



DEPARTMENT OF THE NAVY

CHIEF OF NAVAL EDUCATION AND TRAINING

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PENSACOLA FLORIDA 32508-5220

CNETINST 5000.4B

Code 00GR

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CNET INSTRUCTION 5000.4B

Subj: COMMAND EVALUATION PROGRAM AND LOCAL AUDIT FUNCTION
WITHIN THE NAVAL EDUCATION AND TRAINING COMMAND

Ref: (a) OPNAVINST 5000.52A
(b) Department of the Navy Command Evaluation Manual
(c) CNO ltr Ser 09B21/4U510067 of 25 Jul 94 (NOTAL)
(d) U.S. Navy Regulations Articles 0802 and 0819
(e) NAVAUDSVC P-7511.3 (NOTAL)
(f) Government Auditing Standards (1994 Revision)
(Amendments 1 and 2 of 1999) (NOTAL)
(g) CNETINST 5200.6C
(h) OPNAVINST 5200.24A
(i) SECNAVINST 5740.25D
(j) SECNAVINST 5740.26B
(k) SECNAVINST 5740.27
(l) SECNAVINST 7510.7E
(m) SECNAVINST 5200.34D
(n) SECNAVINST 5740.30
(o) SECNAVINST 7700.7
(p) CNETINST 5370.2B

Encl: (1) Command Evaluation Program
(2) Command Evaluation Review Board
(3) Command Local Audit Function
(4) Audit Liaison, Audit Follow-up, and External Reporting
Requirements

1. Purpose. To provide policy and guidance for the Command Evaluation (CE) Program, CE Review Board, the Local Audit Function, audit liaison, and audit reporting requirements within the Naval Education and Training Command (NAVEDTRACOM). This instruction supplements references (a) through (p). Guidance is also included in the Auditor General of the Navy and Naval Inspector General mandatory reporting requirements. This instruction has been revised significantly and should be read in its entirety.

2. Cancellation. CNETINST's 5000.4A, 5740.3C, and 5740.4; CNET Form 7510/3.

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3. Background

a. CNO published CE policy and guidance in references (a) and (b). Essentially, the CE Program establishes a non-audit approach for performing and documenting independent in-house reviews. Reference (b) gives the particulars for ensuring a successful review effort which can survive the close scrutiny of a command inspection or external audit.

b. Commands are responsible for internally gauging their economy, efficiency, and effectiveness. The CE Program offers a disciplined method for performing in-house reviews. See enclosure (1) for details. This approach permits a commanding officer to have a high degree of confidence that an independent evaluation has been performed. CE is designed to be a proactive force within a command. Individuals assigned CE Program responsibilities must be highly competent at gathering and analyzing data from a myriad of sources. Further, these responsibilities may also include working issues associated with audit liaison, audit follow-up, inspections, and hotline complaint investigations.

c. To increase its effectiveness, the CE Program should be augmented and supported by a CE Review Board. The Board provides an excellent mechanism for examining routine areas of a recurring nature. Through participation on a Review Board, overall command awareness is raised in areas involving accountability. It also speeds up the completion of certain reviews by distributing workload. The specifics concerning the use of a Review Board are provided in enclosure (2).

d. The Auditor General of the Navy and CNO have endorsed the involvement of NAVEDTRACOM Local Command Auditors in working the CE Program. References (a) through (f) apply. The Local Command Auditor follows professional standards and educational requisites when performing CE work. History shows that external auditors do not examine areas subjected to thorough in-house audits. Command auditors do have the flexibility of performing either audits or reviews of activity operations. Audits are usually preferred because of the professional standards required. References (e) and (f) apply. However, in an effort to meet tight deadlines, well-documented reviews are acceptable. Non-auditors may conduct audits under the supervision of the Local Command Auditor. To ensure the commanding officer is receiving top quality audit work, the Auditor General of the Navy exercises periodic oversight. Primarily, this consists of triennial peer reviews. Through this process, Navy auditors evaluate a command's audit work for quality improvements. Peer reviews focus on adherence

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to the standards discussed in references (e) and (f). The Local Command Audit methodology is presented in enclosure (3).

4. Policy

a. General. All NAVEDTRACOM activities will implement the CE Program/Local Audit Function. This effort is a top-level responsibility requiring the attention of commanders and commanding officers. The CE effort, in order to be successful, must have command support and visibility. CE is a very useful means of receiving independent feedback on the health of various areas requiring periodic appraisals of accountability and integrity. A solid review or audit effort can provide early warning signals of potentially troublesome situations.

b. Organization

(1) To receive proper attention, the CE Program/Local Audit Function must be placed in a direct staff relationship to the commanding officer. Any other placement jeopardizes its independence and objectivity. CE must be staffed with individuals who are permitted to move across organizational lines within a command without fear of retribution.

(2) Every effort should be made to staff CE on a full-time basis. If a command determines that CE will not be performed on a full-time basis, the commanding officer must ensure that this reduced effort conforms to the policy and guidelines of this instruction.

(3) The CE Review Board should consist of three to five individuals. Civilians assigned should be at least GS-7 and above; military, E-7 and above. Members of the board must be designated in writing and not be associated with the area being reviewed. The CE Officer provides the supervision and training to board members. Typically, a CE Review Board would be involved in conducting periodic command cash counts. Reports developed by the board are forwarded to the commanding officer via the CE Officer.

(4) A non-auditor responsible for the CE Program will be designated the "CE Officer." The person heading the Local Audit Function may be titled "Command Audit Officer" or "Command Evaluation (CE) Officer." The Command Auditor is typically referred to as the CE Officer because of the variety of responsibilities often assigned to the position.

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(5) Non-auditors assigned to the CE Program may be civilians (any series) or military (any NOBC or NEC). For activities retaining a Local Audit Function, the auditor provides guidance and oversight for reviews performed by non-auditors. Normally, the commanding officer or deputy will sign the performance evaluation for a CE Officer or Command Auditor.

(6) Activities that have previously identified a requirement for an in-house auditor will normally retain that function. The Local Audit Function has been the preferred method because it ensures the commanding officer receives uncensored/unfiltered reports governed by professional auditing standards. Auditors (civilian or military) must meet the qualification criteria of the GS/GM-511 series. Consult reference (e) for details. **Since the Auditor General of the Navy provides oversight for all DON auditing initiatives, CNET must approve any changes to the audit function.**

(7) The CE Officer may also be tasked with coordinating the Management Control Program under the guidelines of reference (g).

(8) In dealing with external audit agencies and inspector general offices, the CE Officer is generally assigned responsibilities associated with audit liaison, follow-up, and reporting requirements. Enclosure (4) describes these duties.

c. Standards. Comply with the applicable guidelines of enclosures (1), (2), or (3) when conducting reviews or audits.

5. Responsibilities

a. Commanders and commanding officers shall establish an effective and responsive CE Program/Local Audit Function according to the policy prescribed herein. This will ensure:

(1) Uncensored/unfiltered reports are submitted without fear of reprisal.

(2) Adequate staffing with competent individuals.

(3) Deficiencies noted in CE reports, Review Board reports, or audits are promptly corrected.

(4) Reporting requirements identified in this instruction are met.

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b. All NAVEDTRACOM activities provide CNET (Code 00GR) with the names of individuals performing the CE or audit function by 15 October (via FAX) or as changes occur. Include a point of contact for matters involving audit liaison.

6. Action. Commanders and commanding officers shall comply with the policy and guidance of this instruction. CNET point of contact is Code 00GR at DSN 922-4867, commercial (850)452-4867. The FAX number is DSN 922-8959, commercial (850)452-4867.

7. Forms. Obtain CNET 7510/5, 7510/6, 7510/7, 7510/8, 7510/9, 7510/10, and 7510/11 from the CNET Home Page (www.cnet.navy.mil) or use the forms in the Appendices.

8. Reports

a. Report control symbol CNET 7510-1 is assigned to paragraph 5b and is approved for 3 years from the date of this instruction. Report control symbols DD-IG(A)1740, DD-IG(SA)1717(7700), and DD-IG(SA)1574(5200) are assigned, respectively, to the requirements discussed in paragraphs 2a(3), 2b(2), and 2b(3) of enclosure (4).

b. The reporting requirements in paragraphs 2a(1), 2a(2), and 2b(1) of enclosure (4) are exempt from reports control by SECNAVINST 5214.2B.



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Distribution (CNETINST 5218.2D):

Lists I through V

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COMMAND EVALUATION PROGRAM

1. **Discussion.** The Command Evaluation (CE) Program is primarily a **non-audit approach** in reviewing sensitive areas at an activity. References (a) and (b) apply. It is a tool designed to provide the commanding officer unfiltered feedback. Generally, an activity's mission, complexity, and size will govern the total requirements for the CE function. Though preferred, smaller commands and activities may not warrant a full-time effort. **Reference (b) discusses what is expected of the CE function.** This instruction describes the **essential elements** for having a successful CE Program within the NAVEDTRACOM.

