confidence in the system when the materiel does not arrive on schedule. As a result, the usual response is to requisition the materiel again. Unfortunately, this only causes already strapped supply and transportation systems to fall farther behind trying to move materiel that is not really needed. The inability to manage and allocate transportation and other logistics assets to the degree required is also a significant problem. Ports of debarkation are severely restricted by lack of information regarding the contents of containers and the ultimate consignees, causing severe backlogs during contingencies. Item Managers, unaware in many cases of on hand assets at units, program and buy additional materiel when the requirement could be satisfied from current assets if they were “visible” to the Item Manager.

Possible Solutions: In September 1994, the Deputy Under Secretary of Defense (Logistics)(DUSD(L)) established a DoD Total Asset Visibility (TAV) Joint Task Force to provide validation, oversight, and direction for a Joint TAV (JTAV) Program, through the development of a universally understood and accepted JTAV Implementation Plan. On April 21, 1995, the DUSD(L) designated the Army as the Executive Agent and established the JTAV Office to lead the initiatives for further development and implementation of the TAV capability to the CINCs, Services, and other DOD organizations. In November of 1995, the Army, as the Executive Agent, published the final version of the JTAV Implementation Plan, which was approved by the Under Secretary of Defense (Acquisition and Technology) and distributed throughout the Department of Defense. In executing the plan, the JTAV Office developed an Operational and Systems Architecture designed to capture, see, share and use logistics data and information across DoD in a timely, useful and secure manner. On June 1, 1998, the Defense Logistics Agency became the Executive Agent to facilitate integration with on-going automated identification technology efforts.

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

Date:	Milestone:
C	Appoint DoD TAV Joint Task Force
C	Establish a JTAV Executive Agent
C	Establish a JTAV Office
C	Prepare JTAV Implementation Plan
C	Identify JTAV Priorities and Provide Milestone Schedule for JTAV Implementation
C	Demonstrate JTAV In-theater Capability at Joint Warrior Interoperability Demonstration 95
C	Demonstrate JTAV In-theater Capability at Cobra Gold 96
C	Field JTAV In-theater to U.S. European Command
C	Finalize Business Rules for Interservice Visibility of Repairable Assets
C	Field JTAV In-theater to U.S. Central Command
C	Develop a JTAV Functional Requirements Document
C	Develop a JTAV Functional “As-is” Architecture
C	Field JTAV In-theater to U.S. Atlantic Command
C	Develop a draft JTAV Operational and Systems Architecture
C	Release JTAV In-theater Version 2.4
C	Release JTAV Web Version 1.0
C	Field JTAV In-theater to U.S. Pacific Command
C	Field JTAV In-theater to U.S. Forces Korea
C	Initial Demonstration of “To Be” Architecture
C	Provide Initial Capability for Interservice Visibility of Repairable Assets

- C Provide Operational Medical Shared Data Server
- C Field Phase 1 Ammunition Asset Visibility
- C Release JTAV In-theater Web Version 2.0

Planned Milestones (FY 1999):

Date:	Milestone:
1Qtr FY99	Field JTAV In-theater to U.S. Southern Command
2Qtr FY99	Start Migration to “To Be” Architecture
4Qtr FY99	Baseline Interservice Visibility of Reparable Assets for All Services
4Qtr FY99	Field Phase 2 Ammunition Asset Visibility
TBD FY99	Field JTAV In-theater to U.S. Special Operations Command

Planned Milestones (Beyond FY 1999):

Date:	Milestone:
FY 00	Complete Visibility of Assets In-Storage
FY 00	Complete Visibility of Assets In-Process
FY 00	Complete Visibility of Assets In-Transit

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Related Initiatives:

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Department of the Army

Unresolved:

Equipment In-Transit Visibility

Department of the Navy

Resolved:

Common Use Repairable Items

Department of the Air Force

Unresolved:

Accountability for Locally Purchased Property and Equipment

Resolved:

Depot Source of Repair Code Accuracy

Defense Logistics Agency

Unresolved:

DoD Small Arms Serialization Program Not Accomplished to Standard

Physical Inventory Program Not Executed to Standard

DoD Demilitarization Program and Accurate Coding for Items in the Inventory

DoD Demilitarization Program Military Departments/Defense Agencies Internal Regulations

Accountability of Excess Property In-transit to Disposal

Resolved:

Inadequate Master Plans

Slow Completion of Work Orders

National Reconnaissance Office

Unresolved:

Absence of an Effective National Reconnaissance Office Headquarters Property
Accountability Program

U. S. Transportation Command

Unresolved:

Asset Intransit Visibility

Acquisition Process and Systems

Statement of the Problem: The Department of Defense has, and continues to build, the best weapon systems in the world. The Department accomplished this by designing an acquisition system focused on creating leading edge technologies with minimal risk. This system was designed during a time when technological advances were achieved principally through the research the Department conducted, during a time when the threat was easily defined, funding was generally plentiful, technologies developed outside the Department were easily obtained and the rate of development was relatively slow. The resulting acquisition system tended to be inflexible and risk averse consuming considerable resources and making it difficult to take advantage of changing technologies, as they became available in the commercial marketplace. The challenge the Department has undertaken is to reduce the life cycle costs of goods and services while providing quicker access to commercially developed technologies and utilizing commercial practices wherever it makes sense. The focus of this effort is to achieve the Department's vision of an acquisition system that is the smartest, most efficient, most responsive buyer of best value goods and services that meet the warfighters' needs from a globally competitive national industrial base.

Source of Identification: DoD acquisition and procurement managers; Defense Science Board reports; General Accounting Office reports; DoD Inspector General reports; and DoD Component audit organization reports.

Potential Impact of the Problem: Failure to streamline the DoD process, and to reengineer it to be more efficient and responsive will adversely impact the ability of the warfighter to maintain technological superiority on the battlefield. It will also require more resources to accomplish the warfighters' mission and thus deprive other national domestic programs of needed resources.

