

DEPARTMENT OF THE NAVY
BUREAU OF NAVAL PERSONNEL
5720 INTEGRITY DRIVE
MILLINGTON TN 38055-0000

IN REPLY REFER TO
BUPERSINST 7500.2B
PERS-00K
DEC 8 1999

From: Chief of Naval Personnel

Subj: RELATIONS WITH EXTERNAL AUDIT ORGANIZATIONS

Ref: (a) SECNAVINST 5740.26A
(b) SECNAVINST 5740.25C
(c) SECNAVINST 7510.7E
(d) SECNAVINST 5200.34D
(e) SECNAVINST 5740.28
(f) OPNAVINST 5200.25C
(g) OPNAVINST 5200.24A

Encl: (1) Audit Liaison Responsibilities
(2) Action Office (AO) Responsibilities
(3) Procedures: Audit Activity/Response/Related Events

1. Purpose. To implement references (a) through (g), establish Chief of Naval Personnel (CHNAVPERS) policy and procedures, and assign responsibility for audit liaison and response matters for all activities within the CHNAVPERS claimancy. This instruction also applies to organizational elements of the Deputy Chief of Naval Operations (Manpower & Personnel) [DCNO(M&P)]. This instruction has been revised substantially and should be reviewed in its entirety.

2. Cancellation. BUPERSINST 7500.2A.

3. Background. Three principal audit agencies (AA) conduct reviews of DCNO(M&P)/CHNAVPERS; Commander, Navy Personnel Command (COMNAVPERSCOM); and Commander, Navy Recruiting Command (COMNAVCRUITCOM) policies, programs, and activities. They are the General Accounting Office (GAO), the Department of Defense Assistant Inspector General for Auditing [AIG(A)], and the Naval Audit Service (NAVAUDSVC). Each agency performs similar functions, but each is responsible to a different level of government. The term audit encompasses surveys, reviews, and studies of all aspects of organizational operations, not just accounting and finance.

4. Policy. All personnel will cooperate with AAs in the conduct of audit work and to meet report response due dates. A timely reply is critical on issues which affect the management and funding of policies, programs, functions, or activities. Results from audits are useful to achieve increased operational economy and efficiency. Management will take prompt and responsive action on agreed to recommendations.

5. Responsibilities

a. DCNO (M&P)/CHNAVPERS delegates authority for audit liaison and report response matters to the Inspector General Matters Advisor (PERS-OOK). The Assistant for Audit Liaison (PERS-OOK3) will act as the central control point on all audits. Enclosure (1) identifies specific responsibilities. PERS-OOK3 will coordinate with the AAs, Navy Comptroller, the appropriate office codes within DCNO (M&P)/CHNAVPERS, COMNAVPERSCOM, and COMNAVCRUITCOM headquarters and field activities, and other Department of the Navy (DON) and Department of Defense (DOD) offices. PERS-OOK3 will use administrative assistants of headquarters codes to assist in identifying responsible action offices (AOs) for response.

b. CHNAVPERS subordinate activities may have a Command Evaluator who serves as the audit liaison; however, the activity can appoint any official to serve as audit liaison. The responsibilities of the audit liaison official are similar to those at enclosure (1), tailored to the activity mission and size. Subordinate activities will forward supplemental instructions/changes and the audit liaison name and telephone number to PERS-OOK.

c. Addressee AOs responsible for matters under audit will fulfill the responsibilities identified in enclosure (2) to ensure a timely and substantive response.

6. Procedures. Procedures for audit activity, report response, follow-up, and related events are included at enclosure (3).

7. Access to Information. References (a) through (c) provide detailed guidance on AA access to information. Each AO must assure information provided to auditors is factual, accurate, complete, and up-to-date. Auditor's requests for information must be handled in a timely manner. Command offices and subordinate activities should contact PERS-OOK regarding any issues relating to information access.

