

AMERICA'S AWAY TEAM

UNITED STATES NAVY

FISCAL YEAR 2016

SCHEDULE OF BUDGETARY ACTIVITY





AMERICA'S AWAY TEAM

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1.0 Message from the ASN (FM&C)



NOVEMBER 2016

I am pleased to present the Navy's 2016 Schedule of Budgetary Activity (SBA), the second conducted by an independent accounting firm, and a milestone resulting from years of preparation by managers throughout the Navy. As with other efforts of this complexity and magnitude, the Navy team responded aggressively and professionally to the challenge. These two SBA audits have provided needed experience as the Department drives toward a full financial statement audit.

The FY 2015 SBA audit documented significant weaknesses in internal controls, information technology systems, and the financial reporting compilation process. Deficiencies and the corrective actions have received high level visibility, ensuring swift and sustainable remediation. Individuals at all levels now understand the role they play in business processes and we see a growing organizational awareness of the impact and significance of audit.

In partnership with our primary financial services provider, Defense Finance Accounting Service (DFAS), Navy is improving controls over business systems, processes, and reporting, resting on a well-documented business partnership in which roles and responsibilities are clearly understood and adhered to on a daily basis. We are focused on identifying and eliminating root causes of deficiencies rather than merely treating their symptoms. Our joint efforts are instrumental in preparing for and responding to audit inquiries.

Although a significant amount of work remains, the experiences gained from the undergoing SBA audits are foundational to future audit of full financial statements. As we drive toward full financial statement audit, the Department of the Navy's civilian and military leadership demonstrate their enduring commitment to be accountable to Congress and the American people for sound stewardship of the funds entrusted to them and along with it, greater accountability, transparency, and efficiency.

Our civilian and military leadership share an enduring commitment to be accountable to the American people for the funds entrusted to them.

S. J. Rabern

2.0 Management's Discussion and Analysis

2.1 Overview

The Department of Defense (DoD) includes three military departments (Department of the Army, Department of the Navy, and Department of the Air Force); however, there are four separate service branches (Army, Navy, Marine Corps, and Air Force). Since 1834, the Navy and Marine Corps have been housed together under the Department of the Navy (DON).

The Department of the Navy was established on April 30, 1798. The DON has three principal components: the Navy Department, consisting of executive offices mostly in Washington, DC; the operating forces, including the Marine Corps, the reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security); and the shore establishment. The Department of the Navy consists of two uniformed Services: the United States Navy and the United States Marine Corps.

The United States Navy was founded on October 13, 1775. The Navy's core responsibilities are to deter aggression and, if deterrence fails, win our Nation's wars. The Navy employs the global reach and persistent presence of forward-stationed and rotational forces to secure the Nation from direct attack, assure Joint operational access, and retain global freedom of action. Along with global partners, the Navy protects the maritime freedom that is the basis for global prosperity and foster and sustain cooperative relationships with an expanding set of international partners to enhance global security.

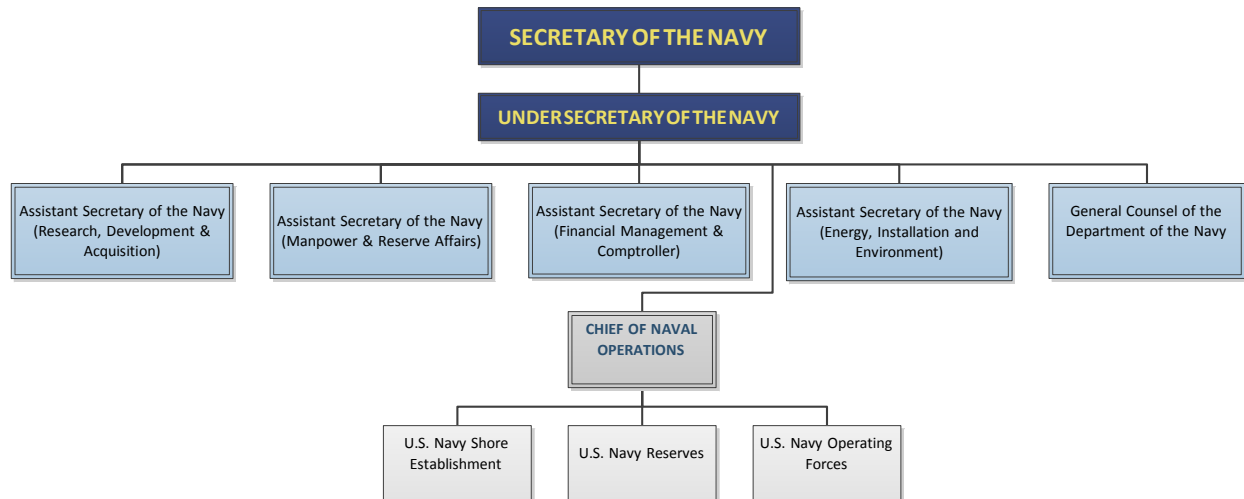
The Navy recognizes the importance of its continued financial improvement and audit readiness as part of the Department of Defense (DoD) mission. Following the Fiscal Year (FY) 2015 Schedule of Budgetary Activity (SBA) audit, the Navy received a significant number of Notices of Findings and Recommendations over internal controls, information technology systems, and the financial reporting compilation process. Deficiencies and the corrective actions addressing them receive the highest level of visibility in both military and civilian lines of authority. We are focused on identifying root causes and correcting them, rather than merely treating their symptoms. While under audit of the FY 2016 SBA, the Navy worked earnestly to remediate these audit findings by continuing improvement of our business processes and internal controls. Among lessons learned throughout the Department is the need for awareness of financial statement audits and the roles individuals play in them to become a part of the business culture. There is a growing organizational awareness over the impact and significance of audit. While there remains a significant amount of work to be done, the successes and experiences gained from the SBA audits are foundational to undergoing an audit of the Navy's and the DON's full financial statements in the future.

The DON FY 2016 objectives and goals focus on four key areas of the Department: People, Platforms, Power, and Partnerships. Success in these areas will provide real benefits to the nation in fulfillment of the DON's responsibilities to maintain a capable Navy presence. It will increase the effectiveness and efficiencies of the entire Department, improve the lives of Sailors, and result in greater security for the United States.

2.2 Mission and Organization Structure

Department of the Navy Mission

To maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas.



The United States Navy was founded on October 13, 1775. The mission of the Navy is to maintain, train and equip combat-ready naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas. It is overseen by the Chief of Naval Operations (CNO), and consists of the operating forces and shore establishment. The CNO is the senior military officer in the Navy, a member of the Joint Chiefs of Staff, and is the principal naval advisor to the President and to the Secretary of the Navy (SECNAV) on the conduct of war. He is also the principal advisor and naval executive to the Secretary on the conduct of naval activities of the DON. The CNO's office is responsible for the command, utilization of resources and operating efficiency of the operating forces of the Navy and of the Navy shore activities assigned by the Secretary. The Navy operating forces commanders and fleet commanders have a dual chain of command. Administratively, they report to the Chief of Naval Operations and provide, train, and equip naval forces. Operationally, they provide naval forces and report to the appropriate Unified Combatant Commanders. The Commander of the Fleet Forces Command controls fleet assets on both the Atlantic and Pacific coasts for interdeployment training cycle purposes. As units of the Navy enter the area of responsibility for a particular navy area commander, they are operationally assigned to the appropriate numbered fleet. All Navy units also have an administrative chain of command with the various ships reporting to the appropriate type commander. The shore establishment provides support to the operating forces (known as "the fleet") in the form of: facilities for the repair of machinery and electronics; communications centers; training areas and simulators; ship and aircraft repair; intelligence and meteorological support; storage areas for repair parts, fuel, and munitions; medical and dental facilities; and air bases.

The Navy is comprised of a number of organizations that have been developed to provide the DON with specific capabilities. These organizations carry out their assigned missions and functions through the efforts of a dedicated force of active and reserve sailors and civilian support personnel.



Bureau of Medicine and Surgery

The Navy Bureau of Medicine and Surgery (BUMED) provides high-quality health care to beneficiaries in wartime and in peacetime, under the leadership of the Navy Surgeon General. Highly trained Navy Medicine personnel deploy with Sailors and Marines worldwide—providing critical mission support aboard ship, in the air, under the sea, and on the battlefield. The Navy Medicine team of physicians, dentists, nurses, corpsmen, allied health providers, and support personnel work in tandem with the Army and Air Force medical personnel and coalition forces to ensure the physical and mental wellbeing of service members and civilians. Navy Medicine's military and civilian health care professionals also provide care for uniformed services' family members and retirees at military treatment facilities around the globe. This care is provided via the Defense Health Program and coordinated by the Office of Assistant Secretary of Defense (Health Affairs) with support from the Defense Health Agency. BUMED has 63,000 active duty personnel and reservists, government civilians, and contractors engaged in all aspects of expeditionary medical operations in support of the warfighter. BUMED is headquartered in Falls Church, VA.



Bureau of Naval Personnel

The Bureau of Naval Personnel (BUPERS) provides administrative leadership, policy planning, general oversight, training and education for all Navy personnel. BUPERS strives to support the needs of the DON by providing the fleet with the right person with the right skill set in the right place at the right time, using the most efficient human resource processes possible. BUPERS also provides support services to Sailors and is dedicated to ensuring Sailor readiness and quality of life through its myriad of professional and personal/family focused programs. BUPERS has six subordinate commands: Naval Education Training Command (NETC); Navy Recruiting Command (NRC); Navy Personnel Command (NPC); United States Naval Academy (USNA); Naval Postgraduate School (NPS); and Naval War College (NWC). BUPERS and its subordinate commands have a total of 9,517 authorized full time equivalent (FTE) civilian employees. BUPERS is headquartered in Arlington, VA.



Commander Navy Installations Command

Commander, Navy Installations Command (CNIC) is responsible for Navy-wide Shore installation management as the Navy's shore integrator, designing and developing integrated solutions for sustainment and development of Navy shore infrastructure. CNIC enables and sustains naval forces from the Shore by providing effective and efficient Shore installation services and support to sustain and improve current and future fleet readiness and mission execution. CNIC has 54,000 employees in 11 regions, 70 Installations, and 123 Naval Operations Support Centers. CNIC has overall Shore installation management responsibility and authority as the Budget Submitting Office (BSO) for assigned base operating support functions, military and civilian personnel, infrastructure, and budget. CNIC is headquartered in Washington, DC.



Commander, Navy Reserve Force

Commander, Navy Reserve Force (CNRF), also known as the Commander U.S. Navy Reserve Force, delivers strategic depth and operational capability to the Navy, Marine Corps, and Joint Forces by providing mission-capable units and individuals in support of the full range of operations, from peace to war. The 57,400 personnel of the Navy Reserve represent approximately 15% of the Navy Total Force. The Navy Reserve provides essential warfighting capabilities and expertise, strategically aligned with mission requirements, and is valued for readiness, innovation, and agility. The military component of the Navy Reserve represents only 6% of the Navy's total military personnel budget but is a significant force multiplier for Active Component. CNRF is headquartered in Norfolk, VA.



Department of Navy Assistant for Administration

The Department of the Navy Assistant for Administration (DON/AA) provides administrative management and support to the Office of the Secretary of the Navy (SECNAV), its approximate 4,600 member Secretariat, staff offices, field activities and supported organizations. The command is comprised of administrative divisions focused on customer service, directives and records management, contract management, executive dining, facilities and support services, financial management, human resources, information technology, and security. The DON/AA has 127 personnel and is headquartered at the Pentagon in Arlington, VA.



Field Support Activity

Field Support Activity (FSA) establishes, maintains, and provides a system of financial services as the Budget Submitting Office (BSO) and Principal Administering Office (PAO) for Navy's assigned unified command (PACOM), Navy Headquarters and activities (Navy Band, Naval Safety Center, Naval History and Heritage Command, Naval Legal Service Command), Commander Operational Test and Evaluation Force, the National Defense Sealift Fund, and Department of the Navy Centrally-Managed Bills. FSA initiates action in matters pertaining to the provision of funds and manpower; evaluates resource utilization; and initiates or recommends appropriate corrective actions. FSA has 38 personnel and is headquartered at the Washington Navy Yard in Washington, DC. Additionally, FSA (DNS-F) plans and programs for current and future resource requirements for activities within the Director, Navy Staff (DNS) sponsorship and also provides contract support for DNS/CNO activities.



Military Sealift Command

The Military Sealift Command (MSC) operates approximately 120 noncombatant, civilian - crewed ships that replenish Navy ships at sea, conduct specialized missions, strategically preposition combat cargo at sea around the world, perform a variety of support services, and move military equipment and supplies to deployed U.S. forces and coalition partners. MSC operates five subordinate commands worldwide that are aligned with the numbered fleet logistics staffs in the Atlantic, Pacific, Europe/Africa, Central, and Far East areas. MSC is headquartered in Norfolk, VA, with approximately 9,500 Department of the Navy civilian employees supporting its mission worldwide.



Naval Air Systems Command

The Naval Air Systems Command (NAVAIR) has a force of 29,000 personnel focused on research, design, development, and systems engineering; acquisition management; test and evaluation; training facilities and equipment; repair and modification; and in-service engineering and logistics support of naval aviation aircraft and weapon systems operated by Sailors and Marines. NAVAIR is organized into eight "competencies" or communities of practice including Program Management, Contracts, Research and Engineering, Test and Evaluation, Logistics and Industrial Operations, Corporate Operations, Comptroller, and Counsel. NAVAIR provides support (people, processes, tools, training, mission facilities, and core technologies) to Naval Aviation Program Executive Officers and their assigned program managers, who are responsible for meeting the cost, schedule, and performance requirements of their assigned programs. NAVAIR is the principal provider for the Naval Aviation Enterprise, which maintains top combat effectiveness by smartly managing precious resources and attack readiness degraders, while collaborating across

organization boundaries to deliver ready forces where and when they are needed. NAVAIR is headquartered in Patuxent River, MD with military and civilian personnel stationed at eight locations across the continental United States and one site overseas.



Naval Facilities Engineering Command

The Naval Facilities Engineering Command (NAVFAC) delivers and maintains quality, sustainable facilities; acquires and manages capabilities for the Navy's expeditionary combat forces; provides contingency engineering response; and enables energy security and environmental stewardship. NAVFAC is a global organization with an annual volume of business in excess of \$15 billion. NAVFAC has 18,000 Civil Engineer Corps officers, civilians, and contractors, who serve as engineers, architects, contract specialists and professionals to manage the planning, design, construction, contingency engineering, real estate, environmental, and public works support for Navy shore facilities around the world. As a major Navy systems command and an integral member of the Navy and Marine Corps team, NAVFAC delivers timely and effective facilities engineering solutions worldwide. NAVFAC has 13 component commands and is headquartered at the Washington Navy Yard in Washington, DC.



Naval Intelligence Activity

The Naval Intelligence Activity (NIA) is the leading provider of maritime intelligence to the U.S. Navy and joint warfighting forces, as well as national decision makers and other consumers in the Intelligence Community. NIA specializes in the oversight, collection, analysis, production and dissemination of vital, timely and accurate scientific, technical, geopolitical and military intelligence information for key consumers worldwide. Under the authority and guidance of the Director of Naval Intelligence (DNI), NIA is an Echelon II organization headed by the Deputy Director of Naval Intelligence (DDNI) and charged with overseeing all intelligence activities within the Navy.