Possible Solutions: Possible solutions can be divided into five areas. Those areas are: Requirements Determinations; Becoming the World's Smartest Buyer; Procuring Best-Value Goods and Services; Delivering Efficiently and on a Timely Basis; and, Balancing Cost of Protections and Applications of Socio-Economic Objectives. Solutions must be found in each category in order to correct the systemic weakness identified above.

1. Requirements Determination: The first step in any acquisition is determining the requirement. The process by which these requirements are determined, reviewed, validated, and approved is lengthy, costly and often approached from the perspective of describing solution instead of performance outcome desired.

Major Milestones in Corrective Actions: (C= Completed)

Date:	Milestone:
Ongoing	The requirements community is using the teaming concept in formulating integrated concept teams to develop their requirements in warfighter terms. The Joint Requirements Oversight Council (JROC) is taking an active role to ensure that the requirements community is an active partner

with the acquisition community in implementing the cost as an independent variable (CAIV) initiative. Early involvement by the requirements community allows cost and performance trade space for the acquisition community.

C In Jun 97 a joint tiger team was formed to begin looking at education and training requirements for the development of operational requirements for the requirements community.

Ongoing Defense Management Council is sponsoring a study of the requirements process.

2. Worlds' Smartest Buyer: Second in the area of possible solutions is to become the World's Smartest Buyer. To achieve this we must provide for continuous learning and early delivery of information about changes made to the system. In addition we must focus on training as a team, including our industry counterparts. Finally, training must be developed in a variety of media to allow for the most efficient delivery to the acquisition professional.

Major Milestones in Corrective Actions: (C= Completed)

Date: Milestone:

Ongoing Establish a step-by-step strategic plan of action to implement and institutionalize acquisition reforms.

C 1. Secretary Perry's memorandum, "Acquisition Reform: A Mandate for Change" was published on February 9, 1994.

Ongoing 2. Continuously update a strategic plan of action to implement and institutionalize acquisition reforms.

Ongoing Communicate a common acquisition reform message and ensure that these messages are incorporated into curriculum and training materials throughout the Department and industry. We must focus on getting the right message to the right audience, the right way and at the right time.

C 1. Created the Acquisition Reform Communications Center (ARCC) to facilitate a joint DoD and industry team. The purpose of the ARCC is to disseminate AR messages and coordinate and facilitate acquisition workforce education and training efforts.

C 2. Held Acquisition Reform Day, May 31, 1996, to promote a Department-wide focus on AR initiatives and activities. Feedback was solicited, received, and evaluated. Specific actions required were identified and implementation plans for those actions were completed.

- C 3. Based upon the feedback received, expanded Acquisition Reform Day to a week long series of activities, Department-wide. The focus is on teaming (including industry) and learning about Acquisition Reform initiatives and how they could be employed in mission accomplishment. AR Week was held March 17-21, 1997. Feedback was solicited, received and evaluated. Specific actions required were identified and implementation plans for those actions are being developed. AR Week III was held May 4-11, 1998. Feedback was solicited, received and evaluated.
- C 4. Established a requirement for 40 hours of continuing education for acquisition personnel. This requirement is accomplished through seminars, conferences, articles and speeches, in addition to a formal classroom environment.
- Ongoing 5. Future AR Days/Weeks will be held annually to continue the focus on continuous education and training in Acquisition Reform initiatives.
- Ongoing Provide incentives for acquisition personnel to innovate, while providing appropriate guidance, and the benefit of lessons learned. The enabling part of this initiative is achieved by redesigning the purpose and approach of both the Federal and DoD acquisition regulations and policies. This redesign will better facilitate the acquisition process (e.g., by encouraging risk management rather than risk avoidance).
- Ongoing 1. The DoD Directive 5000.1 and DoD Instruction 5000.2 were rewritten and published on March 15, 1996. Changes are being incorporated as necessary.
- Ongoing 2. The Defense Acquisition Deskbook was created with the operational test release on May 28, 1996. The first release occurred July 31, 1996, followed by a second release on September 30, 1996. The Deskbook is being updated quarterly and is now available through the internet at the Deskbook homepage: <http://www.deskbook.osd.mil>.
- Ongoing 3. Evaluate the regulation writing process to determine whether that process provides the kind of regulations which meet the needs of the users. Once the evaluation is complete, recommendations will be made to the USD(A&T) regarding a FAR rewrite.
- Ongoing Create a DoD and government-wide Electronic Commerce/Electronic Data Interchange (EC/EDI) System for contracting that will provide one face to industry, will allow vendors to interrogate the DoD database of all outstanding Requests for Quotations, etc., by using a Value Added Network of their choice.

- C 1. Form an EC/EDI PAT to look at and recommend ways to leverage the use of EC/EDI within DoD. The PAT completed its work and its recommendations were approved Jan 94.
 - C 2. Develop an EC infrastructure and the Electronic Commerce Information Center.
 - C 3. Establish an EC Program management structure to manage the implementation of the approved EC/EDI PAT recommendations and support education and outreach.
 - C 4. Interim DoD Federal Acquisition Computer Network (FACNET) sites were certified – 325 as of October 1997, however, the DoD Authorization Act of 1997 deleted the FACNET requirement and therefore interim FACNET certification is no longer required.
 - C 5. Create a Central Contractor Registration to eliminate redundant registration by contractors and reduce administrative burden on contracting offices. A CCR has been established and is accessible through the World Wide Web and direct dial-in.
3. Procuring Best-Value Goods And Services: DoD will Procure Best-Value Goods and Services, by buying from world class suppliers, who are part of a globally competitive national, as opposed to defense unique, industrial base, composed of commercial or dual-use suppliers capable of meeting DoD needs and willing to sell to the U.S. government; and by using commercial practices to the maximum practicable extent, in order to ensure access to state-of-the-art technology, reduce the cost of products and services to the government, and reduce acquisition lead-times.

