

# Inspector General

United States  
Department *of* Defense



Navy Did Not Develop Processes in the  
Navy Enterprise Resource Planning System  
to Account for Military Equipment Assets

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## Acronyms and Abbreviations

|          |  |
|----------|--|
| BPR      | Business Process Reengineering                                     |
| CMO      | Chief Management Officer   |
| DDRS-AFS | Defense Departmental Reporting System-Audited Financial Statements |
| DPAS     | Defense Property Accountability System                             |
| DON      | Department of the Navy   |
| ERP      | Enterprise Resource Planning                                       |
| FMO      | Office of Financial Operations                                     |
| NAVAIR   | Naval Air Systems Command  |
| NAVSEA   | Naval Sea Systems Command  |



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

July 18, 2013

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

SUBJECT: Navy Did Not Develop Processes in the Navy Enterprise Resource Planning System to Account for Military Equipment Assets (Report No. DODIG-2013-105)

We are providing this report for your review and comment. Department of Navy Office of Financial Operations personnel did not use the Navy Enterprise Resource Planning system to support \$416 billion in military equipment assets reported out of the Defense Departmental Reporting System-Audited Financial Statements. As a result, Navy officials spent \$870 million to implement the Navy Enterprise Resource Planning system and still did not correct the preexisting military equipment material weakness. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Acting Deputy Under Secretary of the Navy responded for the Navy Chief Management Officer and agreed with Recommendation 2; however, the Acting Deputy Under Secretary did not provide planned actions or actions taken. The Deputy Assistant Secretary of the Navy (Financial Operations) responded for the Assistant Secretary of the Navy (Financial Management and Comptroller) and agreed with Recommendations 1.a and 1.b; however, the Deputy Assistant Secretary did not provide sufficient information. Management comments were partially responsive. Therefore, we request that the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Navy Chief Management Officer provide additional comments by August 19, 2013.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send a Microsoft Word (.doc) file and portable document format (.pdf) file containing your comments to [audclev@dodig.mil](mailto:audclev@dodig.mil). Comments provided to the final report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.01. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

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

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting



# Results in Brief: Navy Did Not Develop Processes in the Navy Enterprise Resource Planning System to Account for Military Equipment Assets

## What We Did

Our overall objective was to determine whether amounts reported in the Defense Departmental Reporting System were supported by business processes in the Navy Enterprise Resource Planning (ERP) system for the Aircraft, Shipbuilding, and Weapons Procurement appropriations.

## What We Found

Department of the Navy Office of Financial Operations officials did not use the Navy ERP system to support \$416 billion in military equipment assets reported out of the Defense Departmental Reporting System-Audited Financial Statements. This occurred because Office of Financial Operations officials did not reengineer the business process to record military equipment assets in the Navy ERP system and did not use the asset management functionality for military equipment asset management in the Navy ERP system. As a result, Navy officials spent \$870 million to implement the Navy ERP system and still did not correct the preexisting military equipment material weakness. In addition, the Navy's unauditable military equipment assets increased the risk that DoD will not achieve its goal of audit readiness by FY 2017.

## What We Recommend

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

- reengineer the business process used to record military equipment and correct the existing material weakness in military equipment valuation and

- implement processes in the Navy Enterprise Resource Planning system to properly record and support military equipment assets in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 6.

We recommend that the Department of the Navy Chief Management Officer require the Department of Navy Office of Financial Operations, in conjunction with the Navy Enterprise Resource Planning system Program Office, to develop a business process reengineering plan that accounts for military equipment assets, and considers the Navy Enterprise Resource Planning system as one of the possible solutions.

## Management Comments and Our Response

The Acting Deputy Under Secretary of the Navy responded for the Navy Chief Management Officer and agreed with the recommendation. However, the Acting Deputy Under Secretary did not provide planned actions or actions taken. The Deputy Assistant Secretary of the Navy (Financial Operations) responded for the Assistant Secretary of the Navy (Financial Management and Comptroller) and agreed with the recommendations. However, the Deputy Assistant Secretary did not provide sufficient information on how the Navy was going to correct the military equipment valuation material weakness. Therefore, management comments were partially responsive. We request that the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Navy Chief Management Officer provide additional comments by August 19, 2013. Please see the Recommendations Table on the back of this page.

**Recommendations Table**

| <b>Management</b>  | <b>Recommendations<br/>Requiring Comment</b> | <b>No Additional Comments<br/>Required</b> |
|--|--|--|
| Assistant Secretary of the Navy<br>(Financial Management and<br>Comptroller) | 1.a, 1.b                                     |  |
| Navy Chief Management Officer  | 2  |  |

**Please provide comments by August 19, 2013.**



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# Introduction

## Objective

Our overall objective was to determine whether amounts reported in the Defense Departmental Reporting System were supported by business processes in the Navy Enterprise Resource Planning (Navy ERP) system for the Aircraft, Shipbuilding, and Weapons Procurement appropriations. See Appendix A for a discussion of the scope and methodology and prior audit coverage.