Naval Sea Systems Command

The Naval Sea Systems Command (NAVSEA) has a force of 60,000 civilian and military personnel including personnel assigned at public shipyards and regional maintenance centers where NAVSEA is the operating agent and technical authority. NAVSEA provides material support to the Navy, Marine Corps, and other agencies, as assigned, for ships, submersibles, and other sea platforms; shipboard combat systems and components; and other surface and undersea warfare and weapons systems including ship and aviation interface systems; and surface and submarine expendable ordnance. NAVSEA exercises technical authority and certification authority for ship, submarine, diving, and weapon systems. NAVSEA reports to CNO and the Commandant of the Marine Corp, as appropriate, for the execution of logistics sustainment and operating forces

responsibilities. NAVSEA acts for, and exercises the authority of, the Navy Acquisition Executive to manage assigned programs and reports directly to ASN (RD&A) for all matters pertaining to research, development, and acquisition. The organization is located at the Washington Navy Yard in Washington, DC and is responsible for chartering two warfare centers, Naval Surface Warfare Center and Naval Undersea Warfare Center, and 10 working capital fund divisions located throughout the U.S. NAVSEA is also responsible for 9 general fund field activities including 4 Supervisors of Shipbuilding who administer contracts with private sector shipbuilders.



Naval Special Warfare Command

The Naval Special Warfare Command (NSWC) mission is to man, train, equip, deploy and sustain Naval Special Warfare (NSW) forces for operations and activities abroad in support of combatant commanders and U.S. national interests. The NSW community encompasses the Echelon II headquarters, Naval Special Warfare Command, and seven Echelon III commands (seven NSW Groups and the NSW Center), as well as the Echelon IV commands subordinate to the Echelon IIIs. Echelon IV commands include operational forces i.e. Special Warfare Operators (SEAL) Teams and Special Boat Teams, logistics commands, training commands and detachments, mobile communications teams, NSW Units (OCONUS), and a National Mission Force.

NSWC is currently comprised of 10,793 total funded billets (Active Duty, Reserve, Government Civilian, and Contractors), including 2,885 active-duty SEAL billets, 809 Special Warfare Boat Operator billets, 4,457 support billets, 1,012 reserve billets, 1,283 Government civilian FTE and 347 contractor FTE. The NSW Force is organized around 8 SEAL teams, one SEAL Delivery Vehicle Team, three Special Boat Teams and supporting commands which deploy forces worldwide to meet the requirements of theater commanders. NSWC constitutes 11% of U.S. Special Operations Forces and less than 2% of Navy forces. NSWC is headquartered in San Diego, CA.



Naval Supply Systems Command

NAVSUP's mission is to provide supplies, services, and quality-of-life support to the Navy and Joint warfighter. With headquarters in Mechanicsburg, Pennsylvania, and employing a diverse, worldwide workforce of more than 22,500 military and civilian personnel, NAVSUP oversees logistics programs in the areas of supply operations, conventional ordnance, contracting, resale, fuel, transportation, and security assistance. NAVSUP is also responsible for food service, postal services, Navy Exchanges, and movement of household goods. In addition to its headquarters activity, the NAVSUP enterprise is comprised of four major organizations with 12 commands located worldwide.



Office of Naval Research

Naval science and technology (S&T) delivers new capabilities to the Navy and Marine Corps that ensure continued superiority of U.S. naval forces today and warfighters in the future. In keeping with its mandate, the Office of Naval Research (ONR) plans, fosters, and encourages scientific research in recognition of its paramount importance to future naval power and national security. Led by the Chief of Naval Research, ONR provides technical advice to the CNO and SECNAV and oversees the execution of Naval S&T objectives to support a Navy and Marine Corps that is capable of prevailing in any environment. This is done through focusing on S&T areas with big payoffs, encouraging innovative thinking and business processes, and striving to improve the transition of S&T into acquisition programs in the most cost-effective means possible, striking the right balance between responsive near-term technology insertion and long-term basic research. ONR organization employs approximately 1,050 people, comprising uniformed, civilian, and contract personnel. Additional employees staff the Naval Research Lab in Washington, DC. ONR is headquartered in Arlington, VA.



Space and Naval Warfare Systems Command

As the Navy's Information Warfare systems command, the Space and Naval Warfare Systems Command (SPAWAR) develops, delivers, and sustains advanced cyber capabilities for the warfighters. SPAWAR, along with its system centers, space field activity, and three program executive offices, provides the hardware and software needed to execute Navy missions. With nearly 10,000 active duty military and civilian professionals located around the world and close to the fleet, SPAWAR is at the forefront of research, engineering, and acquisition, keeping the forces connected around the globe. As one of the Department of the Navy's major acquisition commands, SPAWAR's realm of expertise is in information technology. SPAWAR creates products and services that transform ships, aircraft, and vehicles from individual platforms into integrated warfighting networks, delivering and enhancing information awareness among all key players. SPAWAR pursues cutting-edge research and development for the Navy's growing cyberspace capabilities and provides the hardware and software that support manned and unmanned systems in the air, at sea, on land, and in space. SPAWAR is headquartered in San Diego, CA.



Strategic Systems Program

Strategic Systems Programs (SSP) directs the end-to-end effort of the Navy's Strategic Weapons Systems to include training, systems, equipment, facilities and personnel, and fulfill the terms of the United States/United Kingdom Polaris Sales Agreement. SSP's lines of business include the Strategic Weapons System, Nuclear Weapons Security and Safety, Guided Missile Submarine (SSGN) Attack Weapons System, and Navy Treaty Implementation Program. In addition, Director SSP has been assigned the responsibility and authority as Nuclear Weapons Regulator via SECNAVINST 8120.1A. SSP is headquartered at the Washington Navy Yard in Washington, DC.



U.S. Fleet Forces Command

The U.S. Fleet Forces Command (COMUSFLTFORCOM) supports both the CNO and Combatant Commanders worldwide by providing responsive, relevant, sustainable Naval forces ready-for-tasking. COMUSFLTFORCOM provides operational and planning support to Combatant Commanders and integrated warfighter capability requirements to the CNO. Additionally, U.S. Fleet Forces Command serves as the CNO's designated Executive Agent for Anti-Terrorism/Force Protection (ATFP), Individual Augmentees (IA), and Sea Basing. In collaboration with U.S. Pacific Fleet, U.S. Fleet Forces Command organizes, mans, trains, maintains, and equips Navy forces; develops and submits budgets; and executes readiness and personnel accounts to develop both required and sustainable levels of fleet readiness. The U.S. Fleet Forces Command has over 120,000 personnel serving around the world. COMUSFLTFORCOM is headquartered in Norfolk, VA.



U.S. Pacific Fleet

The Commander, U.S. Pacific Fleet (COMPACFLT) is the world's largest fleet command, encompassing 100 million square miles, more than half the Earth's surface. The Pacific Fleet consists of approximately 200 ships, 1,200 operational aircraft and more than 140,000 Sailors and civilians. U.S. Commands that fall directly under the Pacific Fleet include "type" commands for surface ships, submarines, aircraft, and Navy construction with an annual budget of \$12 billion. Operational commands that report directly to the U.S. Pacific Fleet include Third Fleet in the Eastern Pacific and Seventh Fleet in Western Pacific and Indian Ocean. U.S. Pacific Fleet protects and defends the collective maritime interests of the United States and its allies and partners in the Asia-Pacific region. In support of U.S. Pacific Command and with allies and partners, U.S. Pacific Fleet enhances stability, promotes maritime security and freedom of the seas, deters aggression and when necessary, fights to win. The U.S. Pacific Fleet is headquartered at Pearl Harbor, HI.

2.3 Analysis of the Schedule of Budgetary Activity

The accompanying SBA, and related disclosures, represents the Navy's enduring commitment to fiscal accountability and transparency. Through the Financial Improvement & Audit Readiness (FIAR) plan and related business transformation initiatives, the Navy has made significant progress toward improving the quality and timeliness of financial information. However, the Navy is currently unable to fully implement all elements of U.S. generally accepted accounting principles (USGAAP) and OMB Circular A-136, "Financial Reporting Requirements," due to limitations of financial and non-financial management processes and systems feeding into the financial statements. Despite documented material weaknesses and because of compensating measures and close oversight, the Navy believes the budgetary information used for decision-making is accurate and reliable.

The DON General Fund includes General Fund appropriations allocated to the Navy solely, the Marine Corps solely, and for certain Treasury Account Symbols, the Department allocates the apportioned funds to both the Navy and Marine Corps Budget Submitting Offices (BSOs) to execute.

The Navy developed the accompanying SBA for the Navy General Fund based on the guidance issued by the Office of the Under Secretary of Defense (OUSD) through its FIAR directorate. For purposes of the Navy SBA, and in alignment with the OUSD guidance, Navy Working Capital Fund data is excluded. The Navy and Marine Corps produce separate SBAs for their General Fund accounting activity, with the Navy SBA undergoing an independent audit. The OUSD guidance prescribes the FY 2016 SBA to be limited to budget activity starting with new appropriations received in FY 2015. The accompanying Navy SBA is produced independent of any Marine Corps data and is intended to demonstrate the Navy's financial reporting improvements through our ability to effectively report budgetary activity.

The ability for the Navy to produce an SBA that can be reconciled to a transaction population in the field level General Ledger systems (GLs) required the implementation of a system solution. This solution, referred to as the Transaction Universe (TU), provides the Navy with a consolidated source of accounting details reconciled to the GLs month-end trial balances and then further reconciled to the data in the Defense Departmental Reporting System (DDRS)—Audited Financial Statements (AFS). DDRS-AFS is the system used across DoD to generate period-end financial statements and other reports. As the DON moves toward increased auditability by engaging in both Navy and Marine Corps SBA audits, the TU also provides a vital capability that allows the Navy to generate a Navy-only SBA. DDRS can produce a consolidated DON-level SBA (Navy and Marine Corps), but cannot systemically generate a Navy-only SBA. The TU provides that functionality and as a result, the accompanying SBA is produced from the TU.

Navy General Fund Appropriations

The Navy General Fund supports overall Departmental operations. Enacted appropriations comprise the majority of the account structure, which includes five major appropriation groups:

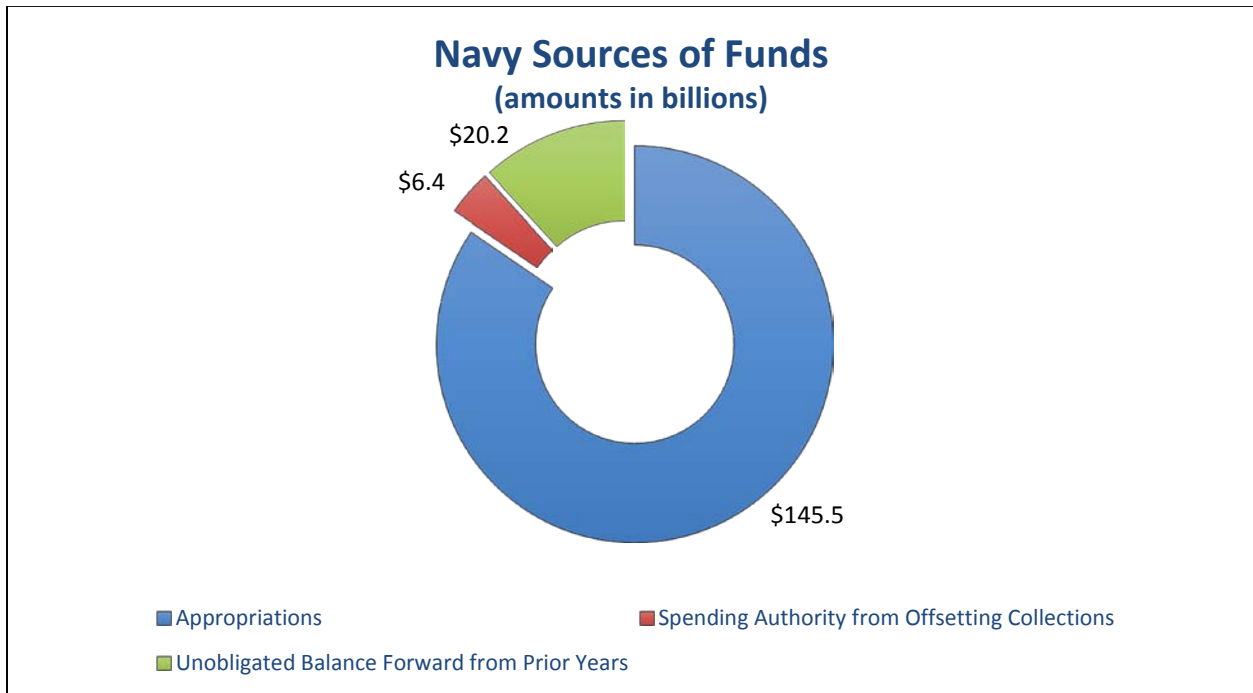
- Military Construction
- Military Personnel
- Operation and Maintenance
- Procurement
- Research, Development, Test, and Evaluation

Enacted appropriations flow through OMB and the Office of the Secretary of Defense to the Office of the Secretary of the Navy, where they are allocated to administering offices and commands. The administering offices and commands then obligate the appropriations to fund operational expenses and capital investments, while exercising a system of effective control over financial operations.

In addition, Navy commands (or Budget Submitting Offices) engage in reimbursable work that generates an additional budgetary resource referred to as spending authority from offsetting collections. This reimbursable work is performed within the DON, within the DoD and/or with other federal and non-federal entities. The Navy's reimbursable funds are summed with direct appropriated authority, as well as other funding sources (such as Transfers-In and Transfers-Out) to create the Navy General Fund budgetary resources available to execute the Navy's mission. The SBA is a schedule developed to report these budgetary resources, as well as the associated status of those resources.

Sources of Funds

The FY 2016 SBA presents total budgetary resources of \$172.1 billion compared to \$143.5 billion from the prior year; comprised of \$145.5 billion and \$136.3 billion in Appropriations for FY 2016 and FY 2015 respectively, and \$6.4 billion and \$6.8 billion in Offsetting Collections for FY 2016 and FY 2015 respectively.