Major Milestones in Corrective Actions: (C= Completed)

Date:	Milestone:
Ongoing	Eliminate DoD-unique product or process specifications that inhibit the purchase of commercial items or services, or dictate to a contractor how to produce a product or provide a service.
C	1. Establish policy – Secretary Perry’s memorandum of June 1994 required use of performance specifications; military specs authorized only if waiver provided by the Milestone Decision Authority.
C	2. The Single Process Initiative (SPI) was implemented on December 8, 1995, encouraging reduction of the number of processes used in a single facility and relying on proven commercial processes as much as possible. USD(A&T) reaffirmed a long term vision for SPI on June 3, 1998.

- Ongoing 3. Since implementation, the Department has received 1,371 concept papers from 280 contractors. To date 891 modifications have been executed for an estimated cost avoidance value of \$395 million. Additionally, at least 140 facilities have been converted to ISO-9000 capable facilities. Our administrative contracting officers have signed, and are continuing to sign, block change modifications with many Defense contractors, ensuring that this process is taking root within a wide spectrum of defense supplier base.
- Ongoing Use commercial practices to acquire military unique items, as well as commercial items, to the maximum extent practicable.
- C 1. Pilot Programs were authorized in the Federal Acquisition Streamlining Act (FASA) of 1994. Some examples of Pilot Program impacts are as follows: the applicability of commercial practices was demonstrated across a wide variety of defense programs; the Pilot Programs demonstrated with metrics that the use of commercial practices significantly reduced in-house costs and contractor costs; and cost reductions of almost \$5 billion and cycle time improvements of up to 35 percent were documented.
- Ongoing 2. We are implementing additional relief provided in the FY97 DoD Authorization Act.
- Ongoing 3. We are exporting the lessons learned from the pilot program to other acquisition programs.
- Ongoing Establish and maintain more effective working relationships with industry using Integrated Product Teams (IPTs).
- C 1. Establish policy – Department-wide use of IPTs was implemented by Under Secretary Kaminski’s April 28, 1995 memorandum, “Reengineering the Oversight and Review Process” and Secretary Perry’s May 10, 1995 Memorandum, “Use of Integrated Product and Process Development and Integrated Product teams in DoD Acquisition.”
- Ongoing 2. Updates on effectiveness are received through USD(A&T) annual sponsored surveys and reported to USD(A&T), Service Acquisition Executives, as well as DoD Program Managers, Program Executive Officers, and Commanders of Major Systems Commands at the PEO/SYSTEM COMMANDER conferences sponsored by the Defense Systems Affordability Council (DSAC).
- Ongoing 3. Future workforce surveys are planned to help check the effectiveness of IPTs for weapon systems.

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| Ongoing | Make effective use of market research and commercial pricing techniques. |
| C | 1. Established a Commercial Advocates Forum on-line on May 31, 1996. |
| C | 2. In October 1997, developed an on-line Internet market research capability. |
| C | 3. Provided training on market research (10/97) and commercial pricing (6/98) via satellite broadcasts. |
| On-going | 4. Develop management tool to assist in commercial pricing determinations and identify anomalies (beta testing in conjunction with 1 and 2 above). |
| On-going | 5. Develop strategies to leverage DoD buying power in commercial negotiations. |
4. Delivering Efficiently And On A Timely Basis: DoD will establish and maintain the most timely, flexible, responsive, and efficient system, where individuals or teams are accountable for an entire process and can change the process without inordinate difficulty or delay, and success is judged on the basis of performance related metrics rather than adherence to regulations.

Major Milestones in Corrective Actions: (C= Completed)

- | Date: | Milestone: |
|---------|--|
| Ongoing | Maximizing the use of simplified acquisition procedures. |
| C | 1. FASA authorized use of simplified acquisition procedures up to \$50,000; \$100,000 once a certified FACNET system is in place at the specific contracting activity. |
| C | 2. Clinger-Cohen (a.k.a. the Federal Acquisition Reform Act of 1996, (FARA)) increased the authority to use Simplified Acquisition Procedures in all procurements of \$100,000 or less regardless of FACNET certifications. This authority has been implemented in the FAR and is being implemented in DoD 5000.2-R. |
| Ongoing | Maximize use of micro-purchase authority |
| C | 1. Form a Process Action Team to identify barriers to greater use of the government-wide purchase card and to recommend ways to promote the use of the government-wide purchase card. Team formed and report submitted in Oct 96. |

- C 2. Obtain DEPSECDEF approval of PAT's recommendations. DEPSECDEF approved the findings and recommendation of the PAT in Jun 97.
- Ongoing 3. Implement the PAT's approved recommendations
- Ongoing Improve the Service and OSD milestone decision-making and information collection processes for major systems, commensurate with risk, dollar value, acquisition strategy, etc., to: establish appropriate levels of service and OSD value-added management, assistance, and oversight; identify appropriate issues for review; ensure that reviews occur at the appropriate time during the program; ensure that reviews foster agreement on appropriate levels of program risk; and ensure that reviews revalidate the chosen system solution to meet a needed military capability, given program risk, cost, schedule, reliability and maintainability, industrial base, and performance considerations. Eliminate functional stove-pipes and replacing them with integrated product teams that provide the necessary cross-section of functional expertise and organizational input to address and resolve acquisition issues at the lowest possible management level.
- C 1. The Oversight and Review Process Action Team (PAT) Report recommended specific actions, 82 percent of which were approved and were implemented.
- C 2. Establish the Integrated Product Team (IPT) process as policy. The IPT process was implemented by the USD(A&T) memorandum dated April 28, 1995, "Reengineering the Oversight and Review Process" and the Secretary of Defense's May 10, 1995 Memorandum, "Use of Integrated Product and Process Development and Integrated Product teams in DoD Acquisition."
- C 3. A new Overarching and Working-level IPT oversight process was designed to successfully team Service and OSD acquisition staffs with PEO and PM staffs to increase the opportunities for program success through early insight rather than after the fact oversight.
- C 4. Through use of the redesigned review process, the time from the day of the Defense Acquisition Board (DAB) meeting to the signing of the Acquisition Decision Memorandum has decreased from an average of about 23 days in 1994 to about 2 days. In addition, because this early and continuous insight process is helping to resolve major issues, less formal DAB meetings are being held. In the last year, 16 DABs were scheduled, but only 3 were convened.