2. **Staffing.** The function should be staffed with full-time or part-time individuals who collectively possess the skills and knowledge to perform reviews of the activity's mission and associated support functions. The CE Officer reports to the commanding officer. Typically, the executive officer provides daily administrative supervision. For complex subjects, temporary augmentation of the CE staff by civilian or military subject matter experts is encouraged. Where appropriate, use a CE Review Board to perform cash counts and similar fiduciary reviews. See enclosure (2) for details.

3. **Annual Review Plan.** Typically, the CE Officer develops an annual plan of areas to review at least 30 days before the start of the fiscal year. It is approved by the commanding officer and focuses on areas susceptible to waste, fraud, abuse, or mismanagement. An annual command notice is useful in alerting managers to upcoming reviews. To aid in planning, it is suggested that an inventory of potential review areas be developed. An excellent source is the inventory developed for the command's Management Control (MC) Program. Reference (g) discusses the MC Program. The plan should be updated as changes occur. **Avoid conducting reviews on areas that have undergone credible management examinations. Retain annual review plans in-house.**

4. **Announcing the Review.** Prior to commencing a review, appropriate command managers should be given approximately 2 weeks advance notice. This requirement does not apply to surprise cash counts. Generally, managers are given a brief explanation of review objectives.

5. **Review Program/Guide.** A review program/guide should be used to perform the review. The guide provides direction and ensures important areas are not overlooked. Available review guides are

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listed in **Appendix A**. They are useful tools for performing a review or assisting in developing other program/guides.

6. **Performing the Review**. A review should be planned to pursue a specific objective. Questions need to be asked about the value added of performing a review. The use of a pre-existing program/guide may be most beneficial in determining the need for a review. A survey is a very powerful mechanism for determining direction and approach in evaluating a specific review topic. It prevents wasted time by eliminating superfluous issues. **Appendix B** provides sample survey steps. This tool permits a quick look at the system of internal controls and helps to focus on areas with potential weaknesses. Prior to commencing a review, consider the following:

a. **Previous audits and reviews**. Check the status of recommended actions from previously performed audits or reviews.

b. **Fraud and Illegal Acts**. If evidence exists, notify the commanding officer immediately. The commanding officer will advise the Naval Criminal Investigative Service (NCIS). Generally, this ends the review. Retain documentation of how the incident was reported and its ultimate disposition. Upon notification, the NCIS will assume jurisdiction, but may request some support.

c. **Management Control Program**. Has the process been flow-charted? Is there evidence of internal control testing? Consult reference (g).

d. **Review Program/Guide**. Use a guide with emphasis on evaluating compliance with applicable directives. Ensure the references are current and relevant. Adapt the guide to changing circumstances, as necessary.

e. **Interviewing**. Conduct interviews with responsible managers to understand their points of view. This technique often helps to determine the best approach for starting a review. Document interviews.

f. **Finding(s)**. If deficiencies are discovered, consider their significance and whether it is necessary to formally recommend improvements. When warranted, make positive comments regarding areas that exhibit noteworthy accomplishments.

7. **Review Reports**. Reference (b) applies. On completion of the review work, a written report signed by the CE Officer should be

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presented to the commanding officer. Reports must be issued promptly. The report must accurately address the conditions noted. For the protection of the commanding officer and the CE Officer, refrain from oral reporting if possible. The suggested format is either a **Letter Report** or **Formal Report**. Consider the following when drafting the report:

a. **Letter Report.** **Appendix C** provides a sample format. This format is useful for reporting on minor or no discrepancies, particularly those items quickly fixed by management. This method is also recommended for explaining why a review was terminated. Typically, a letter report contains the following elements:

- (1) **Introduction.** Tells briefly what's been done regarding the review.
- (2) **Objective(s).** States the goal(s) of the review.
- (3) **Background.** Explains the genesis of the review. It may contain further insight into the reasons behind the review.
- (4) **Scope and Methodology.** Explains the parameters of the review. Includes the time period examined. Information is also given regarding what was reviewed and how the examination was performed.
- (5) **Conclusion.** Discusses the results of the review work. Describes agreed-to management corrective actions. When appropriate, explains the basis for terminating the review.
- (6) **Internal Controls.** Describes the effectiveness of the system of internal controls. A comment should be made on the absence of material deficiencies. Reference (g) applies.

b. **The Report.** **Appendix D** provides a sample format. This report is used to describe discrepancies that resulted in written recommendations to managers. A formal report should contain the following elements:

- (1) **Transmittal Memorandum to Commanding Officer.** The memo serves as the delivery vehicle for presenting the report to the commanding officer. The final report is forwarded as an enclosure. The memo should provide a very brief description about the significant aspects of the report. This would include a comment on the status of recommendations.

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(2) **Formal Report.** The following sections are recommended for presenting findings and recommendations.

(a) **Subject.** Provide title for the report.

(b) **Objective(s).** State the goal(s) of the examination.

(c) **Background.** Provide relevant information that helps the reader understand the conditions and circumstances that affected the area under review. This may include a discussion of the events that triggered the review.

(d) **Scope.** Explain the nature and extent of the work performed. Provide a picture of when and under what circumstances a review was performed. Mention the date(s) during which the field work and time periods covered. Elaborate on any impairment and discuss the impact on the review.

(e) **Methodology.** Explain how the evidence was gathered. Discuss how the criteria (references) were applied in evaluating a particular area. Explain sampling techniques.

(f) **Conclusions.** Summarize the results of the examination. Discuss the impact of weaknesses noted in the command and need for corrective action. These comments should reflect the objectives.

(g) **Internal Controls.** Discuss the effectiveness of the system of internal controls as they relate to the objective(s). For the area under examination, evaluate compliance with the Management Control Program. See reference (g).

(h) **Examination Results and Planned Actions.** Provide the details of the review. Present findings and associated recommendations. The results must correlate to the objective(s). Normally, a finding will articulate the criteria, condition, effect, and cause noted. Explain how the criteria (such as, an instruction) was used in examining the condition(s) noted. Identify repeat findings, as well as the status of any corrective actions. Give credit to management for a noteworthy accomplishment that was observed during the review. Prior to presenting the report to the commanding officer, ask the question, "Can a disinterested third party draw similar conclusions from the write-up?" Reports need to fairly present the circumstances and not overstate a situation.

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(i) **Recommendation(s)**. Direct a recommendation to a manager who is capable of taking the necessary corrective action. The manager must respond in writing by stating either "Agree" or "Disagree" with the recommendation. A manager agreeing to take corrective action must provide a **target completion date**. The CE Officer must comment on whether or not management responses express a satisfactory course of action. Every effort must be made to resolve any disagreements prior to presenting the report to the commanding officer. The commanding officer is the final authority on contested findings. **Appendix E** provides a form for obtaining official management responses.

c. **Report Distribution**. Reports are usually numbered in consecutive series; for example, the first one for FY 2000 would be **Report 00-1R**. The distribution of a report is decided by the commanding officer in conjunction with the CE Officer. Managers to whom recommendations are addressed should receive a copy of the final report. Unless prohibited by law or security classification, reports are also releasable under the Freedom of Information Act.

8. **Organizing Review Working Papers**. Reference (b), Chapter 4, provides a detailed discussion in developing working papers. The importance of adequate documentation cannot be overemphasized. It provides the link between review work and the report. As such, working papers must be indexed and cross-referenced. This protects the CE Officer as well as the command in the event of possible disciplinary action regarding areas reviewed. Referencing of working papers by a disinterested third party is also helpful. This entails an individual comparing the finding(s) against the facts in the working papers. As a minimum, the working paper package should contain the following:

- a. **The Report**. Show evidence that the commanding officer has seen it.
- b. **Status of Open Recommendations**. Track corrective actions not completed.
- c. **Cross-referenced Report**. Shows final report annotated to the working papers.
- d. **Recommendations to Management**. Show the recommendations provided to managers. If recommendations were revised during review, briefly explain.

e. **Management Responses to Recommendations.** Display management comments to recommendations.

f. **Review Program/Guide.** Provide a cross-referenced guide to specific working papers. Unexplained yes/no answers may result in questions about the thoroughness of the review. It is a good practice to briefly comment on the basis for the answer.

g. **References.** Show excerpts from important guidance.

h. **Additional Working Papers.** Refer to the various types of documentation that support the findings and recommendations. These documents may be exhibits, interviews, notes, schedules, analysis, and other pertinent documents. Include only those items that reflect the pursuit of the objective(s). Each working paper should contain the following: date prepared, name of preparer, and source of information.