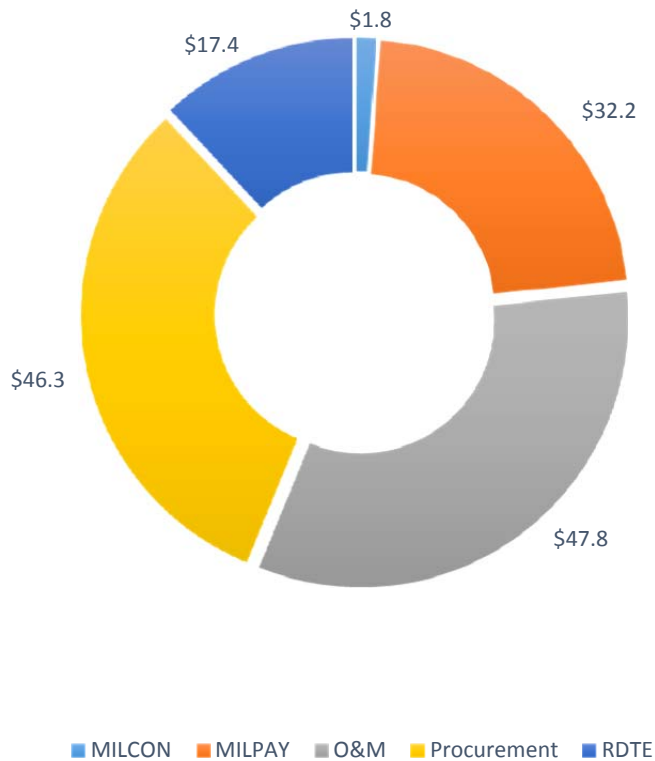


These funds were received across a multitude of Navy General Fund appropriations, with the SBA being comprised of the following:

Treasury Fund Symbol	Appropriation Name
17 2015/2021 0513	Ship Modernization, Operations and Sustainment Fund, Navy
17 2015/2019 0730	Family Housing Construction, Navy and Marine Corps
17 2016/2020 0730	Family Housing Construction, Navy and Marine Corps
17 2015/2015 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17 2016/2016 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17 2015/2015 1000	Medicare – Eligible Retiree Health Fund Contribution, Navy
17 2016/2016 1000	Medicare – Eligible Retiree Health Fund Contribution, Navy
17 2015/2015 1001	Medicare – Eligible Retiree Health Fund Contribution, Marine Corps
17 2016/2016 1001	Medicare – Eligible Retiree Health Fund Contribution, Marine Corps
17 2015/2015 1002	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
17 2016/2016 1002	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
17 2015/2015 1003	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps
17 2016/2016 1003	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps
17 2015/2018 1205	Military Construction, Navy and Marine Corps
17 2015/2019 1205	Military Construction, Navy and Marine Corps
17 2016/2020 1205	Military Construction, Navy and Marine Corps
17 2015/2018 1235	Military Construction, Naval Reserve
17 2015/2019 1235	Military Construction, Naval Reserve
17 2016/2020 1235	Military Construction, Naval Reserve
17 2015/2016 1319	Research, Development, Test, and Evaluation, Navy
17 2016/2017 1319	Research, Development, Test, and Evaluation, Navy
17 2015/2015 1405	Reserve Personnel, Navy
17 2016/2016 1405	Reserve Personnel, Navy
17 2015/2015 1453	Military Personnel, Navy
17 2016/2016 1453	Military Personnel, Navy
17 2015/2017 1506	Aircraft Procurement, Navy
17 2016/2018 1506	Aircraft Procurement, Navy
17 2015/2017 1507	Weapons Procurement, Navy
17 2016/2018 1507	Weapons Procurement, Navy
17 2015/2017 1508	Procurement of Ammunition, Navy and Marine Corps
17 2016/2018 1508	Procurement of Ammunition, Navy and Marine Corps
17 2015/2015 1611	Shipbuilding and Conversion, Navy
17 2016/2016 1611	Shipbuilding and Conversion, Navy
17 2015/2019 1611	Shipbuilding and Conversion, Navy
17 2016/2020 1611	Shipbuilding and Conversion, Navy
17 2015/2015 1804	Operations and Maintenance, Navy
17 2016/2016 1804	Operations and Maintenance, Navy
17 2015/2015 1806	Operations and Maintenance, Navy Reserve
17 2016/2016 1806	Operations and Maintenance, Navy Reserve
17 2015/2017 1810	Other Procurement, Navy
17 2016/2018 1810	Other Procurement, Navy

The Navy appropriations listed can be grouped by primary function, creating the following appropriation types: Military Personnel (MILPERS), Operations and Maintenance (O&M), Procurement, Research Development Technology and Evaluation (RDT&E), and Military Construction (MILCON).

Navy FY 2016 Appropriations (amounts in billions)



Status of Funds

As of September 30, 2016, the status of the total Navy budgetary resources reported on the SBA \$172.1 billion which consist of \$145.8 billion of incurred obligations (direct and reimbursable) and \$26.3 billion in unobligated balances. These amounts for FY 2015 were \$143.6 billion, \$127 billion, and \$16.5 billion respectively. Additionally, of the \$145.8 billion obligated, the Navy General Fund had \$116.3 billion in gross outlays for FY 2016, and \$81.8 billion for FY 2015. The total amounts displayed for the status of budgetary resources equals the total budgetary resources available to the reporting entity as of the operating date.

Analysis of Budgetary Activity

(amounts in thousands)

Key Budgetary Measure	MILCON	MILPAY	O&M	Procurement	RDT&E	Total
Obligations Incurred	\$1,699,969	\$33,059,399	\$53,894,175	\$39,373,547	\$17,729,830	\$145,756,920
Unobligated Balance	\$1,774,542	\$202,484	\$2,152,248	\$20,369,753	\$1,848,717	\$26,347,744
Gross Outlays	(\$719,600)	(\$33,340,095)	(\$48,986,687)	(\$18,375,161)	(\$14,888,164)	(\$116,309,707)

Change in Obligated Balance

For FY 2016 reporting, the Navy presented an adjustment to the Unobligated Balance Brought Forward line of the SBA. This adjustment also impacted the Obligated Balance, Start of Year line. This adjustment was the result of lines previously identified as Navy records in FY 2015 that are now classified as Marine Corps records within the FY 2016 Navy-only trial balance. These records were removed from the 4th quarter trial balance and SBA. This error is related to the scope of the SBA being Navy-only as opposed to a Department of the Navy financial schedule.

Significant Issues

The Navy's plan to achieve compliance with financial accounting standards is today's most comprehensive business transformation initiative. Improving the Navy's financial information will provide Navy leaders with better data to make resource decisions, increase accountability for funds appropriated, reduce the risk of funds misuse, and reduce the number of unsuccessfully processed financial transactions requiring rework.

The Navy continues to make significant progress toward meeting Congressional and DoD mandates for financial audit readiness. As discussed earlier, the Navy underwent a first year audit on its FY 2015 SBA and has completed the audit for the FY 2016 SBA, a significant step toward full financial auditability. Congress has mandated in legislation that Military Departments achieve full auditability by FY 2017.

2.4 Systems, Control, and Legal Compliance

In support of the DON, Navy Commanders, senior leaders, and managers are obligated to safeguard the integrity of their respective programs and operations. Adherence to Federal Financial Management Improvement Act (FFMIA) and the Federal Managers' Financial Integrity Act (FMFIA) enforces the statutory requirements to comply with internal controls that address financial reporting, financial systems, and non-financial operations. Statutory requirements support the production of timely, reliable, and accessible financial information, which facilitate the development and implementation of effective and efficient internal controls. Assessable financial information in conjunction with sufficient controls create efficiencies to standardize processes and ultimately preserves the Navy's limited resources, which is critical to the Department's commitment to national defense and public stewardship.

Included in this section are internal control elements encompassed in the DON's annual Statement of Assurance (SOA), which provides management's FMFIA and FFMIA assessment on the current state of internal control. The DON's overview of internal controls over non-financial operations, financial reporting, and financial systems is described within the enclosed sections.

Management Assurances

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

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems are compliant with the FFMIA (Public Law 104-208).

Internal Control over Non-Financial Operations (ICONO)

The Navy's Managers' Internal Control Program (MICP) is the administrative vehicle for monitoring ICONO. To mitigate fraud, waste, and misuse of DON resources, the evaluation and execution of effective and efficient internal control extends to internal stakeholders and external shared service providers.

Responsibility for program execution and reporting resides within a network of 17 Major Assessable Units (MAU), which includes the Assistant Secretaries of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps, Secretariat Staff Offices, and other entities that report directly to the Secretary of the Navy (SECNAV) or Under Secretary of the Navy.

This year, the Navy built upon the Managers' Internal Control Program (MICP) governance structure to align with the FMFIA and the OMB Circular No. A-123 requirements. The governance structure includes a Senior Management Council (SMC) and Senior Assessment Team (SAT). The SMC oversees the DON MICP and advises the Secretary of the Navy (SECNAV) and Assistant Secretary of the Navy (Financial Management and Comptroller (ASN (FM&C)) on program implementation, effectiveness, and reporting.

The DON MICP provides the required framework and guidance for MAUs to effectively implement a system of internal controls, complete assessments, and provide accurate and timely reporting. The MAUs identify the organizational objectives and the business processes used to achieve their mission. They identify the risk inherent in these business processes and the controls in effect to mitigate them. The MAUs perform control assessments to determine conditions that may significantly affect the DON's missions and objectives, and communicate their level of assurance via the certification statement. Certification statements are used as the primary source documents for the SECNAV's determination of reasonable assurance over the effectiveness of the DON's non-financial operations and processes.

To complement the MAU self-reporting, the SMC periodically directs assessments to determine whether identified operational control deficiencies are pervasive across the DON. These assessments are the result of combined efforts of the DON MICP, Naval Audit Service

(NAVAUDSVC), and Naval Inspector General (NAVINSGEN), which perform the quarterly control environment analysis. This analysis summarizes deficiencies identified in audit reports from the Government Accountability Office (GAO), Department of Defense Inspector General (DoDIG), and NAVAUDSVC. The findings and trends from these analyses are briefed quarterly to the SMC by the Deputy Assistant Secretary of the Navy for Financial Operations (DASN FO) and the Auditor General.

In FY 2016, we identified seven ICONO material weaknesses in the following internal control reporting categories: (1) acquisition, (2) communications/intelligence/security, (3) contract administration/procurement, (4) comptroller and resource management, (5) manufacturing, maintenance, and repair, and (6) personnel and organizational management. The following table lists the material weaknesses:

FY 2016 OUTSTANDING MATERIAL WEAKNESSES		
INTERNAL CONTROL REPORTING CATEGORY	MATERIAL WEAKNESS	TARGET CORRECTION YEAR
Acquisition	Attenuating Hazardous Noise in Acquisition & Weapon	FY 2017
Communications/Intelligence/Security	Personally Identifiable Information (PII)	FY 2017
Contract Administration/Procurement	Contract Management – Service Contracts	FY 2017
Contract Administration/Procurement	Execution of Husbanding Contracts – Husbanding Service Providers	FY 2017
Comptroller and Resource Management	DON Oversight and Management of Improper Payments	FY 2017
Manufacturing, Maintenance, and Repair	Depot Level Maintenance	FY 2018
Personnel and Organizational Management	Military Pay and Personnel	FY 2021

In addition to ICONO assessments described above, the DON MICP encompasses Internal Control over Financial Reporting (ICOFR) and Internal Controls over Financial Systems (ICOFS) into the department's annual SOA to support the Office of the Secretary of Defense (OSD) report to Congress and the President.

Internal Control over Financial Reporting

The Navy continues to build upon prior year progress in improving ICOFR. The DON maintains focus on its audit objectives and understands that a robust internal control program is key to success and sustainability in an audit environment. The DON has made internal controls a cornerstone of its audit readiness program and a key input to its many audit related initiatives.

The DON is executing its beginning balance approach to achieve audit readiness over all principal financial statements, including: the Balance Sheet, Statement of Budgetary Resources, Statement of Net Costs, and Statement of Changes in Net Position. The DON's ICOFR program implements OMB Circular No. A-123, Appendix A, *Internal Control Over Financial Reporting*, through three key

tenets: (1) integration of interrelated testing efforts, (2) expansion of the sphere of accountability across the enterprise, and (3) implementation of strong oversight and program governance.

Integration of Testing Efforts

The DON leverages its audit readiness and other governance programs to test business processes and account balances and validate that key financial reporting controls are in place and operating effectively. Validating control effectiveness helps the DON assess and prioritize its audit and financial reporting resources to the best and most effective uses. The DON uses the following programs to carry out control testing and evaluation:

- Audit Readiness testing through the Independent Verification and Validation (IV&V) effort;
- Evaluation, Prioritization, and Remediation (EPR) validation of implemented corrective actions;
- Business Process Improvement (BPI); and
- Command-Level Sustainment Testing.

Expanding the Sphere of Accountability

The Navy established a new business practice which assigns an accountable official, at the Senior Executive Service (SES) or Flag Officer level, to be the Office of Primary Responsibility (OPR). Their charge is to address SBA NFRs by driving corrective action development and implementation. The OPR executes this charge by facilitating the collaboration and communication necessary among senior leaders and major stakeholders supporting CAP implementation and resource allocation. OPRs also manage a Plan of Action & Milestones to track the timely execution of required remediation steps and escalate potential challenges to senior leadership, which expedites the adjudication process and prevents delays in implementation. The DON further drives ownership and accountability down to the lowest level of the organization by placing the responsibility for control execution at the working level.

Implementing Strong Oversight and Program Governance

As a subset to the SMC, the Navy established a SAT to focus on ICOFR and ICOFS. The SAT instills proper oversight and program governance by assisting BSOs in risk identification and analysis and aligning testing efforts to enterprise risk areas. The SAT will monitor, validate, and provide recommendations on the effectiveness of ICOFR and ICOFS programs to the ASN (FM&C) through the SMC. Furthermore, the SAT monitors and approves all ICOFR material weaknesses and related CAPs, emphasizing an enterprise-wide culture of robust internal controls that produces timely, accurate, and reliable financial reporting.

In FY 2016, we identified 23 material weaknesses in Fund Balance with Treasury, Financial Reporting Compilation, Military Pay, Accounts Receivable, Contract/Vendor Pay, Reimbursable Work Orders, Transportation of Things, Equipment Assets, Real Property Assets, Inventory, Operating Materials and Supplies, and Military Standard Requisitioning and Issue Procedures (Requisitioning Procedures).

Internal Controls over Financial Systems

The Navy made considerable progress during the FY 2016 reporting period towards improving ICOFS. In conjunction with the OSD and service providers, we continue to assess relevant financial system controls to ensure compliance with OMB Circular No. A-123, Appendix D, and FFMIA. ICOFS is the foundation of auditability for financial statements. Consequently, the following ICOFS efforts to facilitate an auditable financial systems environment are underway:

- Establishment of Universe of Information Technology (IT) Systems
- Assessments of Key Financial Systems
- Assessments of Ancillary Systems
- Establishment of IT Control Governance
- Sustainment of Financial Management Improvements to Risk Management Framework
- Information System Continuous Monitoring

In FY 2016, the DON identified nine non-conformances in IT controls across key and ancillary IT systems. The DON noted the following:

- Issues for segregation of duties with ERP system,
- Non-compliance of ERP system with the Standard Financial Information Structure,
- Deficiencies in multiple Federal Information System Controls Audit Manual domains, Standard Accounting and Reporting System – Field Level, and Global Combat Support System - Marine Corps,
- DoD Information Assurance Accreditation and Certification Process issues,
- Lack of standardized and specific control criteria guidance, and
- No governance forum to address financial systems planning and control implementation and management at the Enterprise level.

The following is the management assurance letter for FY 2016.



THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

August 29, 2016

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2016

As Secretary of the Navy, I recognize that the Department of the Navy (DON) is responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Tab A provides specific information on how the DON conducted the assessment of operational internal controls, in accordance with the Office of Management and Budget Circular No. A-123, Management's Responsibility for Internal Control (OMB Circular No. A-123), and provides a summary of the significant accomplishments and actions taken to improve the DON's internal controls during the past year.

The DON conducted its assessment of the effectiveness of internal controls over non-financial operations in accordance with the FMFIA and the Department of Defense Instruction 5010.40, Managers' Internal Control Program Procedures (DoDI 5010.40). Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a modified statement of assurance that the Internal Controls Over Non-financial Operations (ICONO) as of September 30, 2016, were operating effectively with the exception of seven material weaknesses noted in Tab B.

The DON conducted its assessment of the effectiveness of internal controls over financial reporting in accordance with OMB Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a modified statement of assurance that the Internal Controls over Financial Reporting (ICOFR) as of June 30, 2016, were operating effectively with the exception of 23 material weaknesses noted in Tab C. The annex of classified and Special Access Programs' (SAP) material weaknesses has been forwarded through special access channels and is being held at the Office of the Secretary of Defense SAP Classified Office.

The DON also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208) and the DoDI 5010.40. Tab A-1 provides specific information on how the DON conducted this assessment. Based on the results of this assessment, the DON is able to provide a modified statement of assurance that the Internal Controls Over Financial

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2016

Systems as of June 30, 2016, are in compliance with the FFMIA and OMB Circular No. A-123 Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996, with the exception of nine nonconformances noted in Tab D.