C	5. The IPT process goals were also supported by implementation of the Contract Administration PAT recommendations concerning shifting oversight from risk avoidance to risk management, inculcating teaming attitudes between program management offices and the contract administration community, and elimination of non-valued added activities.
Ongoing	Streamline and make more effective and realistic developmental, live-fire, & operational testing.
C	1. The Department was granted authority in Federal Acquisition Streamline Act (FASA) '94 to use alternative live-fire test procedures when full-up live-fire test is waived.
C	2. The 1997 Authorization Act granted the authority to use alternative operational test procedures for Pilot Programs.
Ongoing	3. Further legislation to further streamline the testing process is being developed.
Ongoing	Shifting, to the maximum extent practicable, from a management philosophy that attempts to achieve high quality and performance through after-the-fact inspection, to government review of contractor process controls and review of output.
C	1. Establish policy. The Deputy Secretary of Defense February 14, 1994 memorandum "Use of Commercial Quality System Standards in the DoD" implemented the policy. This memorandum recognizes the use of ISO 9000 and established policy for the use of those standards. Also, the Single Process Initiative was implemented on December 8, 1995.
Ongoing	2. Since implementation, the Department has received 1,371 concept papers from 280 contractors. To date 891 modifications have been executed for an estimated cost avoidance value of \$395 million. Additionally, at least 140 facilities have been converted to ISO.9000 facilities. Our administrative contracting officers have signed, and are continuing to sign, block change modifications with many Defense contractors, ensuring that this process is taking root within a wide spectrum of the defense supplier base.
Ongoing	Ensuring that DoD emulates the best procurement practices (e.g., timely, responsive, flexible and efficient) of world-class customers and suppliers including: using performance based and fixed price service contracts; rewarding past contractor performance in source selection; identifying and disseminating best procurement practices; eliminating non-value added

activities, duplicative reviews, revisiting decisions, and non-hands-on labor.

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| C | 1. A DoD Procurement Wisdom System was established to identify and disseminate best procurement practices throughout DoD by incorporation into the Defense Acquisition Deskbook, with continuous planned updates. |
| C | 2. Implementation of the Procurement Process PAT recommendations regarding improvement of both the sole source selection and competitive processes is completed. |
| Ongoing | 3. The Past Performance Coordinating Council was rejuvenated to work past performance policy issues. Its recommendations were adopted and an IPT was formed to address recommendations in the Arthur D. Little report on implementing the collection and use of past performance information within the Department. |
| Ongoing | Update laws regarding foreign contracting and contingency operations, the lending/borrowing of defense equipment, and war risk to contractor personnel. |
| C | 1. Authority for contingency operations was received in Clinger-Cohen and has been implemented in the FAR. |
| C | 2. A Contingency Contracting course was developed by the Defense Acquisition University. It is now part of the formal acquisition training system. |
| Ongoing | 3. Draft proposed Defense Trade and Cooperation legislation submitted in FY 1998, to be resubmitted in FY 1999 as part of Civil Military Integration (CMI) initiative. |
| Ongoing | Establishing clear process and outcome (performance-related) measures to determine success of change efforts. |
| C | 1. In August of 1995, the Metrics Tiger Team recommended 23 strategic outcome metrics to the Deputy Under Secretary of Defense (Acquisition Reform) and the Assistant Secretary of Defense (Economic Security). At the direction of the Under Secretary of Defense (Acquisition and Technology), the Deputy Under Secretary of Defense (Acquisition Reform) chartered the Acquisition Reform Benchmarking Group (ARBG) to review the strategic outcome metrics. |
| Ongoing | 2. Based on the conclusion of the ARBG's review of the Offices of Primary Responsibility that the metrics were "okay for data |

collection,” the Deputy Under Secretary of Defense (Acquisition Reform) tasked the Services/Agencies to begin reporting on October 1, 1995.

- C 3. In 1996, seven DoD Enterprise Acquisition Metrics were identified and approved from the following focus areas: cost, schedule, performance, and training.
- C 4. In 1997, twelve National Performance Review (NPR) goals were identified for approval by the Vice President.
- C 5. First report to NPR/OMB on Implementation of Year 2000 Acquisitions goal due.

5. Balancing Cost of Protections and Application of Socio-Economic Objectives:

Major Milestones in Corrective Actions: (C = Completed)

Date:	Milestone:
Ongoing	Eliminate, to the maximum extent practicable, government unique terms and conditions.
Ongoing	1. In FY 1995, the Department began the implementation of FASA, in particular, the portions on the use of commercial items and the simplified acquisition threshold. This authority allows the use of commercial terms and conditions in many instances thus reducing barriers to domestic commercial sources, improving technology and reducing prices.
Ongoing	2. The Department was also able to obtain additional legislative relief which promotes the use of commercial items and the simplified acquisition threshold and is currently in the process of implementing this new authority.
C	3. Policy memo dated March 20, 1997 stipulates that the government-wide commercial purchase card is the preferred method of procurement for micro-purchases.