## Background

Public Law 111-84, “National Defense Authorization Act of 2010,” October 28, 2009, requires auditable DoD financial statements by September 30, 2017. The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged seven material weaknesses<sup>1</sup> related to seven of the Navy’s business processes and systems (Collections and Disbursements, Procure to Pay Processes, Real Property, General Equipment, Military Equipment, Operating Materials and Supplies, and Inventory) that prevent the Navy from producing auditable financial statements. These material weaknesses exist, in part, because the Navy did not design its legacy accounting systems to maintain auditable data at the transaction level to support the amounts reported on its financial statements. As of September 30, 2012, the Navy reported a military equipment asset balance of \$416 billion, which represents 85 percent of total assets reported in the Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS).

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, developed the Financial Improvement and Audit Readiness Plan, which is updated biannually, to improve DoD’s financial processes, controls, and information. The guidance for the Plan states that reporting entities implementing ERP systems as a solution for audit impediments should map known processes and control weaknesses to new systems requirements to ensure that ERP systems will adequately address the impediments. Before and during implementation of the Navy ERP system, the Financial Improvement and Audit Readiness Plan identified the system as part of the solution to the Military Equipment material weakness.

### ***Department of the Navy Chief Management Officer Tasked With Improving Business Systems***

On April 30, 2008, the Secretary of the Navy designated the Under Secretary of the Navy as the Department of the Navy (DON) Chief Management Officer (CMO). The DON CMO is the principal driver of Business Transformation in the Navy and Marine Corps.

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<sup>1</sup> 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.

One of the DON CMO's priorities is to deliver Navy business systems through improved program execution and management.

Section 2222, title 10, United States Code introduces new requirements for the DoD's investment review process, stipulating that defense business systems should not be certified to obligate funds in excess of \$1 million without determining whether an appropriate business process reengineering (BPR) was completed. Section 1072 of Public Law 111-84 requires the DON CMO to determine whether an adequate BPR occurred for ongoing defense business system modernizations to ensure that the business processes to be supported by the defense business system modernization will be as streamlined and efficient as possible. Section 901 of Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," December 31, 2011, requires that the Pre-Certification Authority determine that appropriate BPR was completed before funds in excess of \$1 million are obligated for defense business systems.

### ***Navy ERP System Implemented to Update and Standardize Business Operations***

The Navy ERP system is an integrated business management system that was designed to update and standardize Navy business operations, provide financial transparency across the enterprise, and increase effectiveness and efficiency. The Navy uses a software product from the SAP Corporation<sup>2</sup> that allows them to unify, standardize, and streamline all its business activities into one integrated system. The Command Implementation Guidance, "Navy Enterprise Resource Planning Program," version 3.0, August 31, 2010, states that the Navy ERP system also has the ability to generate auditable financial statements compliant with all financial accounting standards and governing policies, regulations, and laws.

### ***Navy Office of Financial Operations Provides Oversight***

The DON Office of Financial Operations (FMO) provides financial management guidance, among other functions, to the Navy. FMO reports on financial data and manages accounting and financial-related programs to help commands comply with DoD requirements. FMO leads financial programs and activities that are designed to improve the Navy and support the warfighter. FMO also provides guidance and support to the Navy ERP Program Management Office to resolve financial management issues. Additionally, FMO uses the Defense Finance and Accounting Service to create and report the Navy's financial statements through DDFS-AFS.

## **Review of Internal Controls**

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as

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<sup>2</sup> SAP Corporation produces enterprise resource planning software. Its software provides role-based access to critical data, applications, and analytical tools and allows customers to streamline their processes across procurement, manufacturing, service, sales, finance, and human resources.



intended and to evaluate the effectiveness of the controls. We identified an internal control weakness regarding the implementation of the Navy ERP system. Specifically, FMO personnel did not use the Navy ERP system to support \$416 billion in military equipment assets. This occurred because FMO officials did not reengineer the business process to record military equipment assets in the Navy ERP system and did not use the asset management functionality for military equipment in the Navy ERP system. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Navy.

## **Finding. Navy ERP System Did Not Account for Military Equipment Assets**

FMO officials did not use the Navy ERP system to support \$416 billion<sup>3</sup> in military equipment assets reported out of the DDRS-AFS. This occurred because FMO officials did not reengineer the business process to record military equipment assets using the Navy ERP system and did not use the asset management functionality for military equipment asset management in the Navy ERP system. As a result, Navy officials<sup>4</sup> spent \$870 million to implement the Navy ERP system and still did not correct the preexisting military equipment material weakness. In addition, the Navy's unauditable military equipment assets increased the risk that DoD will not achieve its goal of audit readiness by FY 2017.