My point of contact is Captain Milton Troy, Internal Review and Evaluation Division Director (FMO-4), who may be reached at (202) 433-9228 or milton.troy@navy.mil.


for the SecNav

2.5 Looking Forward

The DON's achievements during FY 2016 established a firm foundation that will assure future success in executing the mission of the Navy and building a sound business operating environment. In FY 2017, the Navy will focus on six objectives. First, maintain a credible and modern sea-based strategic deterrent. Second, sustain a forward global presence to ensure the ability to impact world events. Third, preserve the capability to defeat a regional adversary in a larger-scale, multi-phased campaign, while denying the objectives of - or imposing unacceptable costs on - a second aggressor in another region. Fourth, ensure that the force is ready for these operations through critical afloat and shore readiness and personnel issues. Fifth, continue and affordably enhance asymmetric capabilities. Finally, sustain industrial base to ensure future capabilities, particularly in shipbuilding. In FY 2017 the Navy will balance current readiness needed to execute assigned missions while sustaining a highly capable Fleet, all within a continually constrained and unpredictable fiscal climate.

Personnel

Sailors, Navy Civilians, and their families enable the Navy to remain ready, forward, and engaged in challenging times. The men and women who comprise today's all-volunteer military are of superb caliber, and the Navy continues to invest to sustain this impressive force. Over the next five years, the Navy will continue to make adjustments to properly size manpower accounts to reflect force structure decisions, reduce manning gaps at sea, and improve Fleet readiness. Critical to success is a continued focus in FY 2017 on recruiting, developing, retaining and promoting the best Sailors, to maintain the optimal mix of personnel with the right skills and experience to man the Fleet. To fight and win, the Navy needs a force that draws from the broadest talent pools, values health and fitness, attracts and retains innovative thinkers, provides flexible career paths, and prioritizes merit over tenure. In FY 2017 the Navy will begin to fully invest in the Sailor 2025 Ready Relevant Learning initiative which, through pilot programs, will begin to create a new way of training Sailors through mobile, modularized learning, re-engineered content, and a distributed Learning Continuum IT infrastructure. The Navy will manage personnel strength to deliver a naval force that produces leaders and teams who learn and adapt to achieve maximum possible performance, and who achieve and maintain high standards to be ready for decisive operations and combat.

Readiness

The Navy continues to support requirements for the Carrier Strike Groups, Amphibious Ready Groups, and Marine Expeditionary Forces to respond to persistent and emerging threats. The Navy deploys full-spectrum-ready forces to further security objectives in support of U.S. interests. Every day, more than 100 ships and submarines, embarked and shore based air squadrons, and Navy personnel ashore, are on watch around the globe.

Procurement

To maintain a robust Fleet, the Navy invests in platforms and systems to address today's wide-range of operations. The Navy continues aggressive efforts to reduce acquisition costs and builds

capability that supports the industrial base and provides the required level to maintain an advantage in advanced technologies and weapons, allowing the Navy to operate in every region across the full spectrum of conflict. In FY 2017, the Navy budget procures seven battle force ships, including two Virginia Class submarines, two DDG 51 Arleigh Burke destroyers, two Littoral Combat Ships, and one Amphibious Warfare Assault Ship. Naval aviation provides forward deployed air presence in support of national strategy. The FY 2017 budget procures 94 manned and unmanned aircraft.

Development

The Navy's Research, Development, Test, and Evaluation program supports Navy missions by giving the Department asymmetric and technological advantages against adversaries in all environments and spectrums. Science and technology research is vital to provide for future technologies that support innovative capabilities in shipbuilding, aviation, weapons, and ground equipment. Investment in R&D is also fundamental in the Ohio Replacement Program, Virginia Payload Module, unmanned systems, electromagnetic warfare, and protecting national interests across space and cyberspace.

Infrastructure

The mission of the Navy could not be achieved without high quality facilities that support Sailors, and their families. Further, the ability to rapidly deploy around the globe is directly connected to an effective shore infrastructure. For FY 2017 the Navy's critical goals include financing 36 military construction projects, including 33 baseline projects and three overseas contingency operations projects. Key tenets in the Navy's facilities investment strategy for FY 2017 are as follows: Improving Quality of Life and Safety, Enhancing the Global Defense Posture, Replacing Aging Facilities, Supporting New Systems, Upgrading Operations, Training, and Security Facilities, and Upgrade Infrastructure.

Overseas Contingency Operations

The Navy overseas force posture is shaped by ongoing and projected operational commitments. The Navy continues to counter the Islamic State of Iraq and the Levant and operations in Afghanistan, the Horn of Africa, and other locations in theater, as well as the European Reassurance Initiative. The FY 2017 request includes incremental costs to sustain operations, manpower, equipment, and infrastructure repair, as well as equipment repair and replacement. These costs include aviation and ship operations and maintenance, combat support, base support, mobilized reservists, and other special pays. Beyond the Marines participating in counterinsurgency, security cooperation, and civil-military operations, on any given day there are 4,600 Sailors ashore and another 10,000 afloat. These sailors are conducting operations such as air operations, maritime infrastructure protection, explosive ordnance disposal, combat construction engineering, cargo handling, combat logistics, maritime security, detainee operations, customs inspections, civil affairs, base operations, and other forward presence activities. For the foreseeable future, the demand for naval presence in theater remains high as the DON upholds commitments to allies and partner states. The Navy has active and reserve forces continually deployed in support of contingency operations overseas serving as members of

Carrier Strike Groups, Expeditionary Strike Groups, Special Operating Forces, Seabee units, Marine forces, medical units, and Individual Augmentees.

Financial Operations

The Navy's transformation of business enterprise is of paramount importance, ensuring that all available resources are directed to Sailors. The Department's drive to provide stronger financial management and to achieve auditability will continue its momentum across FY 2017. The DON's plan to achieve compliance with financial accounting standards is the Department's most comprehensive business transformation initiative to date. The purpose of the congressional mandate to achieve financial auditability is to improve the accuracy and accessibility of Departmental financial information. These improvements in turn will: provide DON leaders with more-accurate data to make resource decisions; increase accountability for funds appropriated and reduce the risk of funds misuse; and reduce the number of unsuccessfully-processed financial transactions causing re-work. The result will be improved efficiency, better capability to manage resources, and a business culture based on increased accountability. The focal point of the DON's auditability strategy is upgrading the quality of data flowing from the Department's business and accounting systems. Audit standards require this information to be accurate, timely and completely captured as it flows end-to-end – from origination of a business transaction to its endpoint on a financial statement. Without this proven, reliable automated data stream, enhanced accountability will not be attainable and a favorable audit of the large, complex DON will not be possible. In addition to improving the capability and compliance of its business system suite, the Navy has other major steps to take to arrive at full financial statement auditability. These include strengthening business process controls governing working capital fund operations and increasing the accountability for mission essential major assets. The DON continues to make steady progress toward meeting congressional and DoD mandates for DON financial audit readiness. The Navy reached the first required audit milestone by undergoing audit on its FY 2015 SBA, a big step toward full financial auditability – or, audit readiness on all four of the DON financial statements.

2.6 Goals and the Supporting Financial System Strategies

The Navy's financial system goals and supporting strategies focus on modernizing current systems and addressing certain identified system limitations; in order to support new financial requirements and continue to provide management with accurate and timely financial information.

The DON FIAR Program is a multiyear, Department-wide effort to modernize Navy financial processes and systems to better serve worldwide operations. The goal of the FIAR efforts is to produce more timely financial management information with greater accuracy, reliability, and accessibility. With improved information, the Navy can allocate resources in a more precise way and move closer to producing auditable financial statements.

As described in previous sections, the Navy applied a defined strategy to advance the status of the auditability and reliability of our key systems. This included utilization of resources to conduct FISCAM assessments on selected IT systems through coordinated efforts with OUSD and our service providers. The DON prioritized IT controls based on FISCAM and FIAR guidance to ensure financial data integrity and reliability. While a subset of those systems would not have a direct impact on the transactions and balances represented in the SBA, the material SBA systems are managed within the Navy's system assessment strategy. The Navy is continuing to develop and execute corrective actions to address internal control system weaknesses and FFMA non-conformance.

2.7 Other Management Information, Initiatives, and Issues

During FY 2016, the Navy worked hard to aggressively remediate audit findings from the FY 2015 SBA audit. Additionally, it worked hard to prepare beginning balances for the Navy's first audit of the General Fund Balance Sheet and Statement of Budgetary Resources in FY 2017. This work identified and remediated weaknesses and helped to establish policy to support future audits.

The Navy continues to collaborate with BSO's to establish ownership of audit sustainment work streams down to the lowest echelons; and recommend changes to owners and inform Secretariat and Service Level Program Managers of recommended changes. This has created a centralized capability to manage and track the remediation of deficiencies across the department in order to generate clean financial statements while focusing resources on the highest priority issues.

2.8 Limitations of the Schedule of Budgetary Activity

The SBA has been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the SBA has been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, the SBA is in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The SBA should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

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3.0 Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 14, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: Transmittal of the Disclaimer of Opinion on the United States Navy
General Fund Schedule of Budgetary Activity for FY 2016
(Project No. D2016-D000FS-0110.000, Report No. DODIG-2017-023)

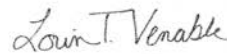
We contracted with the independent public accounting firm of Cotton & Company, LLP, to audit the FY 2016 United States Navy General Fund Schedule of Budgetary Activity (Schedule). The contract required Cotton & Company to conduct the audit in accordance with generally accepted government auditing standards, Office of Management and Budget audit guidance, and the Government Accountability Office/President's Council on Integrity and Efficiency "Financial Audit Manual," July 2008. The Independent Auditor's Report from Cotton & Company is attached.

Cotton & Company's audit resulted in a disclaimer of opinion. Its report does not make an opinion on the Schedule because the Navy could not provide sufficient appropriate audit evidence regarding its completeness, accuracy, and fair presentation. Cotton & Company identified ineffective controls over information technology, ineffective controls over financial reporting and ineffective transactional controls as material weaknesses. Additionally, they identified ineffective processes to determine whether corrective action plans have adequately remediated control deficiencies as a significant deficiency. Finally, Cotton & Company identified three instances of noncompliance with the Federal Financial Management Improvement Act.

In connection with the contract, we reviewed the Cotton & Company report and related documentation and discussed the audit results with Cotton & Company representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Navy Schedule for

FY 2016, conclusions about the effectiveness of internal control, conclusions as to whether the Schedule substantially complied with the "Federal Financial Management Improvement Act" of 1996, or conclusions on whether the Schedule complied with laws and regulations. Cotton & Company is responsible for the attached auditor's report, dated November 14, 2016, and the conclusions expressed in the report. However, our review disclosed no instances in which Cotton & Company did not comply, in all material respects, with GAGAS.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment: As stated



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INDEPENDENT AUDITORS' REPORT

The Secretary of the United States Navy
Inspector General of the Department of Defense

In our engagement to audit the United States (U.S.) Navy's (Navy) General Fund Schedule of Budgetary Activity (the Schedule) for the fiscal year (FY) ended September 30, 2016, we:

- Were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Found three material weaknesses in internal control over financial reporting as of September 30, 2016.
- Found one significant deficiency in internal control over financial reporting as of September 30, 2016.
- Found no reportable noncompliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), based upon our testing.
- Found that the Navy's financial management systems did not substantially comply with the requirements of FFMIA.

The following sections contain (1) our report on the Navy's Schedule and on required supplementary information (RSI) and other information included with the Schedule, and (2) other reporting required by *Government Auditing Standards*, which includes our report on the Navy's internal control over financial reporting; our report on the Navy's compliance with laws, regulations, contracts, and grant agreements; and the Navy's comments on a draft of this report.

REPORT ON THE SCHEDULE OF BUDGETARY ACTIVITY

We were engaged to audit the Navy's Schedule for the FY ended September 30, 2016, and the related notes.

Management's Responsibility for the Schedule

Management is responsible for the Schedule's preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the Schedule's preparation and fair presentation that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on conducting the audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Navy has pervasive deficiencies in its internal controls, including information technology (IT) system controls, and also lacks effective controls to provide assurance that transactions are completely and accurately recorded in its general ledger accounting systems (GLAS). The Navy also lacks controls necessary to ensure the completeness of the universe of transactions, account balances, and Schedule line items. Further, the lack of effective controls impairs the Navy's ability to produce timely interim and year-end financial information, including year-end financial statements and supporting documentation. This financial information was not provided to us in time to perform audit procedures necessary to determine the fair presentation of the Schedule and related footnotes. Additionally, because the FY 2015 Schedule ending balances were not audited, we cannot conclude on the fair presentation of the beginning balances brought forward nor is it practicable to conduct substantive testing of these beginning balances because of the extensive deficiencies in internal controls that existed during FY 2015. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the Schedule's completeness and accuracy.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Schedule.

Emphasis of Matter

As described in Note 1.B., the Schedule has been presented in accordance with guidance issued by the Office of the Under Secretary of Defense. The Schedule presents the Navy's current-year budgetary activity of its General Funds, consisting of FY 2016 budget authority, the ending balances of the FY 2015 budget authority brought forward and any activity on the FY 2015 budget authority occurring during FY 2016, and is not intended to be a complete presentation of the Navy's budgetary resources, status of resources, and outlays.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Disaggregated Schedule of Budgetary Activity, as listed in the Table of Contents, be presented to supplement the Schedule. Such information, although not a part of the Schedule, is required by the Federal Accounting Standards Advisory Board (FASAB), who considers it to be an essential part of financial reporting for placing the Schedule in an appropriate operational, economic, and historical context. We were unable to apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America because the Navy was not able to produce the referenced RSI in a timely manner. We do not express an opinion or provide any assurance on the RSI.

Other Information

The Message from the Assistant Secretary of the Navy for Financial Management and Comptroller, as listed in the Table of Contents, has not been subjected to auditing procedures and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**Report on Internal Control and on Compliance****Internal Control over Financial Reporting**

In connection with our engagement to audit the Navy's Schedule, we considered the Navy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Navy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Navy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Appendix A (Findings 1, 2, and 3) to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Appendix A (Finding 4) to be a significant deficiency.

Our procedures were for the limited purpose described in the first paragraph of this section and were not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance

In connection with our engagement to audit the Navy's Schedule, we performed tests of the Navy's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts, and the provisions referred to in the FFMIA, Section 803(a). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

We did not test compliance with all laws and regulations applicable to the Navy. We limited our tests of compliance to those provisions of laws and regulations that we deemed applicable based upon our procedures. Our tests of compliance with provisions of laws, regulations, contracts, and grant agreements described above, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB audit guidance.

Under FFMIA, we are required to report whether the Navy's financial management systems substantially comply with (1) federal financial management system requirements, (2) applicable federal accounting standards, and (3) application of the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of our tests of FFMIA compliance disclosed instances in which the Navy did not substantially comply with federal financial management system requirements, applicable accounting standards, and the USSGL at a transaction level. These are described in Appendix B.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the Schedule, other instances of noncompliance or other matters may have been identified and reported herein.

The Navy's Response to Findings

The Navy concurred with the three material weaknesses but did not concur with the significant deficiency, which are described in Appendix A. With respect to the significant deficiency, we maintain that the Navy did not have sufficient processes for assessing whether corrective actions to remediate control deficiencies resulted in controls that were properly designed, implemented and operating effectively. The Navy's complete response is in Appendix C. See Appendix D for Cotton & Company's response on the Navy's comments. The Navy's response was not subjected to auditing procedures and, accordingly, we express no opinion on it.