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Navy

Unresolved:

Requirements Determination

Resolved:

Acquisition Audit Process

Defense Logistics Agency:

Unresolved:

Untimely Contract Terminations at Wholesale Inventory Control Activities

Defense Special Weapons Agency:

Unresolved:

Placement of Interagency Orders Under the Economy Act

U. S. Transportation Command:

Resolved:

Requirements Determination Major Acquisition Process

Management of Unexploded Ordnance

Statement of the Problem: The Department of Defense (DoD) has an extensive test and training range complex. Ranges, and their associated infrastructure are finite resources that must be properly maintained to ensure they support sustainable safe and efficient testing and training operations into the foreseeable future. Unexploded ordnance (UXO) and explosives residue can present a hazard to those personnel conducting tests or training in range areas. There also exists either the potential for changes in range use (e.g., test range to maintenance area) or the possibility that a range might be transferred for public, private or other agency use (e.g., Base Realignment and Closure).

Practicing sustainable use of training and test ranges is essential to ensure DoD has the capacity, now and in the future, to fulfill its mission. There are increasing regulatory and public interest pressures threatening DoD's use of its ranges due to concerns about cleanup of UXO and other related contaminants. DoD and the Military Components have various policies that address UXO from a safety standpoint only. DoD currently lacks policy addressing environmental concerns or stating the Military departments' responsibility to practice sustainable use of Active and Inactive (AI) ranges; and to clean up UXO at Closed, Transferred, and Transferring (CTT) ranges. Good policy is essential to ensure that DoD controls how we are regulated for cleanup of UXO and to ensure we maintain a balance between readiness, safety, and the environment.

With the exception of cleanup of UXO on Formerly Used Defense Sites (FUDS), the Military Components do not account for UXO clearance and cleanup in the DoD Program, Planning, and Budget System (PPBS). The current rate of funding for the cleanup of UXO at FUDS is inadequate to meet the Department's responsibility to protect human health and safety at properties that are no longer under DoD control.

Source of Identification: Defense Science Board Task Force on UXO draft report, April 1998, and Department of the Army's FY 1998 Annual Statement of Assurance material Weakness titled "Management of Unexploded Ordnance" and Inspector General, DoD, reports.

Potential Impact of the Problem: If DoD fails to effectively address UXO management on active, inactive, closed, transferred, and transferring properties there will continue to be unacceptable incidents where deaths or injuries occur to civilian and military personnel as a result of uncontrolled exposure to UXO. External regulatory and public interest pressures will bear on how DoD's use of its ranges to train forces and to test weapons will be regulated, and affect DoD's ability to renew or acquire additional land withdrawals. Without appropriate DoD policy and management structure (Defense Program Guidance (DPG) goals, and Program Objective Memorandum Preparation Instructions (PPI)), the Services will not adequately plan, program, and budget for funding clearance and cleanup of UXO.

Possible Solutions: Issue DoD Instructions for sustainable use of active and inactive ranges and cleanup of closed, transferred, and transferring ranges. UXO clearance and cleanup requirements should be specifically identified in the DoD PPBS. The Military Departments should institutionalize management of UXO clearance and cleanup in their Operations and Maintenance (O&M) budgets.

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
C	Established Operations and Environment Executive Steering Committee for Munition (OEESCM) to coordinate UXO and other munitions issues across the Services and functional areas.
C	Established PPI to collect UXO cleanup data for closed, transferred, and transferring ranges.
C	UXO cleanup funding data was provided as a supplemental display in FY 00-04 POM.

Planned Milestones (FY 1999):

<u>Date:</u>	<u>Milestone:</u>
12/98	Complete draft DoD Instruction 4715.AA - "Environmental and Explosives Safety Management on Department of Defense Ranges" release for formal review and coordination by the Services.
1/99	Complete draft DoD Instruction 4715.BB - "Environmental and Explosives Safety Management Policy for Closed, Transferred, and Transferring (CTT) Ranges" and release for formal review and coordination by the Services.
2/99	Issue DoD Instruction 4715.AA - "Environmental and Explosives Safety Management on Department of Defense Ranges."
3/99	Issue DoD Instruction 4715.BB - "Environmental and Explosives Safety Management Policy for Closed, Transferred, and Transferring (CTT) Ranges"
4/99	Begin Inventory of active, inactive, closed, transferred, and transferring ranges.
3/99	Begin collecting Service POM (FY 01-05) data for funding UXO cleanup at closed, transferred, and transferring ranges.

- 6/99 Establish PPI for clearance of UXO at active and inactive ranges.
- 12/99 Complete DoD Range Rule.

Planned Milestones (Beyond FY 1999):

<u>Date:</u>	<u>Milestone:</u>
3/00	Complete Range Rule implementation plan for CTT ranges, consistent with Range Rule.
5/00	Begin collection Service POM (FY 02-07) data for funding UXO clearance at active and inactive ranges.
6/00	Complete initial inventory of all DoD ranges.
2/02	Establish a sustainable range management plan for all active and inactive test and training ranges.

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Unresolved:

Management of Unexploded Ordnance and Other Constituents

Information Assurance

Statement of the Problem: Over the last several years, there have been numerous computer system intrusions within the Department of Defense that have highlighted the vulnerability of information systems to information-warfare type attack. During this time, DoD sensitive but unclassified systems and networks used to support finance, logistics, medical, procurement, personnel, research and development activities, and other support and sustainment functions, have been probed, with some successfully penetrated. No classified DoD systems are known to have been penetrated. Dependence on these systems makes this a critical readiness issue. It is also critical on a national level as systems and networks of the Defense Information Infrastructure (DII) develop and integrate into the larger National Information Infrastructure (NII).

The term Information Security has been expanded to Information Assurance (IA) reflecting a consideration of all of the security services: availability, integrity, confidentiality, authentication, and non-repudiation necessary to achieve high confidence in the systems that support mission critical and mission support activities.

Source of identification: Department of Defense Inspector General (DoDIG) audit reports and General Accounting Office reports.