9. **Review Follow-up.** The commanding officer should see all CE reports and recommendations. He/she is ultimately accountable for ensuring that agreed-to corrective actions are completed. Usually, the CE Officer is responsible for maintaining a follow-up tracking system to monitor the status of each recommendation until all corrective actions are completed. The commanding officer should be advised at least quarterly concerning the status of open recommendations. For each open recommendation, the CE Officer should request from management a written status update within 30 days of the completion date. Follow-ups should occur within 1 year following the completion of management actions. If corrective actions have not been performed as agreed to, the CE Officer needs to advise the commanding officer regarding a remedial solution.

10. **Professional Development and Training.** CE personnel should be afforded every opportunity to receive adequate training to maintain and improve their skills. They should focus on training opportunities in the following arenas: auditing, contracting, financial management, information systems, nonappropriated funds, supply management, statistics, and report writing. The local Human Resources Office will have information on the availability of this training and other useful courses. Contact CNET (Code 00GR) with any questions concerning training.

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**COMMAND EVALUATION (CE) REVIEW BOARDS
(FORMERLY CALLED AUDIT BOARDS)**

1. **Discussion.** CNET activities are encouraged to use CE Review Boards for conducting periodic reviews and cash counts of various funds that are categorized as nonappropriated. This spreads the workload and avoids tying up the CE Officer/command auditor in performing routine and repetitious examinations.

2. **Organization.** Commanding officers of NAVEDTRACOM activities with nonappropriated funded activities should formally appoint a CE Review Board to perform reviews and cash counts for the funds. The board should consist of a minimum of three to five collateral duty personnel (military and/or civilian) including the command CE Officer/command auditor. Normally, the CE Officer/command auditor will act as the Chairperson of the Review Board. This will include providing direction, supervision, and training to board members. One individual may be necessary to perform a review depending on the nature of the examination. The CE Officer/command auditor should supervise reviews according to the guidelines of reference (b) and enclosure (1). Cash counts are normally conducted on a surprise basis by **no less than two individuals**. The purpose of involving two persons is to protect the counters in event of discrepancies.

3. **Staffing.** In an effort to avoid intimidating situations, civilian members should be GS-7 and above; military, E-7 and above. Review Board members must not be tasked to perform a review or count cash in areas where conflicts of interests are possible.

4. **Planning.** The head of the board should develop a schedule for reviewing nonappropriated funds 30 days before the start of the new fiscal year. This will be part of the command's comprehensive annual review/audit plan that is approved by the commanding officer. High-risk areas need to be examined on a periodically basis, but no less often than triennially. If unsatisfactory conditions are noted, reviews or audits need to be scheduled more frequently. The annual plan should be updated accordingly. Remember, cash counts are intended to be surprise examinations of fund controls.

5. **Reviews and Cash Counts**

a. **Reviews.** Reviews must be performed according to the CE Program guidelines of reference (b) and enclosure (1). This

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includes developing working papers and issuing a report to the commanding officer. Reports containing findings should have recommendation(s), management response(s) including implementation date(s), and Review Board comments as to whether or not the manager was responsive. The CE Officer/command auditor is responsible for ensuring the final report complies with the above references. This person is also responsible for reporting the status of reviews to the commanding officer.

b. **Cash Counts.** Recommend using the form shown in **Appendix F** to record the actual cash count. This document is designed to provide a clear reconciliation of the status of funds on the day of the count. **Under no circumstances should the fund custodian be permitted to leave the counting area until after the funds are certified as returned.** If the count is not a part of an official report, the results of the count should be passed to the executive officer via a forwarding letter explaining the purpose of the fund and results of the reconciliation. In the event of a shortage, the custodian should be given every opportunity to correct it. Shortages should be discussed in either an official report or via an immediate memorandum to the executive officer. This is dictated by the seriousness of the discrepancies found. If evidence of fraud is detected, notify the commanding officer as soon as possible. When fraud is discovered, it is the commanding officer's responsibility to inform the Naval Criminal Investigative Service.

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COMMAND LOCAL AUDIT FUNCTION
SECTION 1 - INTRODUCTION

1. **Discussion.** The Local Audit Function provides the commanding officer with an effective self-evaluation process based on government auditing standards. References (e) and (f) apply. The Auditor General of the Navy exercises oversight and provides general guidance. All activities with a local audit effort are identified to the Auditor General of the Navy. CNET (Code 00GR), as the NAVEDTRACOM point of contact for the audit function, will advise the Auditor General of commands having auditors. Any changes to the NAVEDTRACOM auditing effort must be explained to the Auditor General.

2. **Local Audit Function.** Reference (e) provides policies and standards, and prescribes methods for performing audits within the Department of the Navy. Reference (f) describes the Governmental Auditing Standards for conducting professional audits. Generally, auditors within the NAVEDTRACOM are involved in conducting performance audits. Therefore, this instruction will focus primarily on the application of auditing standards to performance audits. Essentially, financial audits are conducted in much the same fashion. The standards are categorized into three groups: General, Field Work, and Reporting. Each standard is discussed below. Enclosure (3) is intended to supplement reference (e).

3. **Performance Audits.** Provide an objective and systematic examination of evidence for the purpose of producing an independent assessment of activities, organizations, programs, or functions. Performance audits include economy and efficiency, and program audits. Economy and efficiency audits evaluate management practices employed to acquire, control, and dispose of resources. Program audits focus on evaluating the achievement of results and effectiveness of activities, organizations, programs, or functions. Performance audits also make determinations regarding compliance with laws and regulations.

4. **General Standards.** Involve auditor qualifications, independence, due professional care, and quality control. **Section 2** provides details.

5. **Field Work Standards.** Include work planning; audit supervision, methods for determining compliance with laws and regulations, DON Management Control (MC) Program, and audit evidence. **Section 3** provides details.

Enclosure (3)

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6. Reporting Standards. Focus on the form of an audit report, timeliness of a report, report contents, report presentation, and report distribution. **Section 4** provides details.

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**COMMAND LOCAL AUDIT FUNCTION
SECTION 2 - GENERAL STANDARDS**

1. **Qualifications.** In performing a particular audit, the staff must collectively possess adequate professional proficiency for the examinations required. Only auditors must meet the professional standards for the GS-511 series. Particulars regarding auditor qualifications are discussed below:

a. **Knowledge and Skills**

(1) Knowledge of governmental auditing standards, methods, and techniques; education, skills, and experience to apply such knowledge to the audit being conducted.

(2) Knowledge of NAVEDTRACOM programs, activities, and functions.

(3) Skills to communicate clearly and effectively, both verbally and in writing.

(4) Skills appropriate for the audit work being conducted. These may include the following:

(a) Recognizing and evaluating the materiality and significance of deviations from sound management practices.

(b) Applying auditing principles to such subjects as accounting, contracting, economics, financial management, information systems, nonappropriated fund instrumentalities, quantitative methods, statistics, training programs, and supply management.

(c) Using appropriate accounting principles and techniques to evaluate and render opinions on financial records and reports.

b. **Continuing Professional Education (CPE) and Training Requirements**

(1) Auditors must maintain their technical competence through CPE and training. This includes staying informed about improvements and current developments in auditing standards, procedures, and techniques. The training received by an auditor may vary depending on environment and circumstances. Each auditor must receive a minimum of 80 hours of CPE every 2 years. At

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least 20 hours of continuing education and training should be completed in any 1 year of the 2-year period. Of the 80 total hours, a minimum of 24 should be directly related to the governmental environment and auditing. **Appendix G** contains a form for tracking CPE.

(2) References (e) and (f) provide specifics regarding what is expected of auditors in the way of education and training. Retain evidence of course completions. See enclosure (4) for annual reporting requirements.

2. **Independence**. In all matters relating to audit work, auditors must be free from personal, external, and organizational impairments to independence. Auditors will maintain an independent attitude and appearance. They must be objective and above reproach in performing audits and rendering opinions. Auditors should not be in the business of designing, installing, and operating systems, nor should they be drafting procedures for systems. However, early involvement of auditors in evaluating proposed systems of internal control and providing feedback to management can pay dividends in eliminating unforeseen problems. **Any impairment to independence should be mentioned in the scope section of the audit report.** See references (e) and (f) for details. Types of impairments are:

a. **Personal**. Circumstances under which auditors may not be perceived as being impartial. Auditors must remove themselves from an audit if a personal impairment exists that may appear to bias their independence.

b. **External**. Factors outside the audit organization. They may restrict or interfere with an auditor's ability to form independent and objective opinions and conclusions.

c. **Organizational**. Auditors must be organizationally independent to permit uncensored/unfiltered feedback to the commanding officer. The audit function must be independent of day-to-day line management functions. Normally, the auditors report directly to the commanding officer via the executive officer who provides daily administrative supervision. Audits are supervised by a qualified auditor.