8. Reports. The reports required in this instruction are exempt from reports control by SECNAVINST 5214.2B.

J. B. HINKLE
Rear Admiral, U.S. Navy
Deputy Chief of Naval Personnel

Distribution:

BUPERSINST 5218.3D (Lists 1A, 1B)
COMNAVPERSCOMINST 5218.1 (List 1A)
SNDL C55A (DAPMA)
C55F (NAMALA)
FJA2 (NAVY BAND)
FJA8 (NAVRESPERCEN)
FJA9 (EPMAC)
FJA10 (NAVMAC)
FJA11 (NAVJNTSERVACT NS)
FJA12 (NAVCONBRIG)
FJA13 (NAVPERSRANDCEN)
FJB1 (COMNAVCRUITCOM)

Audit Liaison Responsibilities

- a. Publish policy and written procedures for administrative relations with the Audit Agencies.
- b. Maintain an official file on each survey, audit, review, or report of interest. Maintain a copy of notification of visits and clearances on auditors that visit headquarters.
- c. Direct audit announcements to headquarters, field activities, and other action offices (AOs) with an interest.
- d. Stay informed on DCNO(M&P) issues of audits in progress and keep chain of command informed of significant developments.
- e. Aid auditors by providing adequate workspace, general information/support such as mission statements and telephone directories, and minor ADP support. Resolve problems that may arise between auditors and personnel during visits.
- f. Direct reports and inquiries requiring action to proper AOs for response, and assign and monitor deadlines for return to ensure timeliness.
- g. Guide and assist AOs in the preparation of responses on reports and correspondence.
- h. Review, evaluate, and combine comments received into consolidated responses.
- i. Approve all AO responses to action reports and correspondence.
- j. Maintain a follow up system to monitor and verify corrective action is taken on deficiencies cited in audit reports.
- k. Inform senior leadership of the timeliness and effectiveness of responding to reports and follow up on implementation of agreed to recommendations.

Action Office (AO) Responsibilities

- a. When contacted by audit agency (AA), request audit title and code number and refer auditor to audit liaison.
- b. Obtain announcement letter from audit liaison to ensure audit was properly announced. **Do not -provide information to auditors on the -phone who were not cleared by audit liaison.**
- c. Request auditor present credentials before information is provided. Ensure information provided is complete, accurate, in proper perspective, and pertinent to audit. Do not represent opinion as fact.
- d. Maintain a record of all documents and materials made accessible to auditors.
- e. Notify audit liaison before all formal opening, closing, or interim status conferences with auditors.
- f. Notify audit liaison before providing information on controversial issues, potential cost saving/avoidance issues, and fraud or waste issues. Notify audit liaison as issues surface, rather than at the end of the audit.
- g. Notify audit liaison when a request for comment on a report is received from sources other than the audit liaison.
- h. Notify audit liaison when a report, routed for action/information, contains misstatements or omissions of fact, unsupported conclusions, or does not reflect Department of the Navy (DON) position.
- i. Document discussions with auditors considered significant and forward copy to managers and audit liaison.
- j. Respond to tasking on audit reports and inquiries. Enclosure (3) describes report response procedures.

Procedures: Audit Activity/Response/Related Events

a. Audit Planning. All AAs utilize Audit Plans to budget their resources. They frequently solicit DCNO(M&P)/CHANVPERS input for the development of such plans. When AAs request, PERS-OOK will coordinate responses with the appropriate offices. For the DON Internal Audit Plan, PERS-OOK coordinates the NAVAUDSVC annual request for inputs. This is an opportunity for us to impact NAVAUDSVC planning and the audits conducted.

b. Announcement or Notification of Visit. The AA will inform activities and the action office (AO) in advance of planned audit visits. The announcement will provide scope, time frame, objectives, visit locations, and the identifying audit number. If auditors need to review classified information, the AA will send a visit request to the activity at least 10 working days before the visit date. The visit request should include the names of audit team members, security clearances, desired contact points, and the planned visit dates. Release of classified information will follow the guidelines outlined in SECNAVINST 5510.36. If questions arise regarding classified material, the audit liaison or the activity Security Office is available for guidance.

c. Audit Preparation. CHNAVPERS and each subordinate command and field activity will designate an audit liaison. The designated audit liaison must have the authority and knowledge to provide effective help to AA representatives. The audit liaison must also coordinate the various aspects of the audit, and notify all affected AOs of the audit. Before meeting the AA team, AO managers should review the area under audit (mission, budgets, and general procedures, interface relationships, etc.) so they can adequately answer questions.

d. Entrance Conference. Normally at the start of an audit, there is an entrance conference between AAs and applicable AO personnel. During this initial contact the auditors should discuss their plans for conducting the audit, including topics covered and expected duration of work. In addition, the involved AO personnel will set up contact points and reaffirm the audit liaison as the focal point for audit activity. Depending on the significance of the audit, entrance conference participants may

include the AA team, commanding officer or deputy, the AO managers, and the audit liaison.

e. Audit Work. At the conclusion of on-site audit fieldwork, AO managers should ask auditors to discuss potential findings and recommendations. AO managers should discuss these findings and recommendations with the auditors to assure an accurate portrayal of facts, circumstances, and reasonable conclusions. It is important that auditors understand the contextual meaning of information to avoid unwarranted conclusions and recommendations.