Potential Impact of the Problem: Unauthorized intrusion and access into DoD systems could result in alteration or disclosure of records, improper payments within the financial and contracting system, disruption of service, loss of sensitive data, etc. In the most extreme scenario, terrorists or other adversaries could seriously degrade the Department's ability to deploy and sustain U.S. forces.

Possible Solutions: Correction of the problem will require a major and sustained effort to:

- identify, develop, and deploy appropriate security technologies for the DII,
- define, resource, and implement an effective security management process,
- develop, deploy, and operate an intrusion detection and attack sensing and warning system for the DII,
- ensure the design philosophy for the DII reflects the need for and includes adequate protection from a dedicated attack,
- implement an operational capability to react to attacks upon the DII through the reallocation and/or reconstitution of information processing capabilities, and
- improve the education and training of personnel responsible for information systems security and for the operation and use of DoD information systems.

The Assistant Secretary of Defense (Command, Control, Communication and Intelligence) (ASD(C3I)) and the CINCS, Services, and Agencies all play critical roles in solving the information system and network security problem. Information Assurance costs are a substantial issue, and additional investment in this area will be required. DoD is currently attempting to identify funding within the FY 2000-2005 program/budget process.

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

To date, the Department has implemented several information assurance initiatives to prevent unauthorized access to defense networks, systems, and data. Specifically:

Date:	Milestone:
C	A new program, Operation Mongoose, has been established to operate a fraud detection and prevention unit as part of an ongoing effort to minimize fraudulent attack against DoD financial assets. Large-scale computer matches to uncover anomalies is a key aspect of the program which is a collaborative effort with the Under Secretary of Defense, Comptroller, DoD IG, the Defense Finance and Accounting Service, and the Office of the Under Secretary of Defense (Personnel and Readiness) (OUSD(P&R)).
C	A policy mandating employment of multiple Personal Computer Memory Card International Association (PCMCIA) Card Slots in personal computers and workstations acquired by DoD has been implemented throughout the Department. Existing acquisition contracts for personal computers and workstations as well as all new acquisitions support the minimum PCMCIA capability set forth in the policy. This configuration will support the Department's Multilevel Information Systems Security Initiative (MISSI) which is intended to provide writer-to-reader security for electronic mail and other applications.
C	A process that establishes a single approach to certification and accreditation of the Department's information systems has been approved. DoDI 5200.40, "DoD Information Technology Security Certification and Accreditation (C&A) Process," will create the DoD standard infrastructure centric approach for the protection of entities that constitute the DII.
C	A program/process that provides for the planning, coordination, and integration of the Department's IA programs and resources was recently approved. The Defense-wide Information Assurance Program (DIAP) achieved its Initial Operating Capability (IOC) milestone in May 1998.
C	A requirement for the certification of DoD information system users, administrators, and maintainers was recently established by the ASD (C3I)

and USD (P&R). The criteria specified in the policy will establish a common baseline for training across the CINCS, Services, and Agencies.

Planned Milestones (FY 1999):

Date:	Milestone:
12/98	Formal review of DoDD 8500.XX, "Information Assurance Program" and DoD Instruction 8500.XX, "Information Assurance Requirements." These documents address the need to develop new policy establishing a balanced risk management approach to achieve required levels of IA for all information systems supporting DoD operational readiness and mission effectiveness. This directive and instruction will replace DoDD 5200.28, "Security Requirements for Automated Information Systems (AIS)," its accompanying manual, and DoDD 5200.5, "Communications Security."
9/99	Revise DoD Standard 5200.28-STD, "DoD Trusted Computer System Evaluation Criteria," to cover network and data base areas.

Planned Milestones (beyond FY 1999):

Date:	Milestone:
Ongoing	Approve migration systems subject to the conditions that security policies be developed or updated for each system, consistent with current DoD policies and known/anticipated threats and vulnerabilities. Complete security assessments for each system to determine compliance with its security policies.
Ongoing	Defense business processes are aggressively being subjected to robust Functional Process Improvements to include IA that will provide protection for Defense systems.
Ongoing	A Security Review Group composed of DoD senior-level managers (including USD(C), ASD (C3I), DoD IG, Defense Finance and Accounting Service (DFAS), and Defense Information Systems Agency (DISA) ensures that DISA and DFAS effectively and promptly resolve several long-standing computer security deficiencies identified in five audit reports.
Ongoing	DISA has made substantial progress in improving the security posture at the Defense Megacenters. DISA is implementing substantive solutions to critical systemic computer security problems. For example, DISA continues to provide staff assistance teams to megacenter operations for periodic on-site analysis. These teams review, educate, train, assess, and assist the megacenter staffs.

Ongoing ASD (C3I) continues to urge DoD Components to emphasize the importance of computer security. Specifically, Components have been urged to (1) accelerate the correction of computer security weaknesses reported in the Annual Statement of Assurance, or audit reports, (2) ensure that appropriate computer security policies and procedures have been issued, (3) strongly enforce computer security policies, and (4) test their capabilities on a regular basis to identify exposures and vulnerabilities, and eliminate them.

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Unresolved:

Information Systems Security

Department of the Navy

Unresolved:

Management and Use of Navy Cellular Telephones

Telecommunications Services

Navy's Military Personnel Records System Needs Replacement

Resolved:

Defense Civilian Pay System

Department of the Air Force

Unresolved:

Application Controls for the Defense Material Utilization and Disposition Program Management System

Computer and Information Security

Security Controls for the Personnel Concept III Computer System

Defense Finance and Accounting Service

Unresolved:

Mid-Tier Support Deficiencies of Automated Information Systems

Resolved:

Lack of Security Controls in Automated Information Systems

Inability of Defense Financial and Accounting Service-Denver To Test Army Transactions in Front End Loader System

Failure to Complete Background Investigations for Systems Access

Defense Logistics Agency

Unresolved:

Automated Data Processing Security Vulnerabilities

Defense Information Systems Agency

Resolved:

Operating System and Security Software Controls

U. S. Central Command

Unresolved:

Automated Information System Security in the U.S. Central Command

Year 2000 Computer Problem

Statement of the Problem: The world's inventory of computer systems includes extensive hardware and software that process dates using two digits. Each system must be examined for its ability to use date-related information throughout the transition from 1999 to 2000. Since the extent of the problem exceeds the time and resources available to fix all date-related errors, the Department of Defense (DoD), along with other organizations world-wide, must prioritize its remediation and replacement efforts in keeping with its own mission priorities.