### **Navy ERP System Implemented Without Correcting Existing Military Equipment Material Weakness**

FMO officials did not use the Navy ERP system to support \$416 billion in military equipment assets reported out of the DDRS-AFS. Navy officials first identified military equipment valuation as a long-standing financial material weakness in 2005. In addition, the DoD Office of Inspector General and the Government Accountability Office noted inaccurate reporting of military equipment on Navy's financial statements as early as 1996. Given this, Navy officials identified the Navy ERP system as the solution to its military equipment material weakness. For example, Navy officials stated in several Financial Improvement and Audit Readiness Plans that the Navy ERP system is its means to achieve audit readiness for the military equipment material weakness. Specifically, Navy officials stated in the December 2005 plan, before the first system implementation in 2007, that it would use the Navy ERP system to account for military equipment assets. In the November 2012 plan, the military equipment material weakness was still linked to the Navy ERP system. In addition, several Navy ERP requirements documents (such as the Navy ERP Economic Analysis for Full Deployment Decision, March 23, 2011, and Navy's Capability Production Document for Navy ERP, version 3, June 30, 2009) outlined how the Navy ERP system would automate and track the recording of military equipment assets. However, FMO personnel stated that the Navy ERP system did not account for military equipment assets because they did not plan to account for military equipment assets using the system.

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<sup>3</sup> This amount includes assets from the Aircraft, Shipbuilding, and Weapons Procurement appropriations.

<sup>4</sup> Navy officials include decision makers from multiple offices, including Navy ERP system Program Office, Program Executive Office-Enterprise Information Systems, and the Assistant Secretary of the Navy, Research, Development, and Acquisition.

## **Business Processes Needed Reengineering and Navy ERP Needed Configuration**

FMO officials did not reengineer the business processes to record military equipment assets in the Navy ERP system and did not configure the functionality for military equipment asset management in the Navy ERP system. We made several attempts to determine why the business processes for military equipment asset reporting was not reengineered before the Navy ERP's implementation. In response, FMO personnel stated they could not provide documentation for this decision and any response would be part of their official response to the draft report. In addition, FMO personnel confirmed that, as of January 2013, no plan was in place to include military equipment asset management in the Navy ERP system.

### ***Business Process Not Reengineered***

FMO officials did not reengineer business processes to account for military equipment assets. The Navy should have planned the business process before it implemented the system to correct the existing military equipment valuation material weakness. In addition, section 1072 of the Public Law 111-84 establishes new requirements that required ongoing defense business system modernizations be certified as to whether or not business process reengineering had occurred to ensure the system will be as streamlined and efficient as possible. As a result of these new requirements for BPR, the Navy started Business Process Standardization meetings in November 2012 to identify how it would reengineer its business processes to account for military equipment assets in the Navy ERP system. However, as of January 2013, the Navy did not have a plan in place to standardize or reengineer these processes.

Section 1072 requires the DON CMO to determine if appropriate BPR efforts were completed and, if not, the DON CMO must develop a plan for conducting appropriate BPR efforts. DON CMO personnel stated that the military equipment assets were not included because there was not a business case to do so. Consequently, DON CMO personnel did not require Navy ERP Program Office personnel or FMO officials to complete a formal BPR plan that included military equipment assets in the Navy ERP. According to the DoD DCMO:

[t]he business case provides a compelling, defensible, and credible justification for the recommended approach to solving a defined problem. It includes a problem statement, which is the output of the analysis conducted after a business need, capability gap, and/or problem is identified. Together, the business case and problem statement: address the fundamental decision of whether or not the Department should take further action to solve the problem; and erase the need for duplicative and cumbersome documentation requirements.

However, the existing military equipment material weakness should be a credible reason to create a business case because its correction will improve the Navy's ability to produce auditable financial statements. Therefore, the DON CMO should require FMO, in conjunction with the Navy ERP Program Office, to develop a BPR plan supported by a business case that accounts for military equipment assets in the Navy ERP system.

## **Asset Management Functionality Not Configured**

FMO officials did not configure the functionality for military equipment asset management in the Navy ERP system. The Navy initiated a project in April 2010 to determine whether the Navy ERP system could account for military equipment assets. The project identified gaps that prevented the Navy ERP system from recording military equipment assets. For example, the Navy ERP system did not have a dedicated general ledger account for military equipment. Navy officials developed an engineering change proposal dated January 18, 2012, for the Navy ERP system that would address the gaps identified in the project and configure the Navy ERP system to record military equipment properly. The engineering change proposal planned to configure the Navy ERP system to capture transaction events throughout the asset's lifecycle. Also, the engineering change proposal was intended to fix the gaps that prevented Navy commands<sup>5</sup> from being audit ready, contributed to non-compliance with DoD regulations, such as DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 6, and prevented the implementation of corrective action to address material weaknesses recognized in the 2010 and 2011 Navy Statement of Assurance. In the engineering change proposal, Navy officials stated that the primary benefit for implementing the configuration change was to comply with regulations and support auditability. However, Navy officials did not implement the engineering change proposal because they did not reengineer their business process for recording military equipment assets.

## **Asset Accounting Capabilities Needed to Achieve Audit Readiness**

Navy officials spent \$870 million to implement the Navy ERP system and still did not correct the preexisting military equipment material weakness. Without reengineered business processes and asset accounting capabilities in the Navy ERP system, Navy

*The Navy's unauditible military equipment assets increased the risk that DoD would not achieve its goal of audit readiness by FY 2017.*

officials will not correct the existing military equipment material weakness. In addition, the Navy's unauditible military equipment assets increased the risk that DoD would not achieve its goal of audit readiness by FY 2017. FMO officials used inefficient manual processes and journal vouchers to

report the amount of military equipment assets on its financial statements rather than using the Navy ERP system. For example, FMO manages a process that involves data calls and manual entries from six systems,<sup>6</sup> so it can provide the military equipment summary value to the Defense Finance and Accounting Service for reporting purposes.