3. **Due Professional Care**. Due professional care must be adhered to in performing audits and writing reports. Sound judgement is required in determining the scope, selecting the review methodology, and formulating test procedures for the audit. Auditors must fully understand the standards discussed in references (e)

and (f). If certain standards are not applicable to a particular audit, explain in the working papers. **When a standard is not met, include a brief explanation in the scope section of the audit report.** Discuss the impact on audit results. To comply with this standard, the auditor should seek answers to the following questions:

- a. Can the objective(s) be achieved?
- b. Can materiality be accurately gauged by the audit methodology?
- c. Does a system of internal controls exist? Is it effective?
- d. Will the audit be worth investing time and resources?
- e. Is there potential for fraud, waste, abuse, mismanagement, or illegal acts?
- f. Were satisfactory actions taken to correct prior audit findings and recommendations?
- g. Can reporting deadlines be met?
- h. Does the evidence support the audit findings and recommendations?

4. **Quality Control**. A sound internal quality control system depends on the size of a local audit office. Consider organizational relationships and structure. For the NAVEDTRACOM, the following quality control measures apply:

- a. **Supervision**. Supervision of the audit process must be documented whenever possible. See **Section 3**, paragraph 2.
- b. **Referencing**. Referencing is a review process performed by an individual who is not directly associated with the audit. Generally, this is another auditor. However, in a one-person office, arrangements can be made with another individual within the command to assist. Referencing should not be a long, drawn-out effort. If difficulties are encountered in the process, contact CNET (Code 00GR) for guidance regarding alternative solutions. During referencing of the audit report, all facts, figures, and conclusions are verified against the report's working papers. The supporting evidence is evaluated in terms of sufficiency, competency, and relevancy. It's preferred that

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referencing be performed prior to issuing a report. However, to be of value to the commanding officer, reports must be timely; consequently, the benefits of referencing versus report contents must be considered. For reports not referenced, provide an explanation in the working papers. **Appendix H** provides a format to document the referencing process.

c. **Command Inspections.** The results of inspections reflect the efforts of the auditors to meet the standards discussed in references (e) and (f). Retain documentation showing the results of the inspection and any corrective actions.

d. **Peer Review.** Every 3 years, the Naval Audit Service performs an external quality control review of the local audit function. See reference (e) for details.

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**COMMAND LOCAL AUDIT FUNCTION
SECTION 3 - FIELD WORK STANDARDS**

1. **Planning.** In this era of downsizing, audit resources must be used intelligently. Particular emphasis should be placed on examining issues that affect command integrity and accountability. Therefore, the focus should be on evaluating command functions involving **mission** and associated **support processes**. The keys to the planning effort are defining objective(s), scope, and methodology. The **objective** is the goal(s) of the audit. **Scope** establishes the parameters or boundaries for performing the audit. **Methodology** is the means by which data gathering and analytical work will be performed. Good planning is critical for budgeting time and resources. However, a plan must be able to adapt to changes in the audit process and be revised accordingly. Sound planning consists of the following elements:

a. **Audit Inventory.** The audit inventory is an important asset for planning overall audit work. It should reflect a command's mission and support processes. The command's work processes developed for the DON Management Control (MC) Program should be considered.

b. **Annual Audit Plan.** An annual work plan should be a combination of audits and reviews. **Auditors should try to invest a minimum of 40 workdays per year to auditing.** Note enclosure (4) for reporting "Auditor Time." **The commanding officer must approve the plan.** Use care in selecting topics because not all subjects require audits. Routinely solicit management suggestions when picking areas to audit or review. Revise the plan as changes occur and retain locally. Annually, the Auditor General of the Navy requires the NAVEDTRACOM to submit planned audits for the upcoming fiscal year. This information is incorporated into Navy's Internal Audit Plan. See enclosure (4) for details.

c. **Audit Follow-up.** Evaluate the status of actions taken to correct findings and recommendations previously identified. Determine the adequacy of management's efforts to fix the conditions that caused the deficiencies. If monetary savings were identified, examine the degree of achievement. The results may affect audit objectives and necessitate a different approach in planning a follow-up audit. For the topic audited, the status of previously reported findings and recommendations are commented on in the final report.

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d. **Individual Audits.** To satisfy audit objectives, an audit must be well planned. Good planning starts with a survey. **Appendix B** contains the basic steps for performing a survey; however, additional steps may be appropriate. To preclude wasting time, complete the survey prior to commencing detailed audit work. The CE Officer/auditor must evaluate the survey results for a "go" or "no go" decision. If survey results deem an audit unnecessary, state the reasoning for the decision in the working papers. If a survey is bypassed, explain in the working papers. Anytime an audit is started and not completed, a letter report is provided to the commanding officer describing the circumstances.

e. **Review Program/Guide.** The survey is the first phase in developing a program/guide. The normal by-product of a survey is a written program describing the review methodology and steps needed to accomplish audit objectives. The program provides a systematic means of asking questions concerning a particular topic. Good programs have built-in flexibility that permits adjustments as the situation dictates. Where possible, each step should have a supporting reference. Answers to each step need brief supporting comments. A cross-reference to a specific working paper is recommended. **Appendix A** lists available programs which may be useful in developing a command program/guide.

f. **Audit Announcement.** Announce all audits at least 2 weeks prior to their start. A command notice is a useful instrument to alert managers of proposed audits for the upcoming year. This is usually a good scheduling tool for managers. However, circumstances and the sensitivity of the subject matter may preclude such an announcement. For instance, cash counts should be unannounced and conducted on a random basis.

2. **Supervision.** To have credibility, audit work must be properly supervised. A qualified auditor is required to supervise the audit function. The head of a command's audit function must not report to or be appraised by a line manager. This is a command-level responsibility under the purview of the commanding/executive officer. Documentation must exist to show that supervision of command auditors is actually occurring. Below are some examples of how supervision can be documented. A single-person office can also attest to several of these, but must exercise great care in doing so. Supervision can be demonstrated as follows:

a. **Provide guidance and direction to assigned auditors.** Supervisors need to record coaching sessions by a brief memo for the record. Auditors should also document conversations with

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senior-level auditors regarding work assignments. In particular, discussions and correspondence with CNET (Code 00GR) concerning various aspects of audit work should be recorded and retained with working papers, as appropriate.

b. **Show approval of an audit program and any significant changes in the way the program is carried out.** The supervisor or other senior-level auditors can document this. Audit programs distributed by CNET are considered approved for use on a particular audit.

c. **Acknowledge the audit was prepared according to Generally Accepted Government Auditing Standards (GAGAS).** Depending on the situation, the supervisor or another auditor colleague may document compliance. A single-person office can attest to this.

d. **Acknowledge that working papers were prepared and retained according to auditing standards.** The supervisor or another local auditor colleague should provide written feedback. A single-person office can attest to this. **Appendix I** is useful for documenting this.

e. **Accept the adequacy of the audit report in terms of complying with reporting standards.** The supervisor or an auditor colleague reviewing the report should provide a brief written opinion. A single-person office can attest to this.

3. **Compliance.** To achieve an audit objective, the auditor should design the audit to provide reasonable assurance about compliance with appropriate laws, regulations, and other guidelines. Auditors must be alert to circumstances that are indicators of fraud, waste, abuse, mismanagement, or illegal acts. The review program/guide must contain specific steps to show an adequate assessment of compliance was performed. If fraud or illegal acts are discovered, notify the commanding officer immediately. The commanding officer will contact the Naval Criminal Investigative Service about the appropriate course of action. If unsure how to handle the situation, contact CNET (Code 00GR) for guidance.

4. **Internal Control.** During the audit, compliance with the MC Program must be examined as it applies to the area being audited. Refer to reference (g). Determine the adequacy of tests of the System of Internal Controls as performed by responsible managers. Generally, internal control breakdowns are evident during an examination of the MC Program. This step can save unnecessary effort. Clearly document this examination in the working papers.

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5. **Evidence.** An auditor's findings and recommendations shall be based on sufficient, competent, and relevant evidence, the purpose of which is to give reasonable assurance that the conditions have been fairly portrayed. A record of the auditor's work must be retained in the form of working papers. This record must clearly reflect the auditor's efforts in collecting, analyzing, interpreting, and documenting the audit work. Points concerning evidence and its presentation:

a. **Categories of Evidence.** Evidence is divided into four categories: physical, documentary, testimonial, and analytical. Note references (e) and (f) for additional discussion.

b. **Tests of Evidence.** Evidence should meet the following tests: sufficiency, relevance, and competence. Note references (e) and (f) for additional information.

c. **Working Papers.** Working papers link the audit work with the report. They should show how the audit was planned and executed. The documentation must be organized in such a manner that a disinterested third party can follow the work and reach similar conclusions. This is accomplished through indexing and cross-referencing. Well-constructed working papers protect the commanding officer and the auditor in the event there is a need for adverse actions. Working papers should contain the following:

(1) **The Final Report.** Needs to show evidence the commanding officer has seen it.

