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Subj: COMMAND EVALUATION (CE) PROGRAM

Ref: (a) OPNAVINST 5000.2A

Encl: (1) CE Flow Chart
(2) Department of the Navy Command Evaluation Manual

1. Purpose. To establish and publish policy and procedures for evaluations required to assess the efficiency and integrity of command functions. Enclosure (1) depicts those processes.

2. Cancellation. NAVDENCLINICINST 7510.1B.

3. Definitions. CE is an independent in-house assessment designed to assist the Commanding Officer (CO) in improving mission accomplishment, integrity of command and economical use of resources.

4. Policy. A CE capability shall be maintained on a full or part time basis depending on personnel resources for the sole use of the CO. The CE function shall have independence to ensure impartiality.

5. Staffing. The CO will appoint in writing a CE Officer who possesses the professional qualifications to manage the CE functions and have adequate knowledge of management control review.

6. Reports. Reports resulting from this function shall be signed by the person conducting the evaluation and be presented directly to the CO.

7. Responsibilities

a. The CE Officer is responsible for the execution of the CE Program. Evaluations should be conducted within the guidelines of enclosure (2). Prepare an annual (fiscal year) evaluation plan for approval by the CO.

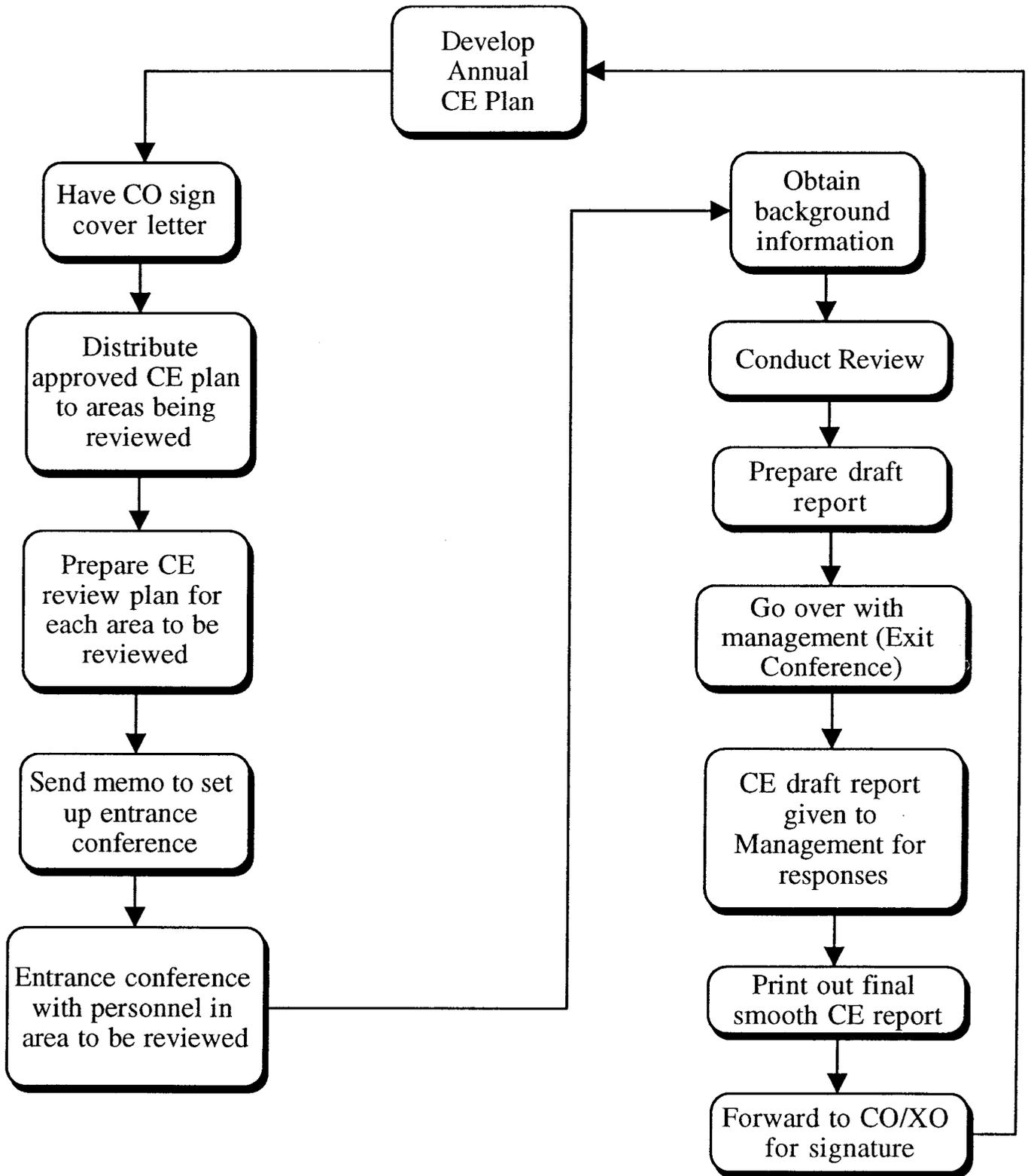
b. All cognizant parties will cooperate to the fullest extent in the CE Program process.