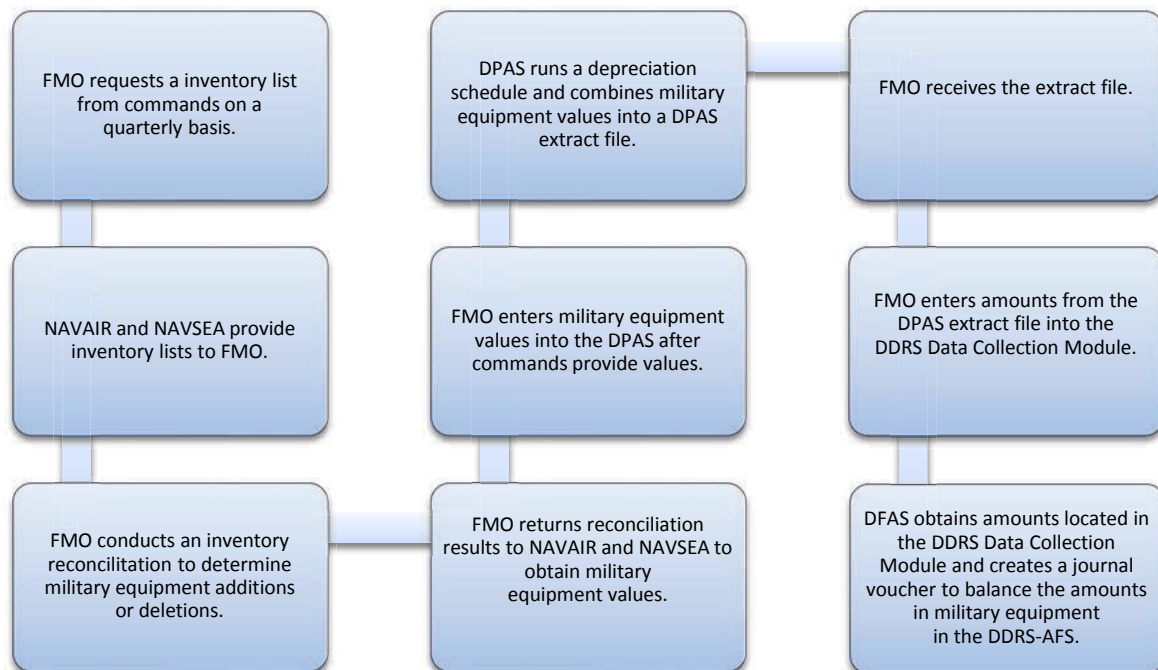
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<sup>5</sup> The four major commands that use the Navy ERP system are Naval Air Systems Command, Naval Sea Systems Command, Naval Supply Systems Command, and Space and Naval Warfare Systems Command.

<sup>6</sup> The six systems are Aircraft Inventory and Readiness Reporting System, Naval Vessel Register, Standard Accounting and Reporting System-Headquarter Claimant Module, Defense Property Accountability System, DDRS-Data Collection Module, and DDRS-AFS.

For this process, Naval Air Systems Command (NAVAIR) and Naval Sea Systems Command (NAVSEA) personnel use data from their individual property systems to provide a list of military equipment assets, values, and useful life data to FMO. Then, FMO reconciles these updates to assets in the Defense Property Accountability System (DPAS). FMO makes manual adjustments in DPAS to reflect the changes for the period. Once updates have been made, DPAS automatically calculates and runs the depreciation based on the dates, values, and useful life data that FMO entered. DPAS creates an extract file that shows a complete list of military equipment assets, including aircraft and ships. FMO analyzes this extract file to ensure that all additions and deletions for the quarter were properly entered. Once FMO verifies the information is complete, the DPAS Program Office runs an accounting report that combines all the asset categories in a summary document. Finally, DPAS Program Office sends the document to FMO for entry into the DDRS-Data Collection Module. The Defense Finance and Accounting Service uses the summary value from the DDRS-Data Collection Module to prepare journal vouchers in DDRS-AFS for military equipment assets. The audit team generated the figure below shows the DoDIG summarized version to depict the FMO-managed process that involves data calls and manual entries from six systems. For the official FMO process, see Appendix B.