f. Exit Conference. AO managers should insist on an exit conference after the audit fieldwork is completed. These conferences affirm areas of agreement as well as discuss and clarify unsettled issues before issuance of the formal draft report. Exit conferences provide the opportunity to insure findings are accurate and presented fairly. Depending on the significance and subject of the audit, exit conference participants will include the AA team, commanding officer or deputy, the AO managers, and the audit liaison. 'Suspected fraudulent activities reported by AAs must receive immediate attention. Reference (c) provides additional guidance on responding to reports involving fraud. Immediately refer any findings and recommendations still in dispute after the exit conference to the audit liaison.

g. Audit Reports. Reports contain findings, conclusions, recommendations and, if applicable, potential monetary benefits. The audit liaison receives and coordinates the action on AA draft and final reports, distributes the report to the proper office for review and preparation of a response. Before preparing the response, AO personnel need to coordinate with the audit liaison to discuss the alternatives for response, including specific format requirements.

h. Audit Report Response and Coordination. AOs will use the applicable format criteria at Attachment A, B, or C. The AO will insure coordination and clearance of the response by all pertinent offices. In particular, responses to draft and final reports, containing claimed dollar savings, must have the approval of CNO (Manpower and Personnel) (NIO) regarding Military Pay, Navy (MP,N) funds and PERS-02 regarding CHNAVPERS claimancy funds to ensure accuracy of claimed savings, and to ensure proper fiscal year and accounts (appropriation and budget) are cited.

The AO will forward the response via the chain of command to the audit liaison for final processing. Once report agreement is reached, agreed to actions on recommendations are entered into the Navy follow-up system and the command obligates itself to complete the action. For this reason, concurrence on a recommendation needs careful analysis. There are two very important points which are worthy of detailed explanation:

(1) Meet response times. Respond to draft reports within assigned response time (typically 30 days) and to final reports as required. If a draft report response is not received by the AA within the suspense time, AAs can print the report without the response, indicating the recommendations are shown as unresolved. The enclosure of Navy's comments in the report may be the only opportunity to balance the negative impact of the report and defend DCNO(M&P) programs from unwarranted publicity or funding cuts.

(2) Address claimed monetary benefits. Monetary benefits associated with findings/recommendations usually result from collecting money erroneously paid out, canceling unneeded program requirements, or improving procedures.

(a) Monetary benefits are in two broad groups:

1. Collections and budgetary reductions. This group includes actual or prospective collections for property, work, or service; actual or prospective collections of money erroneously disbursed; and budgetary reductions.

2. Potential cost avoidance. This group includes cases where resources (funds, personnel, or property) are better used by doing functions in an alternate manner. These actions will not result in actual collections or budgetary reductions. Most audits identify this type of monetary benefit.

(b) Monetary benefits are computed and reported only when they have been, or can be, realized. Benefits must be computed in a logical manner and offset costs must be considered. Monetary benefits are classified as either one-time or recurring. Monetary benefits must be computed and reported for all applicable fiscal years.

(c) Because of higher level interest in monetary benefits, responses must specifically address the recommendation and associated monetary benefit. If management does not agree monetary benefits will result, the entire response is treated as a non-concurrence. As such, the Auditor General of the Navy may elevate the issue in the published report to the next higher command level for resolution. If management fails to state a position on potential monetary benefits, the response is treated as concurrence with the auditors, claimed monetary benefits.

i. Audit Follow-up and On-Site Verification. The audit liaison will maintain the audit follow-up system. The system monitors actions taken on agreed to recommendations and monetary benefits identified in AA reports. Command AOs and subordinate activities must document and maintain records of actions taken on final reports. Monetary savings and cost avoidance must specifically be documented and validated. Specific follow-up and on-site verification procedures are shown below and AA response formats are shown at Attachments D, E, and F.

(1) GAO and-AIG(A) Report Follow-up. When requested, DCNO(M&P)/CHNAVPERS offices and subordinate field activities will furnish the audit liaison follow-up status information on agreed to report findings and recommendations. Attachment D provides the format typically used to report to the Secretary of the Navy (SECNAV) and Department of Defense, Inspector General (DODIG).