Purpose of Other Reporting Required by Government Auditing Standards

The purpose of this communication regarding "Other Reporting Required by *Government Auditing Standards*" is solely to describe the scope of our limited testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Navy's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

COTTON & COMPANY LLP

A handwritten signature in black ink, appearing to read "Alan Rosenthal", with a stylized flourish at the end.

Alan Rosenthal, CPA, CFE
Partner
Alexandria, VA
November 14, 2016

APPENDIX A:
MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCY NOTED DURING THE ENGAGEMENT

During our engagement to audit the Navy's FY 2016 Schedule, we identified control deficiencies, that when combined, we consider to be three material weaknesses and one significant deficiency in internal control. These material weaknesses and significant deficiency are described in this Appendix.

Finding 1: **Ineffective Controls over Information Technology (Material Weakness)**
Summary Status: **Prior-Year Condition**
 Open

The Navy has not identified and placed in operation effective IT controls over a significant number of its general ledger and financial feeder systems. While the Navy did make progress in remediating a number of IT deficiencies identified as part of the FY 2015 engagement to audit the Schedule, most corrective actions were implemented in the final quarter of FY 2016 and, as a result, the majority of those deficiencies existed throughout most of FY 2016. Overall, pervasive IT internal control deficiencies remain that substantially increase the likelihood of the Navy financial data being incomplete or inaccurate without management's direct knowledge. We reviewed the IT deficiencies identified during our engagement both individually and in the aggregate, and determined that in the aggregate, they represent a material weakness. Deficiencies that had a significant impact on our determination that controls over IT remain a material weakness are:

- **Security Management.** Security management controls help provide reasonable assurance that management is effectively identifying, tracking, and mitigating risks within its IT environment. In FY 2015, the Navy had not implemented effective security management controls to ensure risks related to financial systems and data were appropriately identified, tracked, and timely mitigated. The Navy continues to have a significant number of financial information systems, including five separate GLAS directly related to the Schedule and more than 100 financial feeder systems. These systems are managed in a highly decentralized environment, with responsibility for systems development, maintenance, and security pushed down to lower levels within the Navy. The significant number of financial information systems and the decentralized nature of the IT environment make it onerous for the Navy to manage its system inventory, as well as track the status of the security controls over each system. While the Navy is currently working to address issues around the number of financial systems in use and their decentralized management, significant work is still required. Further, while the Navy has taken action to strengthen its understanding of the financial systems in its inventory and their impact on financial reporting, management still does not have a comprehensive understanding of the dollars that flow through those systems or the role each of those feeder systems play in the Navy's financial processes. While the Navy is working on remediating these deficiencies, these deficiencies remained in place during FY 2016.
- **Access Controls.** Access controls help provide reasonable assurance that access to computer resources (data, equipment, and facilities) is appropriately restricted to authorized individuals. The Navy continues to have control deficiencies around the granting, periodic review, and timely removal of user access to financial systems. The Navy did not consistently document when and for whom access was granted on user access request forms, and inactive accounts were not routinely disabled or deleted in a timely manner. In addition, the Navy did not consistently implement effective audit logging and monitoring controls at the database, operating system, and application-levels, including the periodic review of application-level security logs.
- **Segregation of Duties.** Segregation of duty (SOD) controls help provide reasonable assurance that incompatible duties are effectively segregated. The Navy continues to have control deficiencies around SODs at the database, operating system, and application-levels. The Navy did not consistently identify what activities within financial systems were incompatible and where incompatible access privileges were necessary for valid business purposes. In most cases, where incompatible duties were allowed, the Navy did not identify compensating controls to mitigate risks where possible or the compensating controls identified were not effective. Finally, while the Navy Enterprise Resource Planning (ERP) management did make

progress in fixing SOD issues identified during the FY 2015 engagement, analysis has not been completed for all users and incompatible access removed or compensating controls identified and put in place where necessary.

- **Configuration Management.** Configuration management controls help provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely. The Navy did not consistently implement effective configuration management controls at the operating system, database, and application-levels. Deficiencies exist related to the documentation and review of changes and movement of code between various environments, along with excessive access granted to individuals involved in the change management process.
- **Interface Controls.** Interface controls help ensure the timely, accurate, and complete processing of information between applications. While the Navy made progress in developing and documenting interface controls for some key financial systems, the Navy needs further improvements related to the identification of all relevant financial interfaces and the controls in place or needed around those interfaces. Until the Navy clearly identifies key financial systems and interfaces relevant to financial operations and reporting and ensures controls over interfaces are in place and operating effectively, the Navy cannot reasonably ensure that financial data flowing to the financial reporting system is complete and accurate.
- **Third-Party Systems.** Controls over third-party service provider systems help Navy management ensure that the Navy financial data residing in systems outside of their direct control are completed and accurate. We noted in FY 2015 that the Navy did not have effective controls over third-party service provider systems, including the identification of key points of contact within the Navy, development of appropriate service level agreements (SLAs) with third-party service providers, periodic review of available Service Organization Control (SOC) reports, and implementation of appropriate complementary user entity controls identified in third-party SOC reports. During our FY 2016 testing, we noted corrective actions around third-party service provider systems had not been implemented. Further, the Navy did not develop and execute a memorandum of understanding or SLA that clearly outlined security roles and responsibilities for the Navy and the Defense Finance and Accounting Service for the Standard Accounting, Budgeting, and Reporting System (SABRS GLAS), which was put into production in FY 2016.

We used the following criteria during our engagement:

- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*
- NIST SP 800-37, Revision 1, *Guide for Applying the Risk Management Framework to Federal Information Systems*
- OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- The Department of Defense (DoD) Instruction Number 8500.2, *Information Assurance Implementation*
- Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*
- United States Fleet Forces Command (U.S. FFC), *Account Maintenance Guide for Command Financial Management System (CFMS), version 1.2*

The Navy did not have an effective risk management framework in place to ensure that appropriate security controls over financial systems and data were identified, placed in operation, and periodically tested for effectiveness. In addition, day-to-day security management activities were highly decentralized, with little to no centralized oversight from Navy management. As a result, the identified IT security deficiencies substantially increase the risk of the Navy financial data being incomplete or inaccurate.

We recommend Navy management:

- Develop, document, and maintain a formal list of Navy and third-party financial systems relevant to financial reporting. For each system in the inventory, identify key interfaces and controls that ensure completeness and accuracy of financial data.
- Strengthen existing risk management activities to ensure appropriate controls over financial systems at the operating system-, database-, and application-levels are identified, placed in operation, and periodically evaluated for effectiveness. Specifically, the Navy should address IT deficiencies related to security management, account management, logging and monitoring, segregation of duties, configuration management, interfaces, and compensating controls over third-party systems.
- Centralize financial information security management activities where possible.

Finding 2: Ineffective Controls over Financial Reporting (Material Weakness)
Summary Status: Prior-Year Condition
Open

During our engagement to audit the FY 2016 Schedule, we continued to identify a number of control deficiencies that aggregate to a material weakness in internal control over financial reporting. While the Navy has made progress addressing deficiencies reported during our FY 2015 engagement, much of the progress focused on improving the design of the controls; as a result, the Navy either has not yet implemented many of its corrective actions or corrective actions were implemented late in FY 2016. In addition to the deficiencies noted in the prior-year, we identified a new deficiency related to the Navy's controls over the completeness and accuracy of its unpaid delivered orders.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requires the Navy to design controls to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

- All reported transactions actually occurred during the reporting period.
- All transactions that should be reported are included and no unauthorized transactions or balances are included.
- All transactions are properly valued, and where applicable, all costs are properly allocated.
- Documentation for internal control, all transactions, and other significant events is readily available for examination.

Specifically, we identified the following areas where financial reporting controls are not effective and need improvement:

1. Controls to ensure the completeness and accuracy of the Navy's transactions and account balances in the GLAS are not in place or are not operating effectively.
2. Controls over the preparation of the Schedule and the supporting transactional detail, including the Navy's controls over its service provider, are not effective.
3. Controls over journal vouchers (JV) need improvement.
4. Controls over Fund Balance with Treasury (FBWT) reporting and reconciliations, including the Navy's related controls over its third-party service provider, need improvement.
5. Controls to ensure the completeness and accuracy of the Navy's unpaid delivered orders balance in the GLAS are not in place or are not operating effectively.

We provide details of these deficiencies below.

1. Controls to ensure the completeness and accuracy of the Navy's transactions and account balances in the GLAS are not in place or are not operating effectively.

The Navy continues to have no assurance that transactions are completely and accurately recorded in its five GLAS because it has not fully designed and implemented sustainable and recurring manual and automated reconciliations with the Navy's more than 100 feeder systems. The design and implementation of manual and automated feeder system to GLAS reconciliations is a major undertaking, given the complexity of the Navy's decentralized information systems and the identified pervasive IT weaknesses. The Navy recognizes the need to design and implement the reconciliations, and during FY 2016 redefined and documented its strategy and approach making system owners responsible for ensuring that financial data is completely and accurately transferred from one system to another. Further, the Navy is requiring that every system owner must retain the results of such transfers as audit artifacts. As part of the redesigned strategy, the Navy accelerated its implementation schedule, however, all manual and automated feeder system to GLAS reconciliations will not be in place until FY 2017.

The Navy performs two key reconciliations of budgetary authority. These reconciliations of material amounts were either not designed properly or were not operating effectively.

- The Navy performs an enterprise-wide reconciliation of its appropriated budget authority in its budget system to its GLAS and U.S. Department of the Treasury (Treasury) records; however, the Navy does not always research and resolve identified differences timely. Additionally, the Navy does not complete the reconciliation in advance of the Schedule's preparation or on a monthly basis. Though the Navy revised its procedure and began performing the monthly redesigned reconciliation for the March 2016 period, the reconciliation was not completed consistently and timely. The revised procedure did not address the expectations or roles and responsibilities for researching and resolving variances noted in the reconciliations, or communicating necessary corrective actions. In addition, the revised procedure did not address the frequency or timeliness of the reconciliation.
- The Navy distributes budget authority to commands by issuing a funding authorization document. On a monthly basis, commands are responsible for reconciling appropriated and reimbursable budget authority between authorization documents and the proprietary general ledger accounts in the GLAS. During FY 2016, Navy enhanced its reconciliation procedures to include budgetary general ledger accounts as well as adding procedures to reconcile spending authority from offsetting collections. The Navy, however, did not provide evidence that the revised reconciliation procedures were implemented across all commands or that all commands were properly investigating, documenting, and resolving identified differences timely.

Additionally, on a bi-weekly basis, the civilian payroll system generates a payroll expense file, which is imported to the applicable Navy GLAS. Depending on the GLAS used, either the Navy's commands (Navy ERP) or its service provider (legacy GLAS) is responsible for reconciling the civilian payroll expense file to the GLAS. Due to the lack of or inconsistent policies and procedures, these reconciliations continue to be inconsistently prepared and approved, and differences are not always investigated and resolved timely to ensure the accuracy and completeness of the civilian payroll transactions recorded in the GLAS. The Navy is currently designing corrective actions to resolve these deficiencies; however, they will not be designed and implemented until FY 2017.

The lack of effective internal controls to ensure the completeness of the Navy's transactions recorded in the GLAS increases the risk that appropriations, obligations incurred, spending authority from offsetting collections, and outlays reported in the Schedule are misstated because the budget authority, disbursement, and collection transactions are not complete or accurate.

We recommend Navy management:

- Continue implementing its strategy and approach for designing and placing in operation sustainable and recurring manual and automated reconciliations between the feeder systems and GLAS.

- Revise and implement the procedures for the enterprise-wide reconciliation of appropriated budget authority to the budget system and Treasury records to ensure all differences are investigated, documented, and resolved timely, and the reconciliation is completed monthly and in a timely manner.
- Monitor the performance of command-level monthly reconciliations of budget authority to the GLAS to ensure that differences are investigated, documented, and resolved in a timely manner.
- Develop and implement procedures for performing a bi-weekly reconciliation of the civilian payroll expense file to amounts recorded in the GLAS; centralize responsibility for performing a comprehensive review of the reconciliations to quantify all differences; and monitor activities for timely resolution to ensure the accuracy and completeness of the payroll transactions recorded in the GLAS.

2. Controls over the Schedule preparation and the supporting transactional detail, including the Navy's controls over its service provider, are not effective.

The Navy uses highly complex, multi-step financial reporting processes, workarounds, and a multitude of both general ledger and non-general ledger systems to produce financial reports, including the Schedule. This complexity obscures the Navy's visibility of a transaction's flow from its point of origin to its presentation in the financial statements, complicating the Navy's ability to substantiate amounts presented in the Schedule. The service provider performs much of the financial reporting process, which involves the Navy's five General Fund GLAS, the cash management and budget systems, and the service provider's financial reporting system. The Navy uses numerous crosswalks and complex overlay processes with the intent to record its transactions in the proper USSGL accounts and ensure that budgetary resources, collections, and outlays are complete. These processes include:

- Crosswalking activity recorded in each GLAS to the service provider's financial reporting system.
- Overlaying collection and outlay activity imported from the GLAS into the financial reporting system with activity recorded in its cash management system.
- Overlaying budgetary authority imported from the GLAS into the financial reporting system with amounts recorded in its budget system.

In addition, the need for a large volume of JVs compounds the complexity of the financial reporting process. For example, during each reporting period, nearly 10,000 FY 2015 and FY 2016 General Fund appropriation-related JVs were recorded by the Navy and its service provider in the financial reporting system, of which approximately 89 percent were system-generated JVs related to the overlay and other automated processes. The risks inherent in the financial reporting process necessitate that the Navy and its service provider perform resource-intensive, interdependent activities to reduce the risk of material misstatement in its Schedule.

Although the Navy has documented overall procedures for preparing the Schedule, including the supporting trial balances and supporting transactional detail, it continues to have numerous internal control deficiencies related to these financial reporting processes. The Navy did not finalize the design and document procedures until late September 2016, and controls were not in operation at interim quarters. Also, while the Navy drafted extensive procedures detailing the complex process it uses for compiling the underlying transactional detail that supports amounts presented on the Schedule and its trial balances, these procedures have not been finalized. We noted that draft procedures contained several inaccuracies and inconsistencies and did not mirror the actual processes performed.

During FY 2016, the Navy began performing analytical review procedures over the Schedule and the underlying account balances. Analytical procedures are designed to detect inconsistencies that may be due to material errors and help the Navy ensure the Schedule is complete and accurate. While the Navy designed and began performing analytical procedures during the second quarter and continued performing these analyses during the year, the Navy did not adequately research and resolve inconsistencies that it identified, and therefore, was unable to provide assurance as to whether the Schedule was complete and accurate. Moreover, the Navy's review of the Schedule did not detect that it included U.S. Marine Corp activity.

Lastly, although the Navy has established a SLA with its financial reporting service provider, it did not exercise sufficient oversight of its service provider's financial reporting activities. The service provider's operations assume certain complementary user-entity controls will be placed in operation by user entities, including the Navy, to ensure completeness, accuracy, and validity of feeder file trial balance amounts, JVs, and outputs, such as budget execution reports and the Schedule. The Navy, however, did not implement the complementary user-entity controls to help ensure the accuracy and validity of its financial data. Specifically, during FY 2016, the Navy had opportunities to review other outputs from the service provider during the financial reporting process, including budget execution reports, crosswalks from feeder file trial balances to those trial balances used to generate the Schedule, and excluded lines of accounting. However, these reviews were not documented as having been implemented or performed during the year.

Without sufficient controls over financial reporting, including a documented and repeatable process over the production of the Schedule and supporting transactional detail, and oversight of its service provider, errors in the Schedule may not be prevented, or detected and corrected timely.