**Figure 1. FMO-Managed Process for Reporting Military Equipment Assets**

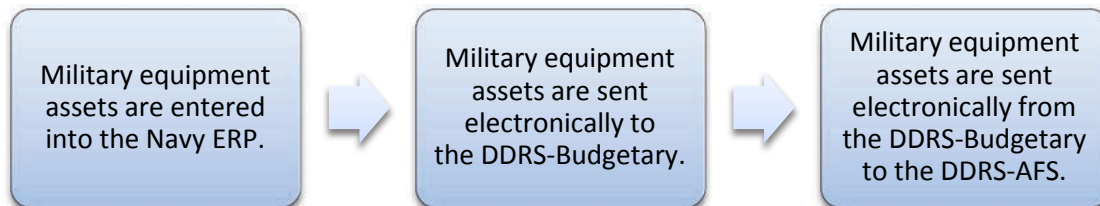


Source: Audit Team Summarization Depicting the FMO-Managed Process

The process above is inefficient and the Navy cannot trace the military equipment summary value back to individual military equipment assets, resulting in an inadequate audit trail. If FMO officials reengineer their business processes to account for military equipment assets and use the asset management functionality in the Navy ERP system, they could simplify the process above. For example, Navy personnel could enter military equipment assets directly into the Navy ERP system, when acquired, and all accounting

functions related to those assets could occur in the Navy ERP system. The military equipment assets information could then be sent, through direct interface, to the DDRS-Budgetary and ultimately to the DDRS-AFS for financial reporting. The figure below shows a hypothetical process that accounts for the Navy's military equipment assets, using only two systems.

**Figure 2. Hypothetical Process for Military Equipment Assets**



Source: Audit Team

If the Navy revises its process and uses the Navy ERP system to account for military equipment assets (as shown above), then it could track its actual costs from acquisition through retirement. Additionally, a clear audit trail would exist in the systems because the Navy ERP system would feed directly in to the DDRS-AFS. Therefore, the Assistant Secretary of the Navy (Financial Management and Comptroller), should reengineer the business process used to record military equipment and correct the existing material weakness in military equipment valuation. In addition, the Assistant Secretary of the Navy (Financial Management and Comptroller), should implement processes in the Navy ERP system to properly record and support military equipment assets in accordance with DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 6.

## **Recommendations, Management Comments, and Our Response**

**1. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):**

**a. Reengineer the business process used to record military equipment and correct the existing material weakness in military equipment valuation.**

**b. Implement processes in the Navy Enterprise Resource Planning system to properly record and support military equipment assets in accordance with DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 6.**

### ***Department of the Navy Comments***

The Deputy Assistant Secretary of the Navy (Financial Operations) responded for the Assistant Secretary of the Navy (Financial Management and Comptroller) and agreed with the recommendations. He stated while the military equipment valuation has been a long-standing financial reporting weakness, other competing requirements have consumed the majority of the Navy’s available resources. The Deputy Assistant Secretary stated the Navy established an Executive Level, Property Governance Council to address enterprise wide property issues. He stated FMO personnel would engage the Property Governance Council to advance the priority of information technology investments on the military equipment valuation material weakness. The Deputy Assistant Secretary stated the Property Governance Council serves as a critical element for the Department of the Navy to comply with the Public Law 111-491, “National Defense Authorization Act for Fiscal Year 2011,” May 21, 2010 requirement to ensure financial statements are auditable by September 30, 2017.

### ***Our Response***

Comments were partially responsive. We recognize there will be competing priorities when implementing a system of this magnitude. However, the Navy ERP can accomplish many business functions for the Navy and should be used to its fullest extent possible. The military equipment valuation weakness has been a long-standing problem for the Navy and existed before the Navy ERP was implemented. If the Navy uses the Navy ERP to account for military equipment, it could eliminate the material weakness. Therefore, we ask that the Assistant Secretary of the Navy (Financial Management and Comptroller) provide a plan for correcting the material weakness in military equipment valuation, a timeframe for when the Navy expects to meet with the Property Governance Council to adjust prioritization for correcting the weakness, and provide determinations that the Council made by August 19, 2013.



**2. We recommend that the Navy Chief Management Officer require the Office of Financial Operations, in conjunction with the Navy Enterprise Resource Planning System Program Office, to develop a business process reengineering plan that accounts for military equipment assets, and considers the Navy Enterprise Resource Planning system as one of the possible solutions.**

### ***Department of the Navy Comments***

The Acting Deputy Under Secretary of the Navy responded for the Navy Chief Management Officer and agreed with the recommendation. The Acting Deputy Under Secretary stated the agreement was based on the expectation that the Navy ERP system would not be considered as the sole source solution and other possibilities would be considered through business process analysis.

### ***Our Response***

Comments were partially responsive. The intent of the recommendation was to require a business process reengineering plan that corrects the military equipment material weakness. Comments from the Acting Deputy Under Secretary did not include an action plan for developing a business process reengineering plan or correcting the material weakness. Therefore, we ask that the Navy Chief Management Officer provide additional comments by August 19, 2013.

## **Appendix A. Scope and Methodology**

We conducted this performance audit from August 2012 through May 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit focused on the implementation of the asset management functionality in the Navy ERP system and its current processes and procedures used to account for and report military equipment on the Navy's financial statements. Our scope included examining Aircraft, Shipbuilding, and Weapons Procurement appropriations amounts reported in the DDERS to determine whether those amounts are supported by business processes in the Navy ERP system. We focused on military equipment assets because they comprise the majority of those appropriations values.

### **Oversight**

We interviewed personnel from the offices of FMO, NAVAIR, NAVSEA, and Defense Finance and Accounting Service regarding their involvement and oversight in the implementation of the Navy ERP system and requested supporting documentation. In addition, we conducted interviews with FMO personnel to obtain an understanding of the Navy's Military Equipment reporting processes for Aircraft, Ships, and Weapons. We also conducted interviews with NAVSEA and NAVAIR personnel to obtain an understanding of their process for reporting aircraft and ship values to FMO for inclusion in the Navy financial statements.