Source of the Identification: Executive Order, Office of Management and Budget, Congress, General Accounting Office, DoD Inspector General (DoDIG) and DoD management.

Potential Impact of the Problem: Any computer system which processes date-related information is potentially affected by the Year 2000 (Y2K) computer problems. In light of the pervasive use of computer systems, both for data processing and electronic control of most mechanical devices, appliance, and infrastructure components, the Y2K problems could potentially impact large portions of the operations of government, manufacturing, commerce, transportation, communications, and day-to-day functioning of cities and nations. The Y2K problem also has the potential for causing corruption of the data used by these computer systems, since computers may store erroneously processed data for future use.

Possible Solutions: The Department of Defense is addressing the Y2K problem from the perspective of its impact on national security and departmental operations. The primary avenues for this are:

- Prioritization of departmental efforts in light of Y2K by the Secretary of Defense and Deputy Secretary of Defense
- Oversight of Y2K issues by the Deputy Secretary of Defense's chairing of the DoD Y2K Steering Committee
- Support for the actions of the President's Council on Y2K Conversion
- Operational evaluations of DoD's mission capabilities in a Y2K environment
- Remediation, replacement or retirement of DoD's mission critical systems, as necessary to ensure proper computer system operations beyond 1999

Major Milestones in Corrective Actions: (C = Completed)

Completed Milestones:

Date:	Milestone:
C	Complete Awareness Phase.

Planned Milestones (FY 1999):

Date:	Milestone:
Quarterly	Progress on the following milestones are reported quarterly (February, May, August and November) to the Office of Management and Budget and to Congress for all DoD systems: Y2K Assessment Phase Y2K Renovation Phase Y2K Validation Phase Y2K Implementation Phase
Continuous	DoD Components update DoD Y2K database
Monthly	Deputy Secretary of Defense chairs Y2K Steering Committee with participation by the Chairman, President's Council on Y2K Conversion
Monthly	DoD forecasts Y2K systems corrections to the Office of Management and Budget
Quarterly	Quarterly reports to the Office of Management and Budget on the progress of Y2K corrective actions.
10/98	Complete interface agreements among all DoD mission-critical systems.
11/98	Test plans for DoD's major functional areas
12/98	Complete Y2K corrective actions on DoD's mission-critical systems
3/99	Complete Y2K corrective actions on DoD's non-mission-critical systems
6/99	Prepare Y2K contingency plans for DoD functions
9/99	Complete operational tests of DoD mission areas

Planned Milestones (Beyond FY 1999):

Date:	Milestone:
9/00	Complete actions in support of the President's Council on Year 2000 Conversion

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. These Component weaknesses are listed below for information purposes. The list identifies the reporting DoD Component and, within each Component, the status of those weaknesses (either unresolved or resolved). In addition to the DoD Components specified below, efforts are underway throughout the Department to ensure proper computer system operations beyond 1999. Furthermore, Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Department of the Army

Unresolved:

Year 2000 Computer Problem

Department of the Air Force

Unresolved:

Year 2000 Software Logic Problem

Defense Financial and Accounting Service

Unresolved:

Conformity of Defense Financial and Accounting Service Systems to Year 2000 Requirements

Defense Special Weapons Agency

Unresolved:

Year 2000 Computer Problems

On-Site Inspection Agency

Unresolved:

Year 2000 (Y2K) Computer Problem

Special Operations Command

Unresolved:

Year 2000 Computer Problem

Third Party Collection Program

Statement of the Problem: The Department of Defense Inspector General (DoDIG) concluded in December 1993 (Office of the DoDIG - OIG Report No. 94-017) that:

- procedures in use within Department of Defense (DoD) Military Treatment Facilities (MTFs) were not adequate to ensure that all inpatients with other health insurance (OHI) were identified
- MTF personnel were not adequately trained to evaluate the accuracy of insurance payments, nor were procedures in place to ensure that such validations were performed
- management controls did not ensure that accounting and collection duties related to cash receipts were kept separate at the MTFs

The Office of the Assistant Secretary of Defense (Health Affairs) (OASD(HA)) specifically requested a follow-up audit by the DoDIG to determine how to better identify patients with OHI. In their May 1996 follow-up (Report No. 96-113), the DoDIG found that the Department had significantly improved OHI identification procedures.

Since the follow-up audit, the remaining problems have been resolved as discussed below and the systemic weakness should be closed. Significant improvements to the Third Party Collection Program (TPCP) have been made and all issues have been adequately addressed. Program enhancements and improvements now allow appropriate monitoring and oversight. Future program updates and enhancements will focus on business process reengineering (BPR) to further strengthen the program.

OASD(HA) established the TPCP to ensure that DoD collects the cost of medical treatment for beneficiaries covered by third party insurers. Recognizing that improvements were needed, the TPCP upgraded the collection basis from per diem billings to one based on diagnosis related groups (DRGs); expanded the single outpatient billing category from one to sixty; and expanded outpatient categories to include land ambulance and hyperbaric services. The Department implemented these changes in FY 1995, and updates the established medical and dental reimbursement rates annually. The Department continues to identify and bill for additional medical services whenever possible (e.g., APV, Observation Services, Air Evacuation Services, Breast Cancer Services).

Source of Identification: DoD Inspector General Reports No. 94-017 of December 6, 1993, and No. 96-113 of May 7, 1996.