(2) **Status of Open Recommendations.** Tracks and shows the status of corrective action.

(3) **Cross-referenced Report.** Shows final report annotated to specific supporting documents contained in the working papers.

(4) **Recommendations to Management.** Shows recommendations that were presented to managers for responses. If recommendations were revised during this utilization phase, briefly explain.

(5) **Management Responses to Recommendations.** Displays management responses to the recommendation and may include any associated correspondence.

(6) **Closing Conference.** Notes of closing conference. Generally, this is a memorandum for the record that summarizes what was discussed and who attended.

(7) **Other Information.** Any pertinent correspondence which contributed to developing the report. This would include items such as: announcement letters, notices, and other correspondence which dealt with starting the audit.

(8) **Review Program/Guide.** This document is cross-referenced to specific working papers. An unexplained yes/no answer may result in questions about the thoroughness of the audit work. Comment on the basis for the answer.

(9) **References.** When appropriate include excerpts of relevant references.

(10) **Other Working Papers.** Various types of documents are used to describe audit work. They consist of written analyses, studies, schedules, interview notes, exhibits, and other pertinent records. Include a document when it supports the pursuit of the audit objective(s). **Each working paper should contain the following elements: name of preparer, date prepared, purpose, source, and any necessary security classification codes. Where appropriate, explain the scope, methodology, and criteria upon which a conclusion is based.** For multi-page analyses, show this information only on the first page. This will eliminate unnecessary work.

d. **Work of Others.** Great care is necessary when using the work of others. The veracity of the evidence must be determined. Note references (e) and (f). The key element is knowing the criteria that was the basis of the work. Describe in the working paper how the information was validated.

e. **Reliability of Computer-Processed Data.** When computer-generated data is used, develop a working paper to clearly show tests of relevancy and reliability. As applicable, this information is also discussed in the audit report. Consider the following in using the data:

(1) Test the integrity of the system by comparing the output with other sources.

(2) Avoid unreliable data. This could be a major weakness, which may need further examination. **Briefly describe in**

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the scope section of the audit report limitations in using computer-generated information.

(3) When computer data is used essentially for background purposes, citing the source of the data will generally satisfy reporting requirements. **State in the scope section that the data was not tested for reliability.**

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**COMMAND LOCAL AUDIT FUNCTION
SECTION 4 - REPORTING STANDARDS**

1. **Form.** As a rule, auditors convey the results of an audit to the commanding/executive officer via a written report. Reference (e) provides the specifics. The type of report depends on the materiality of the audit findings. A report with no significant findings should be a **Letter Report**. The **Letter Report** format is also used when the survey shows that a detailed examination would provide little benefit to the command. If an audit is stopped before completion, forward a **Letter Report** to the commanding/executive officer explaining the circumstances. Significant discrepancies and/or material weaknesses are presented in an **Audit Report** format. Reference (g), enclosure (2), describes a material weakness.

2. **Timeliness.** To be useful, auditors must present audit results promptly to management. Interim reporting (verbal or written) may be necessary to alert managers about issues needing immediate attention. Ensure interim reports are retained in the working papers.

3. **Report Contents.** The recommended formats for presenting a **Letter Report** and **Audit Report** are discussed below:

a. **Letter Report.** See the "Letter Report" discussion in enclosure (1) and **Appendix C**. Note the subject line must begin with "Audit." In many cases, it's much more convenient to draft the report as a CE letter report. However, for it to be categorized as an audit report, include the following additional paragraph in the letter.

Statement on Auditing Standards. Explain that the work was conducted in accordance with generally accepted government auditing standards (GAGAS). **This statement must be factual or it's not an audit.**

b. **Audit Report.** Format used to present audit findings that resulted in written recommendations to managers. Make every effort to present the findings and recommendations using a "single" page audit report format. See "The Report" discussion in enclosure (1) and **Appendix D**. Note the subject line must begin with "Audit." The report must also include the following paragraph.

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Statement on Auditing Standards. State that the audit was conducted in accordance with GAGAS. **This must be a true statement.** If standards were not followed, provide an explanation in the **Scope** section. The value-added aspects of not complying with a standard are important considerations. Explain in the working papers the reasons for not following a particular standard along with any impact on the audit.

4. **Presentation.** The report must give a complete, accurate, and objective picture of the conditions found. It should provide a convincing, clear, and concise discussion as the subject matter will permit.

5. **Distribution.** Reports are usually numbered in consecutive series; for example, the first one for FY 2000 would be **Report 00-1.** The distribution of a report is decided by the commanding officer in conjunction with the local auditor. Managers to whom recommendations are addressed should receive a copy of the final report. Unless prohibited by law or security classification, audit reports are also releasable under the Freedom of Information Act.

**AUDIT LIAISON, AUDIT FOLLOW-UP, AND EXTERNAL REPORTING
REQUIREMENTS**

1. Procedures for Working with External Audit Agencies

a. **Audit Liaison**

(1) CNET Inspector General's Office (Code 00G) is the focal point for the entry of external audit agencies into the NAVEDTRACOM. When CNET is notified of an impending visit, Code 00GR will advise the appropriate commands of the particulars concerning the auditors' itinerary. If commands are contacted first, immediately advise Code 00GR, DSN 922-4867, commercial (850)452-4867, to ensure that proper visit protocol is followed. It is in the best interests of the NAVEDTRACOM that visits by external auditors be properly coordinated. Normally, the auditors provide: a visit request, identification credentials, audit announcement letter, and a security clearance, as necessary. References (e) and (h) through (l) apply.

(2) Typically, the CE Officer/command auditor acts as the central point of contact in dealing with external auditors. Responsibilities of audit liaison generally include:

- (a) Coordinating an opening and exit conference for the command,
- (b) Assisting the auditors in contacting cognizant managers,
- (c) Arranging for access to records,
- (d) Setting up working spaces,
- (e) Ensuring draft reports are forwarded to immediate superiors and CNET (Code 00GR),
- (f) Ensuring management responses address findings and are forwarded to the audit agency and CNET (Code 00GR) in prescribed time frames, and
- (g) Validating all reported monetary savings, and ensuring any suspected violations of 31 U.S. Code 1301(a) and 1517 are reported promptly to CNET (Code OS82), DSN 922-4910/4084, commercial (85)452-4910/4084. A 1301(a) violation occurs when funds are used for purposes not intended. A 1517 violation

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occurs when there is spending in excess of obligational authority.

b. Audit Follow-up and On-site Verification

(1) Reference (e) addresses issues related to the local audit function. References (e), (h), and (l) through (n) explain requirements as they apply to all audits regardless of who performed the work. A command must maintain a follow-up system for tracking ongoing corrective actions. Customarily, the CE Officer/command auditor is responsible for follow-ups. An item is closed out from the system only when agreed-to action is completed. A final closeout may be documented by either a written confirmation from the responsible manager or an on-site verification report by an independent third party. For findings with monetary benefits, a cognizant manager must attest to the propriety of the benefits achieved. This is an important certification because of possible budgetary implications. Documentation of the follow-up process must be retained for examination by external auditors and inspectors.

(2) On-site verifications are required for significant recommendations and should be completed within a year after closure. Reference (m) describes the types of recommendations that are considered significant.

2. External Reporting Requirements

a. Reports to the Naval Audit Service

(1) **Status Report on Audit Findings with Open Recommendations.** Reference (e) addresses local audits. References (h) and (m) give guidance for all audits. As applicable, this report provides the status of open recommendations from Naval Audit Service and local audit findings. In the format of exhibit B to reference (m), the commanding officer must provide an explanation regarding all open recommendations. The report will be sent to CNET (Code 00GR) for compilation and submission vice sending it directly to the Naval Audit Service. Reports are due to CNET on **1 February** and **1 August**.

(2) **Annual Audit Plan.** The Auditor General of the Navy requires auditors working in the NAVEDTRACOM to submit audit plans for the next fiscal year. Reference (e) applies. **A listing of the planned audits is due to CNET (Code 00GR) about 7 July of each year.** Provide the following information:

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- (a) Audit title.
- (b) Audit objective(s).

(3) **Annual Auditor Time Report to Include the Status of Audit Plan and Training Efforts.** This requirement applies to command auditors for the fiscal year completed. Note reference (e). Pursuant to the guidelines of The DoD Inspector General and Auditor General of the Navy, the following information is due to CNET (Code 00GR) by **15 October**:

(a) **Auditor Time.** Report direct and indirect time worked during the fiscal year. **Appendix J** provides the suggested format for capturing hours worked on a biweekly basis. Use the format of Schedules A and B of reference (b) to show where time was spent.