To accomplish these steps, we contacted and interviewed DoD officials at the following locations:

- FMO, Washington, D.C.;
- NAVAIR, Patuxent River, Maryland;
- NAVSEA, Washington, D.C.; and
- Defense Finance and Accounting Service, Cleveland, Ohio.

### **Asset Accounting**

We obtained and reviewed June 30, 2012, and September 30, 2012, trial balances and supporting journal vouchers from the Navy ERP system and DDERS-AFS and information listed below:

- NAVAIR Appropriation 1506, "Aircraft Procurement, Navy." We also obtained aircraft valuation documents from the Aircraft Inventory and Readiness Reporting System and DPAS and the President's Budgets for this appropriation;

- NAVSEA Appropriation 1611, “Shipbuilding and Conversion, Navy,” Naval Vessel Register screenshots, and the Standard Accounting and Reporting System-Headquarters Claimant Module financial data; and
- NAVSEA and NAVAIR Appropriation 1507, “Weapons Procurement, Navy.”

We reviewed Financial Improvement and Audit Readiness Plans from FY 2005 through FY 2012 posted on the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD’s website to identify the role of the Navy ERP system in achieving auditability, specifically as it relates to military equipment asset accounting.

## **Use of Computer-Processed Data**

We did not rely on computer-processed data to perform this audit.

## **Use of Technical Assistance**

During the audit, we requested and received technical assistance from the DoD Office of Inspector General Technical Assessment Division. Personnel from the Technical Assessment Division assisted with determining whether the Navy ERP system included asset management functionality to account for military equipment assets.

## **Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) issued one report discussing military equipment in the Navy ERP system. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>.

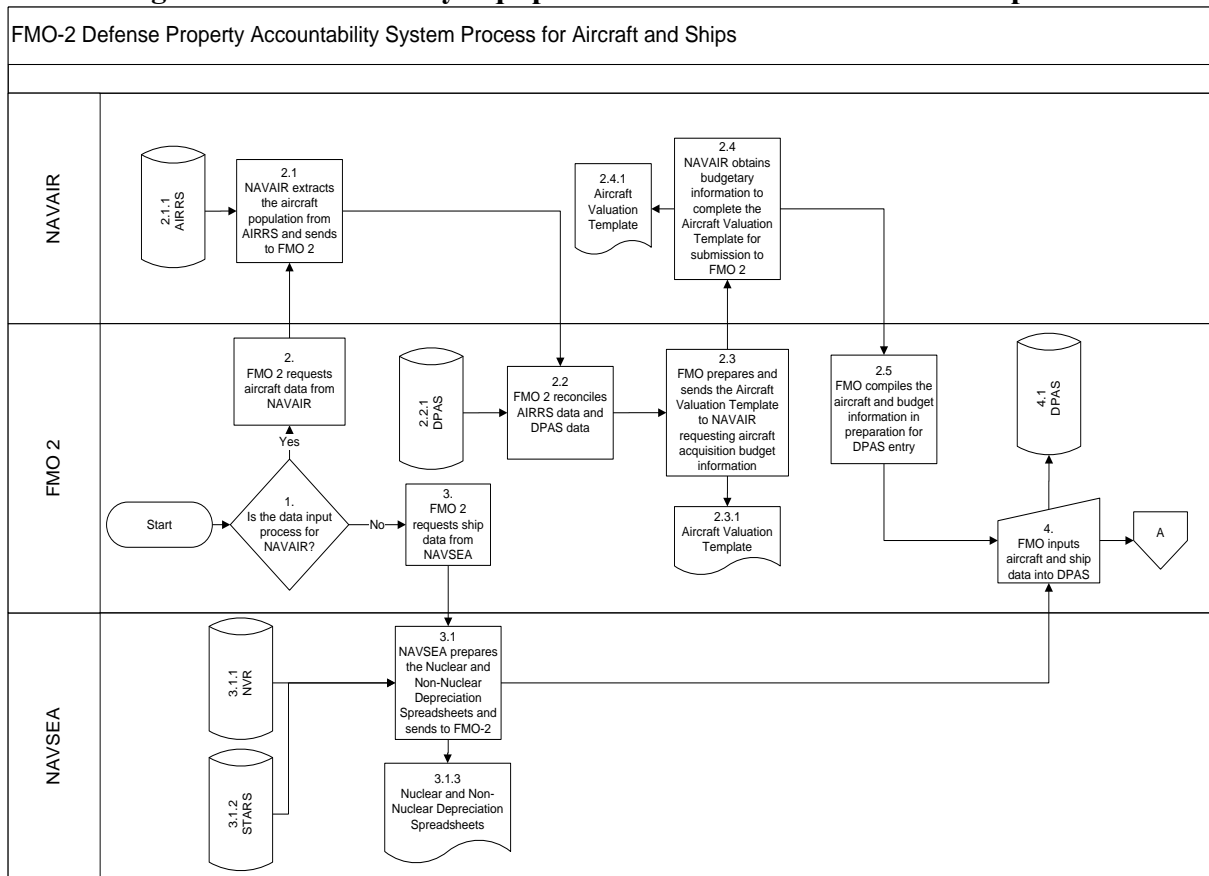
## **GAO**

GAO-10-695, “Additional Actions Needed to Improve Financial Management of Military Equipment,” July 26, 2010.