(2) NAVAUDSVC Report Follow-up. Upon receipt of the published audit report, the cognizant DCNO(M&P)/CHNAVPERS office will provide follow-up status on all open recommendations with past due estimated completion dates. Thereafter, all cognizant offices and subordinate field activities will be responsible for monitoring the remaining open recommendations, and automatically providing follow-up status to their audit liaison officer within 10 days of the estimated completion dates, as published, or the revised estimated completion dates. This will be done until all open recommendations are completed, closed, and validated. Attachment E, Implementation Status Report Format, will be used to provide follow-up status on open recommendations.

(3) On-Site Verification of Audit Recommendations. Each activity is responsible for maintaining a follow-up system for all audit actions. PERS-OOK will periodically review recommendations to validate their implementation. In addition,

officials from DODIG, Naval Inspector General, Auditor General of the Navy (AUDGENAV), Chief of Naval Operations (CNO), and CHNAVPERS offices may request on-site verification of completed actions. References (d) and (e) provide further information. Attachment F provides the format and procedures for an On-Site Validation review and report.

j. Audit Identified Material Control Weaknesses. Audits that test and report on functional or program management controls may be used as Alternative Management Control reviews under the Management Control (MC) Program. An AA audit report may identify a significant material control weakness which can not be corrected locally. In this instance, it may need to be reported in the Annual Management Control (MC) Certification Statement.

DEPARTMENT OF THE NAVY COMMENTS
ON
GAO DRAFT REPORT - DATED (date)
(GAO CODE NO. XXXXXX) - OSD CASE NO. XXXX
ON
(TITLE)
* * * * *
FINDINGS

FINDING A: (From DODIG tasking - quote word for word.)

DON RESPONSE: (See audit response criteria below.)

RECOMMENDATIONS

RECOMMENDATION 1: (From DODIG tasking - quote word for word.)

DON RESPONSE: (State position clearly and specifically on each finding, recommendation, and claimed monetary benefit. Factual inaccuracies are discussed and corrected information provided. Response criteria are

- Concurrence: If you propose to concur with a finding and/or recommendation, you must explicitly state "concur." This is followed by an explanation of what you did to correct the problem and when, or a plan of action(s) with projected due dates. If you concur, but prefer an alternate course of action than recommended, state "concur" and the alternate action.

- Non-concurrence: If you non-concur with a finding and/or recommendation, you must explicitly state "non-concur." This is followed by the reasons why and the documentation. Provide any cost/benefit data on which the decision was based. Do not agree with a recommendation not accepted as a good management practice; specifically state why the recommendation is not acceptable.

- Projected or Realized Monetary Benefit: If the report projects or claims dollar savings based on its findings and/or recommendations, you will also explicitly state "concur," "non-concur," or "partially concur" with the stated monetary savings, cost avoidance, or benefit.)

Navy Comments
on
OAIG(A) Report of (date
on
(Title of Report)
Project No. XXXX

Summary of OAIG(A) Findings, Conclusions and Recommendations

(Summarize, highlight important facts and conclusions.)

Summary of the Navy Position

(Summarize, emphasize significant considerations.)

Statement

(This is a "detailed statement" of Navy's position. State position clearly on each finding, recommendation, and claimed monetary benefit. Factual inaccuracies are discussed and corrected information provided. Response criteria are

- Concurrence: If you propose to concur with a finding and/or recommendation, you must explicitly state "concur." This is followed by an explanation of what you did to correct the problem and when, or a plan of action(s) with projected due dates. If you concur, but prefer an alternate course of action than recommended, state "concur" and the alternate action.

- Non-concurrence: If you non-concur with a finding and/or recommendation, you must explicitly state "non-concur." This is followed by the reasons why and the documentation. Provide any cost/benefit data on which the decision was based. Do not agree with a recommendation not accepted as a good management practice; specifically state why the recommendation is not acceptable.

- Projected or Realized Monetary Benefit: If the report projects or claims dollar savings based on its findings and/or recommendations, you will also explicitly state "concur," "non-concur," or "partially concur" with the stated monetary savings, cost avoidance, or benefit.)

NAVAUDSVC AUDIT REPORT (NUMBER - AUDIT TITLE/ALL CAPS)

FINDING #: (Quote word for word from audit report.)

RECOMMENDATION #: (Quote word for word from the report. Each finding will be followed by one or more recommendations. Each recommendation will be addressed separately, one per page.)

CNO OR BUPERS MANAGEMENT RESPONSE: (This is a "detailed statement" of management's position and a substantive reply is required. State position clearly and specifically on each finding, recommendation, and claimed monetary benefit. Factual inaccuracies are discussed and corrected information provided. Response criteria are

- Concurrence: If you propose to concur with a finding and/or recommendation, you must explicitly state "concur." This is followed by an explanation of what you did to correct the problem and when, or a plan of action(s) with projected due dates. If you concur, but prefer an alternate course of action than recommended, state "concur" and the alternate action.