(b) **Status of Audit Plan.** Indicate whether or not the audits planned for the fiscal year were performed. Provide a short explanation as to why an audit was not completed. Briefly discuss future plans regarding rescheduling the audit. As applicable, describe what additional audits, including objective(s), were added to the schedule during the year. Give the status of these audits.

(c) **Status of Training.** Use **Appendix G** to provide a breakdown of training courses planned and completed and Continuing Professional Education (CPE) earned during the fiscal year. Explain why any courses were canceled or not attended.

b. Reports to Naval Inspector General

(1) **Semiannual Report for On-site Verification.** Reference (m) applies. The Naval Inspector General requires semiannual reporting on verification plans, plan updates, and verification results for significant recommendations from completed external audit reports. This information is due to CNET (Code 00GR) by **15 January** and **15 July**.

(2) **Semiannual Report on Audit, Inspection, and Investigative Activities Required by the Inspector General Act of 1978, as amended.** Reference (o) applies. This report permits a command to describe in-house auditing and inspection efforts that have made a positive impact on curbing fraud, waste, abuse, and mismanagement. This information is due to CNET (Code 00GR) on **1 March** and **1 September**.

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(3) **Semiannual Follow-up Status Report.** Reference (m) applies. The report provides a narrative summary and statistical information on deficiencies identified during in-house audits. Only Parts I and V should be completed. The report is due to CNET (Code 00GR) on **1 March** and **1 September**.

c. **Hotline Complaints.** The basic procedures for processing a **DoD or DON Hotline Complaint** within the NAVEDTRACOM are discussed in reference (p). The two programs are under the cognizance of CNET (Code 00G). Reporting due dates may vary depending on the seriousness of the circumstances. A Naval Inspector General Investigations Manual is also available for use in performing investigations. Contact Code 00G, DSN 922-4840, commercial (850)452-4840, for the particulars in obtaining the manual.

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INDEX OF AVAILABLE REVIEW PROGRAMS/GUIDES

1. Naval Audit Service Programs. The below programs should be used with great care since the Naval Audit Service no longer updates them. They do present a sound examination methodology, but references must be verified. Programs are available upon request from CNET (Code 00GR).

<u>No.</u>	<u>Program Title</u>
2B	Time and Attendance Reporting
6	Accountability and Control of Plant Property and other Navy Property and Management of Real Property
7	Budgeting
9	Appropriation and Fund Accounting
10A	Small Purchases
10B	Major Procurement and Contract Administration
11	Possession of Government Property by Contractors
12	Supply Management
15	Food Service
19A	ADP Management Audits
19B	ADP Security Audits
19C	ADP Systems Application Audits
19D	ADP Systems Development
20	Audit of Navy and Marine Corps Activities
23	Movement and Storage of Personal Property
24	Personnel Control
25	Family Housing

- 26 Maintenance Management of Public Works Facilities and Utilities
- 27 Management of Transportation Equipment Resources
- 28 Military Construction
- 32 Internal Review in the Department of the Navy
- 33 Nonappropriated Fund Activities
- 44 Internal Security
- 45 Travel Administration
- 46 Telephone Services

2. CNET Audit/Review Programs. Contact Code 00GR for copies.

<u>No.</u>	<u>Program Title</u>
1	Management and Maintenance of Real Property
2	Navy Resource Recovery and Recycling Program
3	Physical Security
4	Plant and Minor Property
5	Prior Year Unliquidated Obligations
6	Quality Assurance Procedures for Local Contracts
7	Travel
8	Standards of Conduct
9	Automated Information Systems (AIS) Security
10	Hazardous Material Control Program
11	Administrative Services
12	Inventory/Supply Management
13	Government Travel Charge Card Program

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- 14 Civilian Time and Attendance
- 15 Facilities Condition Readiness
- 16 Energy Conservation Program
- 17 Instructor Computations
- 18 Telephone Billing/Collections and Service/Usage
- 19 International Merchant Purchase Authorization Card (IMPAC)
- 20 Memorandum of Understanding (MOU) and Command Support
Agreements
- 21 Administrative and Account Controls as Provided for Under
the Chief Financial Officer's Improvement Plan

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**WORKPAPER
REFERENCE****RECOMMENDED SURVEY STEPS FOR REVIEWS/AUDITS**

1. Ensure this survey is supported and cross-referenced to clear documentation. See attached flowchart.
2. Obtain and review pertinent references. A good working knowledge of the references is critical. Review any command instructions that address the topic.
3. Review any pertinent GAO, DoDIG, Navy IG, Naval Audit Service, CNET IG/Mission Capability Assessment, Local Audit, Command Evaluation, or NCIS reports. Where possible review any internal management studies.
4. Conduct an opening conference with applicable managers. Discuss the purpose of this audit/review.
5. Identify all key managers with the topic. Interview as many of these managers as possible. Document the interviews. Attempt to flowchart the process.
6. Evaluate actions taken in response to previous audits, reviews, inspections, investigations, efficiency reviews, or other forms of examination.
7. Evaluate internal controls for the topic to determine if standards are being met.
 - a. The manager should have a flowchart for this process. If not, request that one be developed. Compare this flowchart with the one developed during the above interviews.
 - b. **Using the flowchart**, identify the quality indicators or internal controls used to assess the process for effectiveness, efficiency, and economy. The indicators should be clearly identified on the flowchart. Is there any evidence to show these indicators are routinely tested?

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**WORKPAPER
REFERENCE**

RECOMMENDED SURVEY STEPS FOR REVIEWS/AUDITS

c. Are controls adequate to ensure the process is providing the command adequate support?

8. What potential errors or irregularities exist? Evaluate the materiality or significance of the possible discrepancies. If any evidence of fraud is detected, notify the commanding officer. Remember, the Naval Criminal Investigative Service (NCIS) must be contacted on issues involving fraud.

9. Determine what resources and skills are necessary to perform the review/audit.

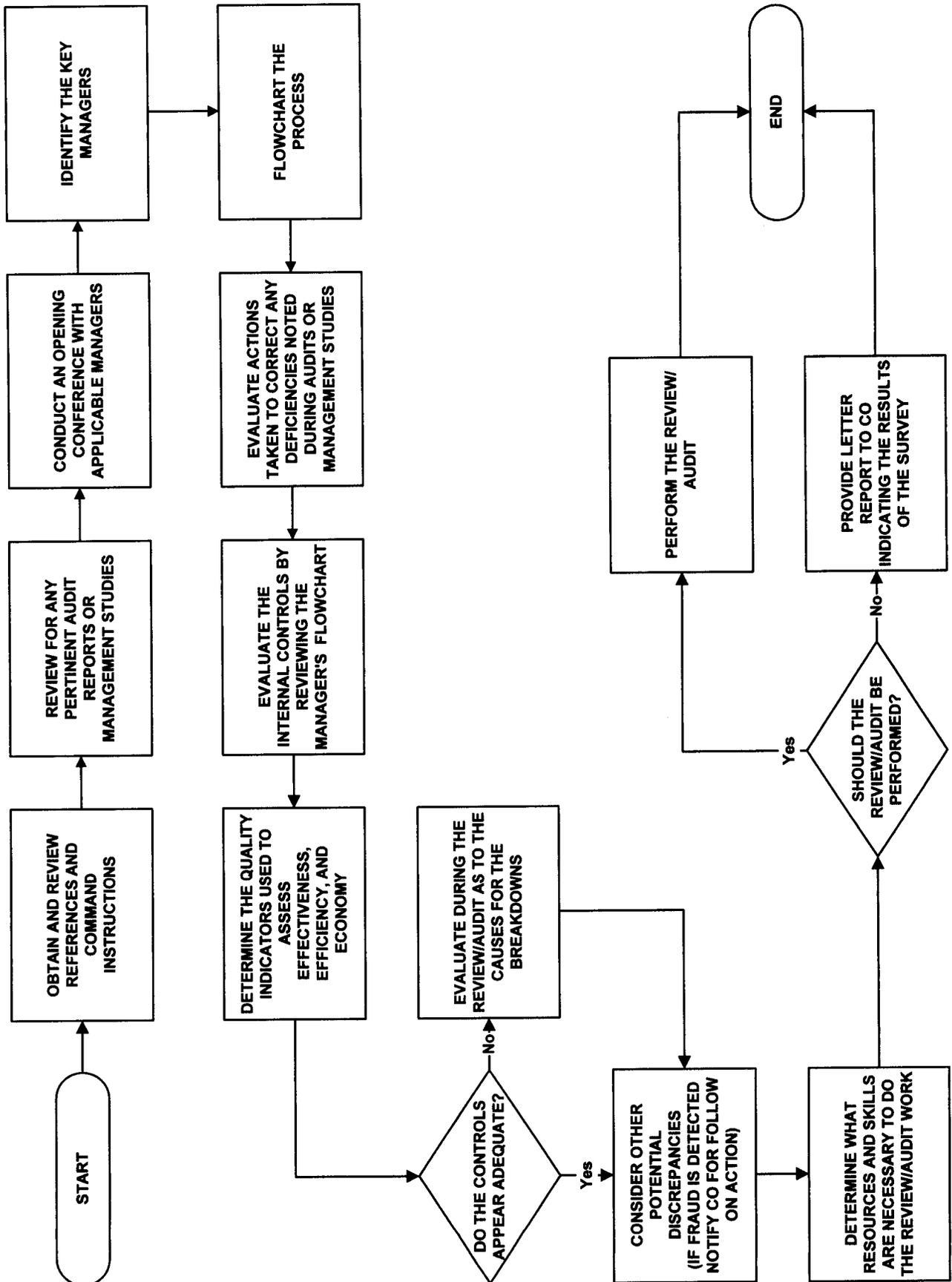
10. Determine whether to proceed with the review/audit. If yes, go to steps 12 and 13. If no, complete step 11.