# Appendix B. Navy Military Equipment Accounting Process

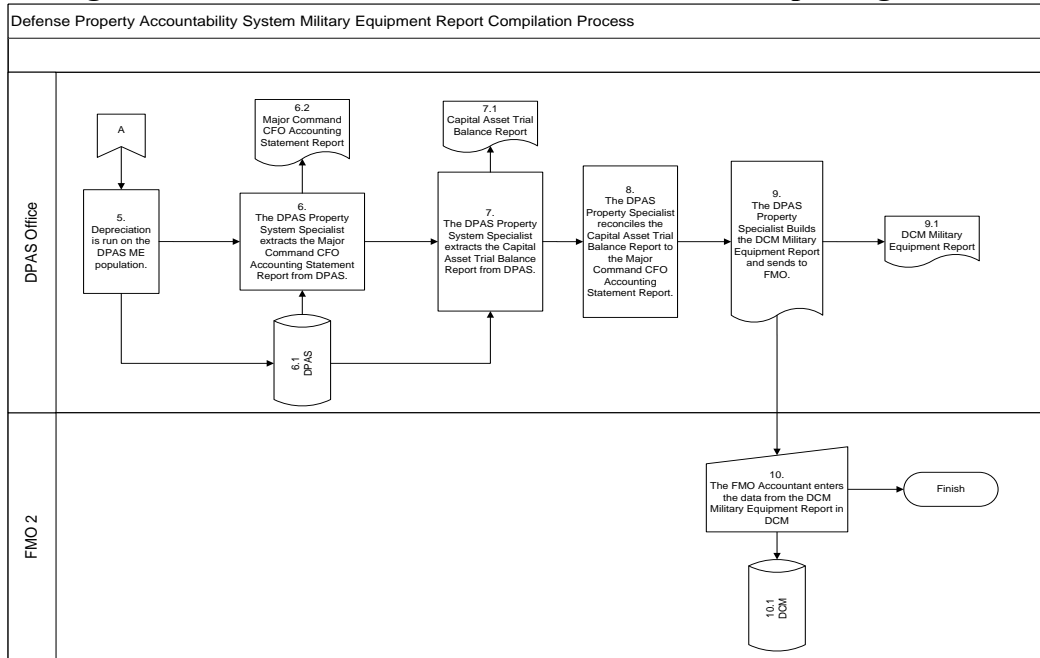
FMO officials provided the flowcharts below and included the flowcharts in two documents: “Department of the Navy’s Defense Property Accountability System Reporting Process” and the “Department of the Navy’s Quarterly Data Collection Module Financial Reporting Process.” These flowcharts depict the Navy’s processes. If FMO officials used the Navy ERP to account for military equipment assets, they would reduce the complexity of these processes and assist the Navy with correcting the military equipment material weakness.