Potential Impact of the Problem: If DoD is to recover the cost of treatment from individuals with third party insurance, it must continue to improve the identification of inpatients with insurance and the validation of third party payments. The DoDIG noted in the December 1993 report that the Department lost more than \$40 million in monetary benefits because of ineffective procedures.

Resolution: At this juncture, we have substantially resolved this problem and this is the last year it will be reported. The following actions and milestones corrected the deficiencies:

Solutions include improved awareness by health care personnel, internal and external marketing of the TPCP, and outsourcing this function at selected MTFs who have not performed up to expectations. Lead Agents, Service Headquarters, and MTF Commanders and their staffs participated in the January 1995 TRICARE Conference, at which OASD(HA) conducted a one and a half day track specifically dealing with third party collections to educate senior leaders on the importance of the program. MTFs also use various media, including brochures, posters, bulletin boards and newspaper articles, to market the program to their beneficiaries.

A TPCP conference sponsored by the three Military Departments was held June 26-30, 1995 in San Antonio, Texas. Along with several excellent presentations, some dealing with OHI identification and claims follow-up, over 100 questions were submitted by attendees and answers were provided to the Military Departments. Lead Agents, Service Headquarters, and MTF Commanders, and their staffs also participated in the January 1997 TRICARE Conference where there were two OASD(HA) briefs on improving third party collections.

While DoD has clearly shown marked improvement in identifying patients with OHI, other mechanisms are in place or planned to identify patients with OHI, and to improve on claims follow-up. Specifically:

- DoD financed and is developing an interface between the Defense Eligibility Enrollment Reporting System (DEERS) and the Composite Health Care System (CHCS). This will allow us to maintain a central repository of patients with OHI that can be queried by all sites with CHCS.
- The Military Health System deployed an automated interface between the Ambulatory Data System (ADS) and the Third Party Outpatient Collection System (TPOCS). This interface has increased identification of patients with other health insurance, increased the number of billable episodes, and increased outpatient collections through the diagnosis and procedure level of detail available through ADS. Outpatient collections will continue to grow, as MTFs become more sophisticated in use of this interface.
- The OASD(HA) distributed a Uniform Business Office Manual in April 1997 to the Services. This manual specifies, in detail, procedures for billing, collecting, follow-up and management controls needed to ensure the success of the program.
- OASD(HA) distributed two training guides to the Military Departments for their use. The two guides include an Insurance Follow-up guide and an Insurance Identification and Coverage Confirmation guides. These guides specifically address the two primary areas of concern to the DoDIG - OHI identification and claims follow-up.
- TPOCS-NG, which contains electronic data interchange (EDI) technology, was deployed in the summer of 1997. At this time, TPOCS-NG has been deployed to 112 sites. Full deployment to 154 sites is anticipated in CY98. This was our top funding priority, and will markedly enhance the speed and accuracy of billing and collecting.

- We continue to seek appropriate non-core competency/non-readiness related activities for outsourcing. Third Party Collections is an area, which we are reviewing for business process reengineering and/or outsourcing. Private sector experience would expectedly improve collection rates while reducing collection costs.

Strict adherence to policy and guidance published in DoD 6010.15-M, the “Military Treatment Facility Uniform Business Office (UBO) Manual”, for cash management through billing, collection, deposit and payment of funds, along with the electronic billing and electronic funds transfer initiatives, will continue to strengthen the financial aspects for the TPC Program.

Major Milestones in Corrective Action: (C = Completed)

Completed Milestones:

Date:	Milestone:
C	Developed and proliferated marketing plans to the Military Departments for use by their MTFs. Each MTF uses this to develop a marketing plan tailored to it’s MTFs.
C	Sponsored a one and a half day training session for Lead Agents, MTF Commanders and their staffs at the January 1995 OASD(HA) sponsored TRICARE Conference.
C	Implemented the national HCCR contract in February 1994.
C	Funded the DEERS-CHCS Interface to provide patient level OHI data and a standard insurance company table.
C	Held a four-day TPCP conference, June 26-30, 1995, sponsored by the three Military Departments to address issues of OHI identification, verification and follow-up, separation of functions, etc.
C	Completed an interface between the TPOCS and the ADS.
C	Distributed two additional training guides, Precertification of Claims and Coordination of Benefits, in June 1996.
C	Deployed the previous version of TPOCS to over 90 sites that did not have an automated outpatient system.
C	Distributed the revised UBO manual, DoD 6010.15-M, in April 1997 that standardizes and clarifies billing procedures related to the TPCP, medical services account (MSA), and Third Party Liability Programs.

- C Published policy for outsourcing or privatization of billing and collecting functions in MTFs in February 1997. Review for A-76, Commercial Activities or Business Process Reengineering potential for outsourcing third party collection functions is ongoing.

- C Implemented electronic data interchange (EDI) technology in MTFs. Development has been completed in TPOCS-NG and deployed to 112 sites with 42 remaining sites in CY98.

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Related Initiatives:

A major control issue/systemic weakness is a statement of a broadly defined management control deficiency of a Department-wide nature. Individual DoD Components have reported on efforts to correct management control weaknesses which are supportive of departmental systemic initiatives. The Component weaknesses related to the Third Party Collection Program systemic weakness have been resolved. Volume II of the Annual Statement of Assurance contains additional weaknesses that have no specific correlation to reported systemic weaknesses, but have been identified by the DoD Components in order to achieve full compliance with management control guidelines.

Conclusion

The information provided in the Department of Defense Annual Statement of Assurance focuses on complying with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and Office of Management and Budget Circular A-123, "Management Accountability and Control." The narratives contained in this report reflect continuing improvement in the status of the systemic control weaknesses since last reported in the FY 1997 Annual Statement of Assurance. The brevity of this Volume I presentation provides, at a glance, the status of the most significant internal control issues in the Department of Defense.