- Non-concurrence: If you non-concur with a finding and/or recommendation, you must explicitly state "non-concur." This is followed by the reasons why and the documentation. Provide any cost/benefit data on which the decision was based. Do not agree with a recommendation not accepted as a good management practice; specifically state why the recommendation is not acceptable.

- Projected or Realized Monetary Benefit: If the report projects or claims dollar savings based on its findings and/or recommendations, you will also explicitly state "concur," "non-concur," or "partially concur" with the stated monetary savings, cost avoidance, or benefit.)

DEPARTMENT OF THE NAVY COMMENTS
ON
FOLLOW-UP ON (GAO or AIG(A)) REPORT NO. XXXXX, (date)
(Title)
OSD CASE NO. XXXX/PROJECT NO. XXXXXX

FINDING/RECOMMENDATION # (Address each separately, one per page)

Planned/ongoing Action

(Verbatim from DODIG or NAVCOMPT tasking correspondence or Navy's last response.)

Recrueted Information

(Verbatim from DODIG or NAVCOMPT tasking correspondence.)

Navy Response

(Provide the requested information and attach documentation. If due dates have slipped, provide justification. If you no longer concur or the situation has changed, provide revised response and justification. Dollar savings should be finalized if appropriate.)

IMPLEMENTATION STATUS REPORT (ISR) (Navy Audit Followup)

REPORT, NAME, SERIAL AND DATE: [Type name or report, serial data, and date]

RECOMMENDATION: (Cite verbatim the report recommendation #/text]

DATE OF ISR: (Date this ISR is filled out.]

MONETARY BENEFITS: [State "none" or "Claimed savings are \$_____. If claimed, provide Agreed-to-savings; appropriation amount; FYDP years applicable; and type of savings.]

MANAGEMENT CONTROL ISSUE NO: [if applicable, provide issue number]

CNO/BUPERS POINT OF CONTACT: [Overall code]

ACTION OFFICER: [Name and Rank]

ORGANIZATIONAL CODE: [Cite]

PHONE, FAX, E-MAIL: [If outside Millington, TN, list DSN number and area code with commercial number.]

ORGANIZATION(S) COORDINATED WITH, IF ANY: (Cite codes if any.]

PREVIOUS IMPLEMENTATION STATUS: [Verbatim from past report.]

CURRENT IMPLEMENTATION STATUS:

- State either "closed" or "revise estimated completion date to _____"
- If closed, state what actions were accomplished, including dates, locations, directives (if directive/publication changed, include copy with relevant portion highlighted).
- If revised, state justification for delay, progress, new milestone with estimated completion date (ECD) or (POA&M). Submit follow up ISR 10 days after this ECD.

ON-SITE VERIFICATION: (State yes or no.]

ON-SITE VERIFICATION RESPONSIBILITY: [If completion requires on-site verification, cite reasons and identify responsible verification activity; if not, state N/A.]

AUDIT ON-SITE VERIFICATION REPORT (AOVR)

AUDIT REPORT NAME, AUDIT NUMBER, SERIAL AND DATE:

COMMAND NAME/DATE OF AOVR:

NAME OF ACTION OFFICER/CODE/TELEPHONE NUMBER:

ORGANIZATIONS COORDINATED WITH:

FINDING SUMMARY: (Usually the lead paragraph from the finding)

AUDIT RECOMMENDATION(S): (Show number and text)

BUPERS COMMITTED ACTIONS/AGREED TO MONETARY BENEFIT:

(Show actions and amount of monetary benefit agreed with.)

SCOPE OF AOVR: _

(Describe the scope of the verification; i.e., describe who you interviewed and how (should be responsible program officials); what documentation was reviewed, where the documentation is located; and the test or methodology used to determine whether the problem has been corrected). See OPNAVINST 5200.24A, for additional information.

AOVR FINDING/RECOMMENDATION(S):

- (Based on the verification work you did, was the problem corrected by the actions taken.)
- (If so, show the results which are based on interviews, document review, and test. Final statement should be "BUPERS has verified and action is considered complete.")
- (If not, show the results and recommend additional actions to correct any remaining problem.)

AGREED TO FINAL MONETARY BENEFIT: (Show final dollar amount of monetary benefit agreed with and how we arrived at that amount.)