We recommend Navy management:

- Coordinate with its financial reporting service provider to reduce reliance on complex crosswalks and overlay processes used to record transactions in general ledger accounts and produce the Schedule. In the interim, periodically reconcile the crosswalks and overlay processes, and take any necessary actions to resolve discrepancies noted in the reconciliations.
- Develop and implement documented and repeatable quality control procedures for preparing and reviewing the Schedule and supporting transactional detail.
- Assign responsibility to Navy personnel to review and approve its service provider financial reporting activities to ensure the Schedule accurately represents the Navy's budgetary activities.
- Continue to implement existing policies and procedures for performing repeatable analytical review procedures over the monthly and quarterly trial balances and quarterly financial statements in a timely manner to include researching variances and making necessary corrections prior to issuing the Schedule.
- Periodically assess the internal control activities over the preparation and review of the Schedule and supporting transactional detail and make adjustments as necessary.

3. Controls over journal vouchers need improvement.

Given the complex financial reporting environment and related processes, a significant number of JVs must be recorded in the Navy's GLAS and financial reporting system to generate the Schedule, compliant with federal reporting requirements. During the first three quarters of FY 2016, the Navy and its service provider recorded on average more than 1,000 manual FY 2015 and FY 2016 General Fund appropriation-related JVs in its financial reporting system. JVs, some of which are recorded systematically, are recorded to align budgetary and proprietary balances, agree balances to Treasury or the Navy's trading partners, and record other activities not captured in the GLAS. The large volume of JVs that require processing within established timeframes, coupled with the complexity of the Navy's operations, creates an environment susceptible to posting logic and other errors.

The Navy does not have adequate controls over adjusting journal entries. JVs prepared by the Navy and its service provider are not always properly supported, lack the underlying transactional detail, or lack complete explanations for their purpose. Moreover, JVs recorded systematically are not verified to help ensure the entries had their intended effect. For example, entries are recorded without underlying support to agree amounts with Treasury or trading partner balances to meet external reporting requirements. We tested 115 JVs recorded by the Navy's service provider and identified 12 JVs lacking sufficient transactional detail to support the entry. Moreover, supervisory reviews did not detect incorrect posting logic or improperly classified amounts and JVs lacking sufficient support. The Navy's service provider also continued recording manual JVs it identified as unsupported.

Further, controls over JVs recorded in the Navy's GLAS by the commands need improvement. During our testing of sample entries recorded during the first quarter of FY 2016, not all adjusting entries meeting the Navy's definition of field level JV were properly documented and reviewed prior to recording the entry in the GLAS. The Navy revised its field level JV policy in June 2016 requiring commands perform quarterly quality and compliance reviews over a sample of JVs recorded in its GLAS and submit the review results to the Navy's Office of Financial Management (FMO). The policy also requires FMO to independently review a sample of the JVs tested by commands. While the Navy's revised oversight policy is effectively designed, and the Navy began implementing the process for third quarter JVs, it is still in the early stages of implementing the policy.

Without effective internal controls over JVs recorded in the GLAS and the financial reporting system, errors may not be prevented or detected and corrected timely, which increases the risk for misstatements in the Schedule.

We recommend Navy management:

- Increase oversight of its service provider to ensure that analyses are complete and JV packages are prepared in accordance with guidelines before recording entries.
- Coordinate with its service provider to ensure monthly reconciliation of all system-generated JVs is performed, verify JVs have their intended effect, and collaborate with all Navy field-level entities to implement monitoring and recording procedures.
- Continue implementing its revised field-level JV monitoring and reporting procedures.

4. Controls over FBWT reporting and reconciliations, including the Navy's related controls over its third-party service provider, need improvement.

The Navy's General Fund FBWT accounts represent the aggregate amount of funds on deposit with Treasury. FBWT accounts are increased by events such as appropriations received, transfers in, and offsetting collections, and are decreased by events such as rescissions of budget authority, transfers out, and outlays. Reconciling FBWT accounts routinely and timely with Treasury records helps ensure that account balances are complete and accurate and that the Schedule is fairly presented. The Navy and its service provider are responsible for reconciling, analyzing, and monitoring the Navy's FBWT.

Although the Navy continues to recognize the need to design and implement a FBWT reconciliation and has made progress with its design, it did not develop and implement a FBWT reconciliation that fully reconciles transactional activity recorded in its GLAS to amounts recorded in its financial reporting system and Treasury records during FY 2016. Moreover, the current reconciliation does not fully identify the underlying causes of reconciling items or ensure that appropriate relationships between budgetary and proprietary general ledger accounts exist. The Navy's current procedures do not require that reconciliations be prepared monthly and during reporting periods, in advance of producing the Schedule or other financial reports.

In addition, the Navy's and its service provider's controls over key FBWT activities, including the resolution of differences between the Navy's and Treasury's records reported on the monthly Statements of Differences, are not properly designed. The Navy and its service provider do not consistently adhere to requirements to research and resolve differences aged more than 30 days, and differences typically are not researched until aged more than 60 days. The Navy and its service provider had not identified to what extent the differences affected the Schedule. Although the Navy and its service provider researched and resolved some of these differences, the cause for a material amount of the differences was unknown and differences were unresolved.

Further, while the Navy and its service provider executed an SLA for FBWT-related services on July 15, 2016, the Navy has not fully implemented procedures for overseeing its service provider to ensure the accuracy, completeness, and timeliness of the FBWT reporting and reconciliation processes. Specifically, developed procedures for overseeing its service provider's FBWT processes, which included documenting respective roles and responsibilities for Treasury reporting and related reconciliations and analyses were not placed in operation until August 2016 and the Navy has not demonstrated the operational effectiveness of these controls.

Without properly designed and effectively operating FBWT reporting and reconciliation processes, the Navy cannot ensure its budget authority, disbursements, and collections are properly recorded and that the Schedule is complete and accurate.

We recommend Navy management:

- Develop, document, and implement a monthly FBWT reconciliation that reconciles the GLAS to the trial balances used to generate the Schedule and Treasury records; identify the root causes for differences, including those due to timing or incomplete processing from the cash management system to the GLAS; ensure that appropriate relationships between budgetary and proprietary general ledger accounts exist; and ensure that corrective actions are taken, as necessary, and are completed timely.
 - Update existing procedures to ensure that all FBWT reconciliations and analyses are completed in advance of producing the Schedule.
 - In coordination with the Navy's service provider, develop, document and implement policies and procedures for resolving identified differences on monthly Statements of Differences, including defining the roles and responsibilities between the Navy and service provider and requirements for researching, resolving, communicating, and documenting differences.
 - Continue to implement procedures to ensure proper oversight of FBWT reporting and reconciliation processes performed by the Navy's service provider.
- 5. Controls to ensure the completeness and accuracy of the Navy's unpaid delivered orders balance in the GLAS are not in place or are not operating effectively.**

Generally accepted accounting principles, established by the FASAB, require accrual accounting, which is recognizing revenues in the period earned and costs in the period incurred. In general, an entity records a payable (unpaid delivered order) when goods or services have been received or progress has been made under a contract even when the entity has not recorded or received an invoice. In such cases, an entity estimates unpaid delivered orders, including amounts for accrued payroll.

The Navy does not have a comprehensive process in place for estimating accrued unpaid delivered orders for goods and services and currently is developing an enterprise-wide methodology to estimate these amounts. While the Navy's service provider has a process for accruing unpaid contractor and vendor invoices and related liabilities that flow through one of its entitlement systems, this only covers a portion of the Navy's accrued unpaid delivered goods and services. The Navy's financial processes were not originally designed for compliance with GAAP requirements, including those related to accrued unpaid delivered orders.

In addition, the Navy does not have standardized methodologies for accruing payroll costs or assessing the reasonableness of payroll accruals. Currently, the Navy's commands estimate and record payroll accruals based on command-specific methodologies, but not all commands have documented their month-end payroll accrual methodology. In addition, commands do not periodically assess the sufficiency of the methodology, including assessing whether significant assumptions used to calculate accrued amounts are appropriate.

Without comprehensive and documented unpaid delivered orders accrual and payroll accrual methodologies in place and periodic assessments of the reasonableness of the methodologies, the Navy has no assurance that it has adequately recognized unpaid delivered orders in the period in which they occurred. This understates unpaid delivered orders and related liabilities and expenses in the current period and overstates them in the subsequent period.

We recommend Navy management:

- Continue developing, documenting, and implementing a comprehensive process to estimate accrued unpaid delivered orders for goods and services enterprise-wide, including designing and implementing periodic reviews of the sufficiency of its estimation process.
- Determine whether a standardized payroll accrual methodology across all commands is appropriate. If so, the standard methodology should require a periodic review and assessment of the assumptions and key factors used in the accrual methodology.
- Require all commands to document and implement their specific accrual methodologies, including periodic reviews and assessments of the assumptions and key factors used in the accrual methodology, if management determines that a standardized payroll accrual methodology across all command is not appropriate.

Finding 3: Ineffective Transactional Controls (Material Weakness)
Summary Status: Prior-Year Condition
Open

In FY 2015, we reported pervasive transactional control deficiencies related to amounts presented on the Navy's Schedule and the Navy began developing corrective actions to address those deficiencies. For example, the Navy developed and implemented a process to link key supporting documentation to summary level records and detailed transactions selected for testing. The Navy also improved on providing readily available documentation evidencing certain transactions, such as disbursing system screenshots, and providing explanations of the nature of transactions selected for testing.

Although progress was made, control deficiencies continued to exist as noted during our testing of transactions. These deficiencies related to transactions involving military and civilian payroll, contractor and vendor payments, military standard requisitioning and issue procedures, reimbursable work orders, transportation of people and things, and adjustments. We noted:

- Of the 968 general ledger entries tested during the first quarter of FY 2016, 25 percent evidenced control deviations or substantive errors and an additional 24 percent were missing key supporting documentation.
- Of the 150 recoveries tested during the second quarter of FY 2016, 56 percent were not valid recoveries or evidenced control deviations and an additional 10 percent were missing key supporting documentation.
- Of the 250 military payroll leave and earnings statements tested for the first quarter of FY 2016, 4 percent evidenced substantive errors and 4 percent were missing key supporting documentation for entitlements.
- Of the 250 civilian payroll leave and earnings statements tested for the second quarter of FY 2016, 12 percent were missing key supporting documentation for entitlements or contributions.

More specifically, the Navy:

- Did not always provide documentation to substantiate the occurrence of obligations or evidence that obligating officials were authorized to bind the U.S. Government.
- Lacked evidence of proper approval or evidence that the approver possessed proper authorization for outlays related to civilian payroll, travel, and other non-payroll delivered orders and offsetting collections.
- Did not properly account for certain budgetary transactions, including those related to rescissions, expenditure transfers, advance collections, cost reclassifications, outlays, and advance payments. For example, the Navy incorrectly recorded progress payments and performance-based payments as advances even though work had been performed. In addition, the Navy incorrectly recorded cost reclassifications within a single appropriation as reimbursable activity. Moreover, the Navy incorrectly recorded certain activities as downward and upward adjustments to prior year obligated balances.
- Did not record certain transactions timely or in the proper period.

- Did not implement sufficient controls for transactions involving intragovernmental orders. For example, the Navy did not consistently review and approve billings prior to making outlays and periodic post-outlay reviews are not regularly performed. In addition, the Navy did not periodically confirm intragovernmental balances with its trading partners.
- Did not always provide evidence of receipt and acceptance for goods and services.
- Did not always provide supporting documentation for sampled transactions, or provided documentation that was not clearly associated to the recorded transactions. In addition, documentation was not always sufficient to support the nature of the accounting event; substantiate recorded transactions, including collections, unpaid delivered orders, and outlays; and evidence whether transactions were recorded in the correct fund or period.
- Did not consistently perform monitoring procedures to assess whether recorded obligations, accounts payable and receivable, unfilled customer orders, outlays, and collections were valid and accurately recorded.

GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control* state that the transactions should be properly authorized and documented, and that supporting documentation should be maintained and be readily available.

The Navy's transactional control deficiencies increase the risk of material misstatements of amounts presented on the Schedule. Moreover, these control deficiencies collectively impede the Navy's ability to substantiate amounts presented on the Schedule; ensure that recorded transactions occurred, are complete, and pertain to the Navy; and ensure the Navy conducted activities only within the scope of its statutory authority. These deficiencies also increase the risk of Antideficiency Act violations.

A variety of factors caused these conditions, including:

- Lack of adherence to internal control standards, applicable regulations, and DoD and Navy policies and procedures related to the documentation, and timely and accurate recording of transactions.
- Lack of documented policies and procedures governing certain transaction types.
- Inadequate review and approval of transactions.
- Insufficient oversight of general ledger systems and feeder systems to ensure transactions are properly recorded.
- Inability to properly retain, manage, and provide supporting documentation.
- Limited experience with and insufficient understanding of general ledger accounting, the nature of certain accounting events, or what documentation sufficiently substantiates specific transaction types.
- Breakdowns in the review of supporting documentation to ensure that complete documentation was provided for audit.

We recommend Navy management:

- Develop and implement policies and procedures concerning the approval, documentation, and timely and accurate recording of transactions in cases where such procedures do not already exist. Consider requirements to properly account for collections and outlays, including advance collections and payments; obligations; cost reclassifications; and rescissions. Policies and procedures should clearly define the roles and responsibilities of each party as well as the communication channels.
- Develop and implement risk-based compensating controls for ensuring that transactions are properly authorized when system controls cannot be relied upon.
- Collaborate with system owners to evaluate posting logic and other configurations, including interfaces, and make necessary updates to ensure transactions are properly recorded. Until system changes are

implemented, develop and implement policies and procedures requiring validations, including timely corrective actions, to ensure transactions are properly recorded.

- Develop and implement policies and procedures to monitor the validity and accuracy of recorded transactions, including developing and implementing policies and procedures to help ensure that obligations funded by spending authority from offsetting collections do not exceed the amount of the related reimbursable order and developing and implementing intragovernmental trading partner confirmations.
- Develop detailed guidance and training on:
 - DoD and Navy policies and procedures, including approval, documentation, and timeliness requirements for obligating the U.S. Government;
 - Limitations on funds availability; and
 - Requirements and procedures for entering into reimbursable agreements.
- Identify and evaluate improperly reviewed and approved budgetary transactions and take necessary corrective actions, including the preparation of any needed adjustments.
- Develop detailed guidance and training on creating, maintaining, and organizing key supporting documentation, including requirements to ensure documentation is complete and clearly associated with the identified transaction.
- Develop guidance for ensuring supporting documentation is readily available for management review and audit purposes.

Finding 4: **Ineffective Processes to Determine Whether Corrective Actions Have Adequately Remediated Control Deficiencies (Significant Deficiency)**
Summary Status: **New Condition**

During FY 2016, the Navy established the Evaluation, Prioritization, and Remediation (EPR) program as a centralized method to manage and track known deficiencies and the related remediation processes. The EPR program establishes accountability for the remediation of deficiencies by designating officials responsible for driving the development and implementation of the Navy's corrective action plans (CAP) and a senior official or Flag Officer who facilitates the necessary collaboration and communication amongst senior leaders and stakeholders for the development and implementation of the CAP.

For IT deficiencies, the Navy has not developed, documented, and implemented (1) a formal standardized process to validate corrective actions taken or (2) a centralized responsibility for management and oversight of CAP development, implementation, and validation. We noted instances in which the IT corrective actions submitted for our review were not properly designed, had not been implemented, or did not effectively resolve the control deficiency. Additionally, we noted instances where management asserted that vulnerabilities had been fully remediated; however, responsibility for the CAP had been transferred to another organization within the Navy with no action to confirm whether the corrective actions had been implemented.