11. Provide a letter report to the commanding officer on the absence of material problems and the adequacy of internal control systems. Identify the objective, scope, and methodology on which you based your conclusion.

12. Reevaluate objectives. Review **review/audit steps** for completeness and add or delete steps as necessary.

13. Perform audits in accordance with **NAVAUDSVC P-7511.3** and **CNETINST 5000.4B**. Conduct reviews pursuant to **OPNAVINST 5000.52A**, **DON Command Evaluation Manual**, and **CNETINST 5000.4B**.

SURVEY



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SAMPLE FORMAT - LETTER REPORT

7540
(Date)

MEMORANDUM

From: Command Evaluation Officer
To: Commanding Officer

Subj: REVIEW OF STANDARDS OF CONDUCT(00-2R)

Ref: (a) DOD Directive 5500.7
(b) CNETINST 5000.4B
(c) CNETINST 5200.6C

1. **Introduction**. We have completed a review of Standards of Conduct under the guidelines of references (a), (b), and (c).
2. **Objective**. The objective of the review was to determine the degree of command commitment toward achieving high standards of ethical conduct in the workplace.
3. **Background**. The Executive Officer asked that Standards of Conduct be reviewed to evaluate compliance within the command. There was concern that, because of routine annual reporting requirements, managers may not be taking it seriously.
4. **Scope and Methodology**. The audit included a review of OGE Form 450 (Confidential Financial Disclosure Report) and OGE Optional Form 450-A for FY 1998 and 1999. The examination did not attempt to determine the veracity of the forms. The intent was to evaluate compliance with submission standards. To accomplish the objective, we reviewed Standards of Conduct training documentation for FY's 1998 and FY 1999 and procedures as outlined in reference (a). We also interviewed selected supervisors and nonsupervisors concerning Standards of Conduct issues.
5. **Conclusion**. During the course of our review, minor discrepancies were discovered and Code 007 took immediate action to resolve and correct them. Code 007 regards Standards of Conduct and ethical behavior as a serious matter. Overall, the command maintains a high degree of commitment toward achieving outstanding standards of ethical conduct. Code 007 endeavors to keep the command informed of current guidance regarding Standards of conduct and ethical behavior. Code 007 also conducts annual

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mandatory (1-hour) training. Our review of the following areas showed a need for more attention:

a. Annual Mandatory Training. Three command civilians and one military person did not attend the mandatory training for the 1999 reporting cycle. Code 007 conducted four "make-up" sessions in order to meet CNO requirements of achieving 100 percent training. The last two sessions were mandated by the Executive Officer.

b. Required Financial Disclosure Statements. Code 007 relies on input from Department Heads to identify personnel who should prepare a financial disclosure statement. However, our review indicated that Department Heads may need to reassess position descriptions and actual responsibilities of personnel within their codes. Financial disclosure statements are required of anyone whose position and nature of duties may involve a potential conflict of interest. A person does not have to be a contracting or procurement official to have influence or "insider" knowledge over a contract and/or procurement action. No formal recommendations are deemed necessary because Code 007 quickly addressed the minor paperwork discrepancies noted.

5. Internal Controls. The provisions of reference (c) have been implemented. An examination was made of the System of Internal Controls applicable to Standards of Conduct. No internal control breakdowns were noted that would indicate the presence of unethical conduct.

Very respectfully,

CE Officer

SAMPLE FORMAT - FORMAL REPORT

(Date)

MEMORANDUM

From: Command Evaluation Officer
To: Commanding Officer

Subj: REVIEW OF THE COMMAND SUPPORT AGREEMENT (SA) WITH NAS HOST
(00-3R)

Ref: (a) COMMANDNOTE 5000 of (date)
(b) CNETINST 5000.4B

Encl: (1) Subject review

1. Enclosure (1) provides the results of an examination of the Command SA with NAS Host. The review work was performed according to the guidelines outlined in references (a) and (b). N4 agreed with the two recommendations developed during the examination and is taking the appropriate actions to institute improvements. The most important aspect of this review was the formal designation of a Staff Support Agreement Manager (SAM) to work with the NAS Host SAM.

2. During a Civilian Leadership Development assignment, Ms. Jo Smith acted as the principal reviewer of record for this project.

Very respectfully,

CE Officer

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Subject. Review of the Command Support Agreement (SA) with NAS Host (00-3R).

Objectives. To determine whether or not the Command SA clearly delineates the responsible parties for providing services necessary to support the Command's mission.

Background. SA's are established between a Host/Tenant and Supplier/Receiver to define the type and level of services provided. The agreement also establishes a basis for any appropriate reimbursement for services rendered. As a result of Navy's Installation Claimancy Consolidation (ICC) initiatives, there have been numerous changes affecting Host/Tenant and Supplier/Receiver relationships and responsibilities. To ensure adequate mission support, commands must pay close attention to the Host/Tenant Agreement. Therefore, a periodic review of the document is a necessity. Early detection of problem areas will ensure the training environment is not degraded because of inadequate support.

Scope. We reviewed the current Command SA with NAS Host.

Methodology. We compared the elements of the Command SA to the Support Program requirements outlined in OPNAVINST 4000.84B. The agreement was also evaluated against DoD Instruction 4000.19 and the Procedural Guide for Navy Support Agreements. The local guideline, NASHOSTINST 4401.2J, was the principal instrument used for evaluating the Command SA with NAS Host. It provided a detailed listing of support services rendered by NAS Host. Other relevant documents and messages were also reviewed. Discussions were conducted with the NAS Host Support Agreements Manager (SAM) regarding relations with Command. Various knowledgeable managers were interviewed.

Conclusions. Based upon our examination, we found that the Command had not fully complied with the guidelines of OPNAVINST 4000.84B and NASHOSTINST 4000.19. A SAM had not been designated for the Command. There was no mechanism in place to ensure Command SA was routinely screened for possible changes. Essentially, the Command had relied upon the Host to initiate revisions to the agreement. In light of the Host ICC initiative, this approach placed an unnecessary burden on NAS Host to anticipate Command requirements. It also put the command in a reactive mode when support needed modification. This was very evident recently when changes occurred to the methods for providing supply support. NAS Host was being asked to provide superior support with very limited involvement of the Command.

Enclosure (1)
Appendix D

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When considering Commercial Activity (CA) initiatives, this approach puts NAS Host in a rather awkward position. To ensure requirements were addressed, the Command needs to be more involved with the SA.

Internal Controls. The NAS Host internal controls for managing the Host SA's appeared to be adequate. However, Command had no internal safeguards to ensure the SA with NAS Host was satisfying support requirements. Command had no designated SAM to coordinate with NAS Host to ensure the level of support received by CNET was adequate. Further, there was no Command process in place to compile information about what level of support was really needed.

Examination Results and Planned Actions:

1. **Command Support Agreement Manager.** While interviewing the NAS Host SAM and Command managers, we found a false assumption, "Command N8 is the designated SAM for Command." N8 is listed in the Organization Manual as the Command point of contact for SA questions. N8 explained to us that the position had never been involved in developing, modifying, implementing, or monitoring the Command SA with NAS Host.