**Figure 1. FMO Military Equipment Process for Aircraft and Ships**



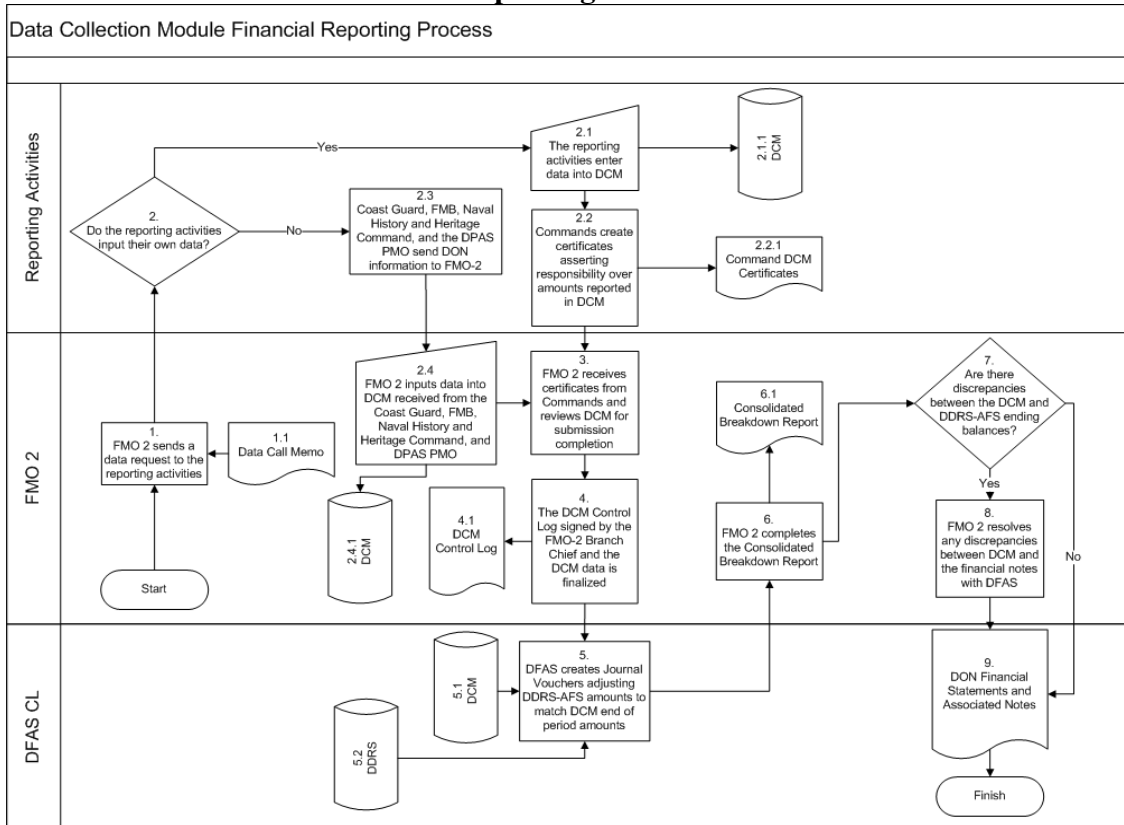
Source: Navy FMO

**Figure 2. DPAS to DDRS-Data Collection Module Reporting Process**



Source: Navy FMO

**Figure 3. DDRS-Data Collection Module to DDRS-AFS Financial Reporting Process**



Source: Navy FMO

# Department of the Navy Comments



DEPUTY UNDER SECRETARY OF THE NAVY  
WASHINGTON DC 20350-1000

JUN 18 2013

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

Subj: Navy Did Not Develop Processes in the Navy Enterprise  
Resource Planning System to Account for Military Equipment  
Assets (PROJECT NUMBER D2012-D000DE-0197.000)

Ref: (a) Department of Defense Inspector General Draft Report  
Project Number D2012-D000DE-0197.000

As requested in reference (a), my office has reviewed the subject draft report and concurs with Recommendation #2. This concurrence is based on the expectation that Navy Enterprise Resource Planning will not be considered the sole solution, and other possibilities are properly vetted through business process analysis.

If you have any questions or concerns my point of contact for this matter is [REDACTED]

  
T. G. TESCH  
Acting

Copy to:  
OUSD(C)  
ASN FM&C  
DFAS  
Naval Inspector General  
N-41



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

JUN 20 2013

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

Subj: NAVY DID NOT DEVELOP PROCESSES IN THE NAVY ENTERPRISE  
RESOURCE PLANNING SYSTEM TO ACCOUNT FOR MILITARY EQUIPMENT  
ASSETS (PROJECT NUMBER D2012-D000DE-0197.000)

Ref: (1) Department of Defense Inspector General Draft Report  
Project Number D2012-D000DE-0197.000 - Navy Did Not  
Develop Processes in the Navy Enterprise Resource Planning  
System to Account for Military Equipment Assets

1. As requested in in the reference above, my office has  
reviewed the subject draft report and provides the following  
comments at the enclosure.

2. If you have any questions or concerns my point of contact for  
this matter is [REDACTED]

DENNIS J. TATTANO  
Deputy Assistant Secretary of the Navy  
(Financial Operations)

Attachments:  
As stated

Cc:  
OUSD (C)  
DON-DCMO  
DFAS  
Naval Inspector General  
N-41



DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT DATED 13 MAY 2013

PROJECT NUMBER D2012-D000DE-0197.000

"NAVY DID NOT DEVELOP PROCESSES IN THE NAVY ENTERPRISE RESOURCE PLANNING SYSTEM TO  
ACCOUNT FOR MILITARY EQUIPMENT ASSETS"

1. The Department of the Navy (DON) has reviewed the draft report and the following comments are provided:

RECOMMENDATION 1: We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

- a. Reengineer the business process used to record military equipment and correct the existing material weakness in military equipment valuation.
- b. Implement processes in the Navy Enterprise Resource Planning System to properly record and support military equipment assets in accordance with DoD Regulation 7000.14-R, "DoD Financial management Regulation" Volume 4, Chapter 6.

DON RESPONSE: CONCUR. While Military Equipment Valuation (MEV) has been a long standing financial reporting weakness, other competing requirements such as completing initial N-ERP deployments, stabilizing the supply functionality, and addressing proposed changes related to the SBR audit have consumed the majority of available resources. The Department of the Navy (DON) recently established an Executive Level, Property Governance Council to begin addressing enterprise wide property issues such as this. FMO will engage the council to advance the prioritization of MEV in IT investments. The Council serves as a critical element in prioritizing these activities within the DON plan to comply with the FY 2011 NDAA requirement to ensure financial statements are validated as ready for audit earlier than September 30, 2017.

RECOMMENDATION 2: We recommend that the Navy Chief Management Officer require the Office of Financial Operations, in conjunction with the Navy Enterprise Resource Planning System Program Office, to develop a business process reengineering plan that accounts for military equipment assets, and considers the Navy Enterprise Resource Planning system as one of the possible solutions.

DON RESPONSE: CONCUR.



# Inspector General Department of Defense