Although validation procedures have been developed for non-IT deficiencies, the Navy has not fully implemented the procedures. As the CAPs were developed and implemented, the Navy performed certain limited procedures to validate that the corrective actions were properly designed to remediate the deficiency, but did not always perform testing to assess whether the actions were fully implemented or whether implemented actions were operating effectively to remediate the deficiency.

OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* requires management's process for resolution and corrective action of identified internal control deficiencies to include the prompt resolution and internal control testing to validate the correction of the control deficiency.

Without an effective validation process to assess both the design and operating effectiveness of the corrective actions, the Navy may not remediate internal control deficiencies, and may inappropriately consider the control deficiency resolved. This increases the risk that a material misstatement could exist and not be prevented or detected and corrected timely.

We recommend that Navy:

- Develop, document, and fully implement a formal IT notification of finding and recommendation (NFR) corrective action validation process to ensure IT corrective actions are adequately tested before concluding that the deficiency is fully remediated. Test procedures and results should be fully documented and retained to support management's assertion that IT deficiencies have been fully remediated.
- Fully implement validation procedures for non-IT deficiencies to include internal control testing and evaluation of testing results for corrective actions that have been effectively designed and implemented. Testing should be sufficiently documented to allow an independent person to understand and re-perform the test. Testing documentation should describe the items tested and clearly describe the test results.
- Develop, document, and implement formal training for individuals responsible for validating corrective actions taken. Training should cover acceptable testing methodologies, required supporting documentation, and clear guidance on how to conclude whether corrective actions are sufficient. Retain evidence of training completion and provide refresher training, as necessary.

APPENDIX B:
NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA) NOTED DURING THE ENGAGEMENT

The Navy is not in compliance with section 803(a) of FFMIA, which imposes requirements concerning (1) federal financial management systems, (2) federal accounting standards, and (3) conformance with the USSGL at the transaction level. The following are instances of the Navy's FFMIA noncompliance:

1. **Federal financial management system requirements.** As discussed in the material weakness *Ineffective Controls over Information Technology* (Finding 1), described in Appendix A, the Navy has not identified and put in place effective IT controls over its significant number of general ledger and financial feeder systems. Specifically, the Navy's deficiencies related to security management, account management, logging and monitoring, segregation of duties, configuration management, interfaces, and controls over third-party systems place financial systems data at a significant risk of being incomplete or inaccurate.
2. **Federal accounting standards.** As discussed in the material weaknesses *Ineffective Controls over Financial Reporting* (Finding 2), and *Ineffective Transactional Controls* (Finding 3), described in Appendix A, the Navy's internal controls were not properly designed and implemented, impeding its ability to prepare the Schedule and support reported amounts in accordance with federal accounting standards. Specifically, the Navy is not appropriately accounting for activity related to advance collections, cost reclassifications, outlays, and advance payments in accordance with federal accounting standards. Accordingly, the Navy did not substantially comply with those standards.
3. **Noncompliance with USSGL posting logic at the transaction level.** Consistent with the Navy's assessment, we confirmed that activity recorded in the GLAS does not produce expected budgetary and proprietary general ledger account relationships, thus indicating noncompliance with the USSGL at the transaction level; see the material weaknesses *Ineffective Controls over Financial Reporting* (Finding 2), and *Ineffective Transactional Controls* (Finding 3), in Appendix A. Instances of USSGL nonconformance occurred when the Navy:
 - Did not record appropriations and Treasury warrants in the GLAS when received.
 - Recorded cost reclassifications within a single appropriation as reimbursable activity.
 - Incorrectly recorded advance payments and collections.
 - Did not properly record progress payments, performance-based payments, and commercial item payments.
 - Incorrectly recorded certain activities as downward and upward adjustments to prior-year obligated balances.

These instances of FFMIA noncompliance are due to a variety of issues. The Navy operates in a highly decentralized and complex environment and has not implemented top-down controls over its financial management processes. It has a large number of financial systems, including some that have been historically mission-focused, that were implemented prior to the establishment of FFMIA requirements. The ability to reconfigure these systems is impeded by the large volume of system interfaces and different system owners. Limited financial and human capital resources also affect the Navy's ability to achieve compliance with federal accounting standards and correct posting logic at the transaction level in its systems. Moreover, because the Navy's GLAS do not meet the requirements of federal financial management systems and do not process all activity at the USSGL level, the Navy uses highly complex, multi-step financial reporting processes to produce financial reports. These complex processes and the thousands of JVs recorded each month exacerbate the conditions that give rise to the Navy's FFMIA noncompliance, which collectively encumber its ability to demonstrate the completeness and accuracy of the Schedule.

In addition to the recommendations in Appendix A, we recommend Navy management:

- Continue to inventory instances of posting logic noncompliance and make necessary reconfigurations in the financial management systems to help ensure all transactions are initiated in accordance with the USSGL.
- Develop and implement procedures and provide targeted training to completely and accurately record all transactions in accord with accounting standards and the USSGL.

APPENDIX C:
THE NAVY'S RESPONSE



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

NOV 14 2016

MEMORANDUM FOR COTTON & COMPANY, LLP

SUBJECT: NAVY'S RESPONSE TO FISCAL YEAR 2016 SCHEDULE OF
BUDGETARY ACTIVITY FINDINGS

During the course of the fiscal year (FY) 2016 independent audit of the Navy's Schedule of Budgetary Activity (SBA), the Navy was able to demonstrate significant progress in remediating many of the recommendations outlined in the FY 2015 Notices of Findings and Recommendations (NFRs). However, we acknowledge further remediation efforts remain. Overall, the Navy concurs with the Independent Auditor's Report and the three identified material weaknesses: ineffective controls over information technology (IT); ineffective controls over financial reporting; and ineffective transactional controls. However, we do not concur with all NFRs that support these material weaknesses. Specifically, the Navy has not concurred with 10 NFRs for the following reasons:

- In several instances, the Navy has developed and implemented corrective actions during FY 2016 to address the root cause of underlying deficiencies identified in the FY 2015 SBA NFRs. In these instances, the Navy provided or has documentation available to support corrective action implementation. As a result, the Navy does not concur with the following NFRs re-issued from the FY 2015 SBA audit:
 - Defense Civilian Personnel Data System to Defense Civilian Payroll System Tri-annual Reconciliation is not operating effectively.
 - Controls over the retention of documentation for inactive duty military member separations do not exist.
 - NAVSEA outlays for procurements with dual cost objects were not accurately recorded.
 - Audit trail for civilian payroll is not sufficient.
 - PBIS Change Management Controls Need Improvement.
 - SLDCADA Segregation of Duty Controls Need Improvement.
- Through coordination across the Navy enterprise and shared service providers, Management identified NFRs where the Navy disagrees with the facts as presented. In many cases, these inaccuracies were the result of the independent auditor misunderstanding the Navy's operations. As a result, the Navy does not

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SUBJECT: NAVY'S RESPONSE TO FISCAL YEAR 2016 SCHEDULE OF
BUDGETARY ACTIVITY FINDINGS

concur with the following NFRs re-issued from the FY 2015 SBA audit and new NFRs identified in FY 2016 SBA audit:

- Supervision, Inspection, and Overhead transactions are not recorded properly
- Recording the movement of funds within the same General Fund appropriation as reimbursable transactions.
- Corrective action plan validation controls are not operating effectively.
- Navy IT NFR Validation Process Needs Improvement

Furthermore, we do not concur with the significant deficiency: ineffective processes to determine whether corrective action plans have adequately remediated control deficiencies. The Navy exercised management discretion through a deliberate, risk-based approach to remediate and validate FY 2015 NFRs, which enabled the Navy to demonstrate progress against auditability milestones to Congress and regulators.

As the Navy continued on its audit journey, we developed and implemented significant corrective actions to address the FY 2015 SBA findings to foster an internal control framework for improved financial management processes and IT systems. The Navy developed and executed a remediation process to formally designate an Office of Primary Responsibility (OPR) that established accountability for the development and implementation of corrective actions to address the root cause of the findings with defined timelines and responsible owners. Management tracked the significant milestones and adjudicated challenges real-time to complete corrective actions focused on addressing prior year findings, enabling sustainable fixes, and enforcing urgency in remediation.

These corrective actions helped serve as a basis for the scope of testing and examination performed during the FY 2016 SBA audit. The Navy acknowledges that business process and IT deficiencies exist, but we are committed to building a strong internal control framework to demonstrate progress and achieve our ultimate objective of clean financial statements.

The Navy will continue to work in collaboration with the Department of Defense Inspector General (DoD IG) and our independent auditor to strengthen our business processes and IT systems in accordance with Generally Accepted Accounting Principles (GAAP).

In the spirit of Office of Management and Budget (OMB) Circular A-123, Section V.C, Audit Follow Up and Cooperative Audit Resolution and Oversight Initiatives, the documentation and dissemination of draft NFRs with the Navy would enable healthy

SUBJECT: NAVY'S RESPONSE TO FISCAL YEAR 2016 SCHEDULE OF
BUDGETARY ACTIVITY FINDINGS

dialogues to achieve a mutual understanding and clarity of the issue before it is finalized, as well as enable the remediation to begin much earlier in the audit process.

The Navy is committed to working with the DoD IG and independent auditor to address outstanding NFRs in alignment with our risk-based approach to achieving full financial statement auditability. We will continue to leverage the strength of our DoD partners and our Navy enterprise to expeditiously remediate deficiencies through sound, sustainable business process and IT solutions.


KAREN L. FENSTERMACHER
Deputy Assistant Secretary of the Navy
(Financial Operations)


JOHN W. GRAVEEN
Deputy Assistant Secretary of the Navy
(Financial Policy & Systems)

APPENDIX D:
AUDITOR COMMENTS ON THE NAVY'S RESPONSE

The Navy concurred with the three material weaknesses but did not concur with the significant deficiency, regarding ineffective processes to determine whether corrective actions have adequately remediated control deficiencies. We maintain that the Navy did not have sufficient processes for assessing whether corrective actions to remediate control deficiencies resulted in controls that were properly designed, implemented, and operating effectively.

We recognize and are encouraged that the Navy has made progress in addressing recommendations from the FY 2015 Schedule audit; however, further progress is needed. The Navy addressed many of our recommendations related to the design or design and implementation of controls; however, because the Navy had not fully implemented the control or determined whether the control was operating effectively, the underlying control deficiency was not completely remediated.

Additionally, the Navy stated that after reviewing the new or reissued notices of findings and recommendations (NFRs), it did not concur with 10 NFRs. An NFR is an individual control deficiency that may or may not, individually or when aggregated with similar deficiencies, rise to the level of either a significant deficiency or a material weakness, as defined by auditing standards. For certain NFRs, the Navy did not provide sufficient audit evidence to support the closure of our recommendations, demonstrate the operating effectiveness of the control, or provide audit evidence timely. Where appropriate, we incorporated changes to our NFRs based on additional information provided by the Navy. We maintain that these NFRs are valid.

The Navy stated that documenting and disseminating draft NFRs to the Navy would enable healthy dialogues to achieve clarity and a mutual understanding of the issues. Throughout the audit, we conducted weekly status meetings with Navy management. During these meetings, our status agenda included written documentation of potential findings and we discussed the overall status of the engagement and the potential findings with Navy management, the DoD Office of Inspector General (OIG), and the GAO. Moreover, we submitted potential exceptions to the Navy and discussed exceptions from our testing and other issues during weekly or semiweekly meetings with Navy FMO, the Office of Financial Policy and Systems (FMP), and other stakeholders, including process owners. This ongoing communication provided an opportunity for all parties to come to a mutual understanding of deficiencies noted during the engagement and for the Navy to commence corrective actions as deficiencies were identified. In addition, once NFRs were submitted to the Navy, it was given 10-15 business days to respond to the findings and present supporting documentation that could result in a revision or removal of a finding. We will continue to confer with the Navy, DoD OIG, and GAO on additional ways that we can assist the Navy during the audit process.

4.0 Financial Section

4.1 Schedule of Budgetary Activity

United States Navy
Schedule of Budgetary Activity
For the Years Ended September 30, 2016 and 2015
(Amounts in Thousands)

	FY 2016	FY 2015
Budgetary Resources:		
Unobligated Balance, Brought Forward, Oct 1	\$ 16,538,611	\$ -
Adjustment to Unobligated Balance, Brought Forward, Oct 1	7	-
Unobligated Balance Brought Forward, Oct 1, as adjusted	16,538,618	-
Recoveries of Prior Year Unpaid Obligations	3,005,823	-
Other Changes in Unobligated Balance	727,138	432,784
Unobligated Balance from Prior Year Budget Authority, Net	20,271,579	432,784
Appropriations	145,452,379	136,316,145
Spending Authority from Offsetting Collections	6,380,706	6,804,322
Total Budgetary Resources	\$ 172,104,664	\$ 143,553,251
Status of Budgetary Resources:		
New Obligations and Upward Adjustments	\$ 145,756,920	\$ 127,014,640
Unobligated Balance, End of Year		
Apportioned	25,480,017	16,538,611
Exempt from Apportionment	219,700	-
Unapportioned	(73,224)	-
Unexpired Unobligated Balance, End of Year	25,626,493	16,538,611
Expired Unobligated Balance, End of Year	721,251	-
Total Unobligated Balance, End of Year	26,347,744	16,538,611
Total Budgetary Resources	\$ 172,104,664	\$ 143,553,251
Change in Unobligated Balance:		
Unpaid Obligations		
Unpaid Obligations, Brought Forward, Oct 1	\$ 45,205,165	\$ -
Adjustment to Unpaid Obligations, Start of Year	(7)	-
New Obligations and Upward Adjustments	145,756,920	127,014,640
Outlays, Gross	(116,309,707)	(81,809,475)
Recoveries of Prior Year Unpaid Obligations	(3,005,823)	-
Unpaid Obligations, End of Year	71,646,548	45,205,165
Uncollected Payments		
Uncollected Payments, Federal Sources, Brought Forward, Oct 1	(2,123,559)	-
Change in Uncollected Payments, Federal Sources	(643,177)	(2,123,559)
Uncollected Payments, Federal Sources, End of Year	(2,766,736)	(2,123,559)
Obligated balance, Start of Year	43,081,599	-
Obligated balance, End of Year	\$ 68,879,812	\$ 43,081,606
Budget Authority and Outlays, Net:		
Budget Authority, Gross	\$ 151,833,085	\$ 143,120,467
Actual Offsetting Collections	(5,740,596)	(4,680,763)
Change in Uncollected Customer Payments, Federal Sources	(643,177)	(2,123,559)
Recoveries of Prior Year Paid Obligations	3,067	-
Budget Authority, Net	145,452,379	136,316,145
Outlays, Gross	116,309,707	81,809,475
Actual Offsetting Collections	(5,740,596)	(4,680,763)
Outlays, Net	110,569,111	77,128,712
Agency Outlays, Net	\$ 110,569,111	\$ 77,128,712

4.2 Notes to the Schedule

NOTE 1. Summary of Significant Accounting Policies

1.A. Reporting Entity and Major Components

The United States Navy (“the Navy”) was founded on October 13, 1775 and along with the Marine Corps, is a component of the Department of the Navy. The mission of the Navy is to maintain, train and equip combat-ready naval forces capable of winning wars, deterring aggression and maintaining freedom of the seas. It is overseen by the Chief of Naval Operations (CNO), and consists of the Operating Forces and Shore Establishment. The CNO is the senior military officer in the Navy, a member of the Joint Chiefs of Staff, and is the principal Naval advisor to the President and SECNAV on the conduct of naval activities of the DON. The CNO’s office is responsible for the command, utilization of resources and operating efficiency of the operating forces of the Navy and of the Navy shore activities assigned by the Secretary. The Navy carries out these duties through multiple organizations (often referred to as commands or BSOs) as described in the MD&A section of this financial report.