By formally designating a SAM for Command, confusion would be eliminated on the part of the Command concerning a focal point to address SA needs. It would also provide a responsible manager, capable of monitoring and maintaining the SA between Command and NAS Host. A designated SAM would have the resources and authority to gather the required information and provide accurate and comprehensive feedback to the NAS Host SAM. Maintaining an active dialog with the NAS Host SAM may prevent future surprises, similar to what occurred when Command supply support changed. Area CA studies may effect many of the support services currently received by the Command. Active involvement in the decision-making process can ensure Command needs are considered. Determining Command requirements and communicating them to NAS Host will greatly assist in gauging and planning for total base support. Designating a SAM would also comply with the guidelines of OPNAVINST 4000.84B, which states both the host and tenant shall have a designated SAM. The procedures presented in NASHOSTINST 4401.2J are also germane.

2. **Level of Support Requirements.** The Command had no Standard Operating Procedures in place for developing and monitoring the SA with NAS Host. From an outsourcing or in-house perspective, determining the level of support requirements is essential to

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ensuring the Command receives adequate services. Since no Command system existed to ensure that occurs, the Command defaults to what NAS Host deems to be a sufficient level of support. We found that NAS Host expectations don't necessarily match the Command's.

There was a general opinion among managers interviewed that a team approach chaired by a command SAM would be a good method for addressing SA issues. In addition to the SAM, possible team members could include managers from N1, N4, and N8. N4 is both directly and indirectly involved in the majority of the support services received from NAS Host. N1 is also involved in many of the services received. N8 could provide financial input and policy guidelines. This panel of experts could develop a comprehensive plan that adequately addresses current as well as future Command requirements. A by-product of this effort would be better-articulated requirements to the NAS Host SAM.

Recommendations:

1. That N4 consider designating a SAM for the Command.
2. That N4 consider establishing Standard Operating Procedures and a team approach for working Command Support Agreement issues with NAS Host.

Response to Recommendation 1. N4 has taken this for action and has assigned N41 as the Support Agreements Manager (SAM) for Command. Action completed on (Date) including notification within Command as well as CNO N464D.

Response to Recommendation 2. N4 will initiate action to update the Command Organizational Manual to reflect SAM responsibilities. A proposed revision to the Manual will be submitted to N1 by (Date). N41 has been in contact with the NAS Host SAM regarding Command Support Agreement (SA) requirements. SA changes will be explored once NAS Host has received the Support Agreements Management System (SAMS) 5.0 software. CNO N46 expects to distribute the software shortly. As the time approaches for revising the SA, N41 will provide the necessary guidelines and procedures to reflect the new SAMS 5.0 software.

CE Officer Comments. N4's actions address the issues identified and meet the intent of the two recommendations.

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MANAGEMENT RESPONSES TO AUDIT/REVIEW RECOMMENDATIONS

Date: _____

1. RECOMMENDATION: _____

2. Agree/Disagree with recommendation.

3. If agree, state:

a. Action completed, planned, or in progress: (For an incomplete action, describe the expected completion plan. Should further action be considered unnecessary, so state.)

b. Target date for completion: _____

4. If disagree, state reasoning or justification:

Approved:

(Signature)

(Date)

(Title)

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COUNT OF OFFICIAL OR PUBLIC CASH

In the possession of: _____
 (Name)

 (Title) (Location)

		Bulk		Issue		Total	
		No.	Amount	No.	Amount	No.	Amount
Bills:	\$100.00						
	50.00						
	20.00						
	10.00						
	5.00						
	2.00						
	1.00						
Coins:	\$1.00						
	.50						
	.25						
	.10						
	.05						
	.01						
Checks/Vouchers:							
TOTAL ON HAND							
TOTAL PER RECORDS							
DIFFERENCE¹							

We certify that cash and vouchers carried as cash in the amount of \$ _____
 as listed above, were counted by us, in the presence of _____
 on this date.

 REVIEWER DATE REVIEWER DATE

 ACTIVITY ACTIVITY

I certify that cash and vouchers carried as cash in the amount of \$ _____
 as listed above, were returned to me intact on this date.

 FUND HOLDER DATE

¹Difference = Total On Hand - Total Per Records. Shortage would be enclosed by (). An overage or shortage should be reported to the commanding officer.

REFERENCER CERTIFICATION

Audit Title and Number _____

Referencer

I certify that I have reviewed the working papers and report for this audit. All facts and figures included in the attached report have been referenced. Any finding included in the working papers without documentation supporting the decision not to include the finding in the report has been identified on the attached referencing review sheets for appropriate comment.

Name and Signature _____

Date _____

Activity/Code _____

Referencer's Checklist

BACKGROUND

1. If a financial profile is included, do the working papers and report provide a clear understanding as to the source if data were prepared by management for information purposes only? _____

YES

NO

2. If an operations summary is included, do the working papers and report identify source and the degree of audit responsibility (i.e., data provided by management)? _____

SCOPE

1. Does this section identify the universe and what within that universe was covered by the audit? _____

2. Are the activities and geographic locations at which work was done identified? _____

3. Is a statement on internal controls and compliance included? _____

4. Are any significant constraints or restrictions on the audit clear and supported in the working papers? _____

5. Is any pertinent information excluded from the report? _____

METHODOLOGY

1. Are analysis techniques that were used identified, reasonably explained, and supported in the working papers? _____

2. Did the auditor determine the status of prior audits or investigations and is such action documented in the working papers? _____

WORKING PAPERS

1. Is the report cross-referenced to the working papers? _____
Are references accurate? _____

2. Are working papers in accordance with Local Audit P-7511.3 and CNETINST 5000.4B? _____

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- | | <u>YES</u> | <u>NO</u> |
|--|------------|-----------|
| 3. Is supervision in evidence? | — | — |
| 4. Are mathematical computations used in the report traced to supporting working papers and recomputed to assure accuracy, where appropriate? | — | — |
| 5. Were all approved audit steps completed, or was there written justification to support not following the steps? | — | — |
| 6. Are findings supported by sufficient, competent, and relevant information? | — | — |
| 7. Do working papers contain any written findings not included in the audit report? If so, is documentation available in the working papers supporting the decision not to include the finding(s) in the report? | — | — |
| 8. Is any fact or figure in the report not verified in the working papers? | — | — |
| 9. Are positions dependent upon computer-generated data fully supported in the working papers? | — | — |
| 10. Is verbal evidence referred to in the findings supported by corroborative evidence? | — | — |

FINDINGS

- | | | |
|--|---|---|
| 1. Are potential monetary benefits supported? | — | — |
| 2. Are statistical projections (both monetary and nonmonetary) reasonable, fully supported, and in accordance with policy? | — | — |
| 3. Are repeat conditions clearly spelled out to management? | — | — |
| 4. Are the elements of condition, cause, effect, and criteria described early in the finding? | — | — |
| 5. Is achievement of audit objectives supported by findings or positive/negative assurance statements? | — | — |
| 6. Are significant internal control weaknesses, noncompliances, and illegal acts, if applicable, discussed? | — | — |

RECOMMENDATIONS

- | | | |
|---|---|---|
| 1. Do the working papers support the recommendations? | — | — |
|---|---|---|

MANAGEMENT RESPONSES

- | | | |
|---|---|---|
| 1. Are management responses included in the report supported in the working papers? | — | — |
|---|---|---|

SAVINGS

- | | | |
|---|---|---|
| 1. Are target dates correct and supported in writing in the working papers? | — | — |
| 2. Are monetary benefits correctly displayed and tied to individual findings and to working papers? | — | — |

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BIWEEKLY MANHOUR TIME REPORT
FOR PERIOD ENDING _____

AUDIT NO.		W/M	SUN	MON	TUE	WED	THU	FRI	SAT	SUN	MON	TUE	WED	THU	FRI	SAT	TOTAL
DIRECT																	
	HOTLINE NO.	31															
	OTHER	35															
TOTAL DIRECT																	
INDIRECT	TRAINING - RECEIVED																
	TRAINING - PROVIDED																
	ADMIN FUNCTIONS																
	TECHNICAL FUNCTIONS																
	LEAVE/HOLIDAYS																
	OTHER:																
	REVIEWS																
	MC PROGRAM																
	MCA/IG TEAM ASSIGNMENT																
SEMI-ANNUAL REPORTS																	
TOTAL INDIRECT																	
TOTAL DIRECT/INDIRECT																	
NAME																	
SIGNATURE																	
APPROVED BY																	

see back of form for directions on work measurement (W/M) codes and TDY travel.

Direct Manhours. Each audit must be categorized according to a specific work measurement (W/M) code. NAVAUDSVC P-7511.3 provides a description of these codes. Note, W/M code 31 is used for a hotline investigation performed by an auditor and W/M code 35 (Other) is used to cover direct time that cannot be specifically identified to one of the listed functional programs.

Indirect Manhours. In keeping with NAVAUDSVC P-7511.3, W/M codes are not prescribed for indirect hours. TDY travel incurred as a part of a specific job should be applied to that assignment and not to a separate TDY travel category.