1.B. Accounting Principles

This Schedule of Budgetary Activity (SBA) has been prepared to report the financial position and results of operations of the Navy, as required by the SBA guidance issued by OUSD. The SBA is a DoD report developed to demonstrate incremental progress toward full financial statement auditability. The Navy’s full financial statement report was prepared as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The SBA has been prepared from the books and records of the Navy, to the extent possible, by following USGAAP promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, “Financial Reporting Requirements”; and the DoD Financial Management Regulation (FMR). The accompanying SBA accounts for all budgetary resources, based on OUSD guidance that defines the reporting requirements, for which the Navy is responsible unless otherwise noted.

The SBA is a financial schedule that presents the financial activity which occurred within the beginning budget fiscal years 2016 and 2015 in accordance with the OUSD SBA guidance. The SBA presents a subset of activity and elements of the Statement of Budgetary Resources (SBR). The purpose of producing and auditing the SBA is to support the Navy’s continuing assessment of the effectiveness of implementing financial improvements and accurate reporting of the current-year and prior year budgetary activity. Information relative to classified assets, programs, and operations are excluded from the SBA or otherwise aggregated and reported in such a manner that it is not discernable.

1.C. Appropriations and Funds

The Navy receives appropriations and funds as general funds. The Navy uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations,

including military personnel, operation and maintenance, research and development, procurement, and military construction.

Treasury Fund Symbol	Appropriation Name
17 2015/2021 0513	Ship Modernization, Operations and Sustainment Fund, Navy
17 2015/2019 0730	Family Housing Construction, Navy and Marine Corps
17 2016/2020 0730	Family Housing Construction, Navy and Marine Corps
17 2015/2015 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17 2016/2016 0735	Family Housing Operation and Maintenance, Navy and Marine Corps
17 2015/2015 1000	Medicare – Eligible Retiree Health Fund Contribution, Navy
17 2016/2016 1000	Medicare – Eligible Retiree Health Fund Contribution, Navy
17 2015/2015 1001	Medicare – Eligible Retiree Health Fund Contribution, Marine Corps
17 2016/2016 1001	Medicare – Eligible Retiree Health Fund Contribution, Marine Corps
17 2015/2015 1002	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
17 2016/2016 1002	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy
17 2015/2015 1003	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps
17 2016/2016 1003	Medicare – Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps
17 2015/2018 1205	Military Construction, Navy and Marine Corps
17 2015/2019 1205	Military Construction, Navy and Marine Corps
17 2016/2020 1205	Military Construction, Navy and Marine Corps
17 2015/2018 1235	Military Construction, Naval Reserve
17 2015/2019 1235	Military Construction, Naval Reserve
17 2016/2020 1235	Military Construction, Naval Reserve
17 2015/2016 1319	Research, Development, Test, and Evaluation, Navy
17 2016/2017 1319	Research, Development, Test, and Evaluation, Navy
17 2015/2015 1405	Reserve Personnel, Navy
17 2016/2016 1405	Reserve Personnel, Navy
17 2015/2015 1453	Military Personnel, Navy
17 2016/2016 1453	Military Personnel, Navy
17 2015/2017 1506	Aircraft Procurement, Navy
17 2016/2018 1506	Aircraft Procurement, Navy
17 2015/2017 1507	Weapons Procurement, Navy
17 2016/2018 1507	Weapons Procurement, Navy
17 2015/2017 1508	Procurement of Ammunition, Navy and Marine Corps
17 2016/2018 1508	Procurement of Ammunition, Navy and Marine Corps
17 2015/2015 1611	Shipbuilding and Conversion, Navy
17 2016/2016 1611	Shipbuilding and Conversion, Navy
17 2015/2019 1611	Shipbuilding and Conversion, Navy
17 2016/2020 1611	Shipbuilding and Conversion, Navy
17 2015/2015 1804	Operations and Maintenance, Navy
17 2016/2016 1804	Operations and Maintenance, Navy
17 2015/2015 1806	Operations and Maintenance, Navy Reserve
17 2016/2016 1806	Operations and Maintenance, Navy Reserve
17 2015/2017 1810	Other Procurement, Navy
17 2016/2018 1810	Other Procurement, Navy

1.D. Basis of Accounting

The Navy is unable to meet all full accrual accounting requirements. This is primarily because many of Navy's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The Navy SBA and supporting trial balances are compiled from the underlying financial data and trial balances of the Navy's sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), and accruals made for major items such as payroll expenses and accounts payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Navy level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial processes into compliance with USGAAP and includes the pursuit of revising accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until the Navy's financial processes are updated to collect, record, and report financial information as required by USGAAP, there will be instances when the Navy's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Allocation Transfers

The Navy is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Navy receives allocation transfers from the EOP for Foreign Military Financing Program and the International Military Education and Training Program, but does not report these funds. The reporting of these funds is consolidated by the DoD Security Assistance Accounting group at the Defense Finance and Accounting Service and the funds are reported in the DoD AFR at Appendix A in accordance with DoD's agreement with the EOP.

The Navy also receives allocation transfers from the U.S. Forest Service and the Federal Highway Administration. The activities for these funds are reported separately from the DoD financial statements and reported to the parent.

NOTE 2. Adjustments to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year

During fiscal year (FY) 2016 lines identified as Marine Corps records were included in the Navy-only trial balance. These records were removed from the 4th quarter trial balance and Schedule of Budgetary Activity (SBA). This error is related to the scope of the SBA being Navy-only as opposed to a Department of the Navy financial schedule.

With the removal of these specific records, the beginning balance for Unobligated Balance brought forward (SBA Line 1000) had a net increase of \$6,945 and beginning balance for Unpaid Obligations brought forward (SBA Line 3000) had a net decrease of \$6,945.

Per Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, the adjustment lines on the SBA/SBR (Line 1020 and 3006) "are only used for error corrections leading to a restatement of the SBR". The amount of this error is immaterial and therefore Navy will not restate the FY 2015 SBA amounts. However, we choose to use the adjustment lines to present an SBA without the Marine Corps records and presenting beginning balances as adjusted.

Navy continues to improve controls over the completeness and accuracy of the SBA.

NOTE 3. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

As of September 30, 2016			
	Direct Obligations	Reimbursable Obligations	Total
<i>(Amounts in thousands)</i>			
Obligations Apportioned Under			
Category A	\$ 79,852,071	\$ -	\$ 79,852,071
Category B	59,657,739	6,247,110	65,904,849
Exempt	-	-	-
Total	\$ 139,509,810	\$ 6,247,110	\$ 145,756,920

As of September 30, 2015			
	Direct Obligations	Reimbursable Obligations	Total
<i>(Amounts in thousands)</i>			
Obligations Apportioned Under			
Category A	\$ 76,035,545	\$ -	\$ 76,035,545
Category B	45,650,569	5,328,526	50,979,095
Exempt	-	-	-
Total	\$ 121,686,114	\$ 5,328,526	\$ 127,014,640

The direct and reimbursable obligations under Categories A, B, and Exempt (from apportionment) are reported in the table above. Apportionment categories are determined in accordance with the guidelines provided in Part 4 "Instructions on Budget Execution" of OMB Circular A-11 Preparation, Submission, and Execution of the Budget. Category A represents resources apportioned for calendar quarters and Category B represents resources apportioned for other time periods or for activities, projects, objectives, or for a combination thereof.

NOTE 4. Undelivered Orders at the End of the Period

As of September 30, 2016	
<i>(Amounts in thousands)</i>	
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 77,528,349
As of September 30, 2015	
<i>(Amounts in thousands)</i>	
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 44,905,913

Undelivered Orders at the end of the period represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced, but for which delivery or performance has not yet occurred.

5.0 Required Supplementary Information

United States Navy
Disaggregated Schedule of Budgetary Activity
For the Year Ended September 30, 2016
(Amounts in Thousands)

	MILCON	MILPAY	O&M
Budgetary Resources:			
Unobligated Balance, Brought Forward, Oct 1	\$ 793,771	\$ 92,968	\$ 1,707,000
Adjustment to Unobligated Balance, Brought Forward, Oct 1	-	-	-
Unobligated Balance Brought Forward, Oct 1, as adjusted	793,771	92,968	1,707,000
Recoveries of Prior Year Unpaid Obligations	36,268	432,233	1,632,748
Other Changes in Unobligated Balance	8,209	144,997	336,658
Unobligated Balance from Prior Year Budget Authority, Net	838,248	670,198	3,676,406
Appropriations	1,763,358	32,211,262	47,804,506
Spending Authority from Offsetting Collections	872,905	380,423	4,565,511
Total Budgetary Resources	\$ 3,474,511	\$ 33,261,883	\$ 56,046,423
Status of Budgetary Resources:			
New Obligations and Upward Adjustments	\$ 1,699,969	\$ 33,059,399	\$ 53,894,175
Unobligated Balance, End of Year			
Apportioned	1,774,542	51,085	1,362,853
Exempt from Apportionment	-	-	219,700
Unapportioned	-	-	-
Unexpired Unobligated Balance, End of Year	1,774,542	51,085	1,582,553
Expired Unobligated Balance, End of Year	-	151,399	569,695
Total Unobligated Balance, End of Year	1,774,542	202,484	2,152,248
Total Budgetary Resources	\$ 3,474,511	\$ 33,261,883	\$ 56,046,423
Change in Unobligated Balance:			
Unpaid Obligations			
Unpaid Obligations, Brought Forward, Oct 1	\$ 783,603	\$ 1,465,938	\$ 13,925,088
Adjustment to Unpaid Obligations, Start of Year	-	-	-
New Obligations and Upward Adjustments	1,699,969	33,059,399	53,894,175
Outlays, Gross	(719,600)	(33,340,095)	(48,986,687)
Recoveries of Prior Year Unpaid Obligations	(36,268)	(432,233)	(1,632,748)
Unpaid Obligations, End of Year	1,727,704	753,009	17,199,828
Uncollected Payments			
Uncollected Payments, Federal Sources, Brought Forward, Oct 1	(294,904)	(11,799)	(1,726,500)
Change in Uncollected Payments, Federal Sources	(314,277)	(11,403)	(312,421)
Uncollected Payments, Federal Sources, End of Year	(609,181)	(23,202)	(2,038,921)
Obligated balance, Start of Year	488,699	1,454,139	12,198,588
Obligated balance, End of Year	\$ 1,118,523	\$ 729,807	\$ 15,160,907
Budget Authority and Outlays, Net:			
Budget Authority, Gross	\$ 2,636,263	\$ 32,591,685	\$ 52,370,017
Actual Offsetting Collections	(561,337)	(369,020)	(4,253,448)
Change in Uncollected Customer Payments, Federal Sources	(314,277)	(11,403)	(312,421)
Recoveries of Prior Year Paid Obligations	2,709	-	358
Budget Authority, Net	1,763,358	32,211,262	47,804,506
Outlays, Gross	719,600	33,340,095	48,986,687
Actual Offsetting Collections	(561,337)	(369,020)	(4,253,448)
Outlays, Net	158,263	32,971,075	44,733,239
Agency Outlays, Net	\$ 158,263	\$ 32,971,075	\$ 44,733,239

United States Navy
Disaggregated Schedule of Budgetary Activity
For the Year Ended September 30, 2016
(Amounts in Thousands)

	Procurement	RDT&E	Grand Total
Budgetary Resources:			
Unobligated Balance, Brought Forward, Oct 1	\$ 12,163,830	\$ 1,781,042	\$ 16,538,611
Adjustment to Unobligated Balance, Brought Forward, Oct 1	-	7	7
Unobligated Balance Brought Forward, Oct 1, as adjusted	12,163,830	1,781,049	16,538,618
Recoveries of Prior Year Unpaid Obligations	630,691	273,883	3,005,823
Other Changes in Unobligated Balance	170,556	66,718	727,138
Unobligated Balance from Prior Year Budget Authority, Net	12,965,077	2,121,650	20,271,579
Appropriations	46,331,964	17,341,289	145,452,379
Spending Authority from Offsetting Collections	446,259	115,608	6,380,706
Total Budgetary Resources	\$ 59,743,300	\$ 19,578,547	\$ 172,104,664
Status of Budgetary Resources:			
New Obligations and Upward Adjustments	\$ 39,373,547	\$ 17,729,830	\$ 145,756,920
Unobligated Balance, End of Year			
Apportioned	20,442,820	1,848,717	25,480,017
Exempt from Apportionment	-	-	219,700
Unapportioned	(73,224)	-	(73,224)
Unexpired Unobligated Balance, End of Year	20,369,596	1,848,717	25,626,493
Expired Unobligated Balance, End of Year	157	-	721,251
Total Unobligated Balance, End of Year	20,369,753	1,848,717	26,347,744
Total Budgetary Resources	\$ 59,743,300	\$ 19,578,547	\$ 172,104,664
Change in Unobligated Balance:			
Unpaid Obligations			
Unpaid Obligations, Brought Forward, Oct 1	\$ 23,112,944	\$ 5,917,592	\$ 45,205,165
Adjustment to Unpaid Obligations, Start of Year	-	(7)	(7)
New Obligations and Upward Adjustments	39,373,547	17,729,830	145,756,920
Outlays, Gross	(18,375,161)	(14,888,164)	(116,309,707)
Recoveries of Prior Year Unpaid Obligations	(630,691)	(273,883)	(3,005,823)
Unpaid Obligations, End of Year	43,480,639	8,485,368	71,646,548
Uncollected Payments			
Uncollected Payments, Federal Sources, Brought Forward, Oct 1	2,506	(92,862)	(2,123,559)
Change in Uncollected Payments, Federal Sources	8,388	(13,464)	(643,177)
Uncollected Payments, Federal Sources, End of Year	10,894	(106,326)	(2,766,736)
Obligated balance, Start of Year	23,115,450	5,824,723	43,081,599
Obligated balance, End of Year	\$ 43,491,533	\$ 8,379,042	\$ 68,879,812
Budget Authority and Outlays, Net:			
Budget Authority, Gross	\$ 46,778,223	\$ 17,456,897	\$ 151,833,085
Actual Offsetting Collections	(454,647)	(102,144)	(5,740,596)
Change in Uncollected Customer Payments, Federal Sources	8,388	(13,464)	(643,177)
Recoveries of Prior Year Paid Obligations	-	-	3,067
Budget Authority, Net	46,331,964	17,341,289	145,452,379
Outlays, Gross	18,375,161	14,888,164	116,309,707
Actual Offsetting Collections	(454,647)	(102,144)	(5,740,596)
Outlays, Net	17,920,514	14,786,020	110,569,111
Agency Outlays, Net	\$ 17,920,514	\$ 14,786,020	\$ 110,569,111

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Cover Credits

1. Marines board a CH-53E Super Stallion helicopter during flight operations aboard an amphibious transport dock ship (U.S. Navy photo by Mass Communication Specialist 2nd Class Adam Austin/Released)
2. Stars and a lone light illuminate the USS Ronald Reagan (U.S. Navy photo by Mass Communication Specialist 3rd Class Ryan McFarlane/Released)
3. Departing Souda Bay, Greece. The guided-missile destroyer is conducting a routine patrol in support of U.S. national security interests in Europe. (U.S. Navy Photo by Mass Communication Specialist 3rd Class Robert S. Price/Released)

2016



FOR MORE INFORMATION

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