T. C. SPLITZGER

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DEPARTMENT OF THE NAVY

COMMAND
EVALUATION
MANUAL

- * POLICY
- * LOCAL ASSESSMENT CAPABILITY
- * ANALYSES
- * FRAUD, WASTE AND ABUSE
- * FOLLOW-UP

CHIEF OF NAVAL OPERATIONS, WASH., DC

DEPARTMENT OF THE NAVY
COMMAND EVALUATION MANUAL

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CHAPTER 1

GENERAL

1. Purpose. This manual provides a step-by-step approach in the execution of the Navy's Command Evaluation (CE) Program. While the intent is to provide information to new evaluators, it can be used as a reference to those already associated with the program. The manual is to be used by the individual evaluator as an aid in focusing on the various processes, regardless of the type of review.

2. Background

a. The Department of the Navy (DON) established the Internal Review (IR) Program in the early 1950's to provide an in-house capability for commanding officers to determine the success of mission accomplishment. Originally formed to evaluate financial operations, the IR role expanded to looking at all mission elements.

b. The IR Program was disestablished by the Secretary of the Navy on 13 April 1989. Commands are still responsible however, for maintaining economy, efficiency, effectiveness and integrity in operations, and compliance with existing operating directives. Commanding officers continue to be directly accountable for the performance and mission effectiveness of their units and have a continuing requirement to assess the overall efficiency and integrity of all command functions, with particular focus on high risk areas susceptible to fraud, waste, abuse and mismanagement.

c. The CE Program incorporates many of the principles of the IR Program. CE continues to provide commanding officers with the capability to review and evaluate operations and functions. The CE mission assists commanding officers in assessing the command's operational efficiency, integrity and compliance with directives. Utilization of the concepts in this manual and proper performance by evaluators will help make the program a success.

3. Organization. CE provides commanding officers with objective evaluations and reports, and as such, be independent from operational responsibilities and able to cross organizational lines. To accomplish that, CE should be placed in a direct staff relationship to the commanding officer. In cases where that placement is not practical, CE should be placed under the executive officer or deputy commander, but not a functional manager, e.g., the comptroller or other department head. The CE function should be listed in all organizational publications, such as phone books and organizational charts, to ensure visibility throughout the activity.

4. Audit Function. Within DON, the internal audit function is a responsibility of the Auditor General of the Navy. Other responsibilities include developing and implementing audit standards and policies and procedures. Audits performed under the CE Program fall within the purview of the Auditor General. Therefore, the intent of the manual is to address the "non-audit" aspects of the CE Program.

5. Staffing. Implementation of the CE function requires competent, experienced personnel. The personnel may be assigned permanently or on an ad hoc basis, depending upon the size of the command, complexity of operations and the types of reviews to be performed. Local staffing should utilize the following principles:

a. The head of the CE office should be professionally qualified to manage the function and have a knowledge of management control review techniques and accounting standards and practices.

b. The qualifications, technical expertise and job classification of the CE staff should normally fit the mission of the activity.

c. The nucleus of the staff should be professional for the tasks required, whether they be full-time or part-time individuals.

d. Full-time CE personnel do not perform operational tasks. Part-time CE personnel at smaller commands may perform operational tasks only after ensuring that provisions are made to maintain independence and objectivity in all review matters. The reviewer must be prohibited from conducting reviews in his/her assigned areas.

e. The mission, size and complexity of the operations and the types of evaluations and reviews to be performed of the individual command determine CE function staffing requirements.

f. Temporary augmentation of the CE staff by military or civilian functional experts from within the command is encouraged whenever specific expertise is required to accomplish an evaluation.

g. Membership and participation in professional associations are encouraged and should be supported.

h. CE personnel should receive adequate training to maintain and enhance their professional capabilities.

The following General Schedule occupational series are recommended for CE: 301, 343, 345, 501, 510 and 1800.

CHAPTER 2

PLANNING

1. General. A sound planning process is essential for effective CE management and proper allocation and control of CE resources. The process is important to focus efforts on areas where the greatest efforts on areas where the greatest value will be achieved.

2. Inventory

a. Each CE office must maintain an inventory of reviewable areas to facilitate the planning process. The inventory represents the CE office's potential workload, and is the first step in the planning process. Factors to be considered in determining the activity's inventory include: programs, organizations, systems, detachments, etc. The inventory should be updated annually, and serve as the basis for preparing the annual CE plan.

b. Each CE office must have an annual evaluation plan approved by the commanding officer or his/her designated representative. The CE plan is the cornerstone of the function and is updated as required. CE plans are developed at the beginning of the fiscal year and are based on the individual activity's inventory of reviewable areas, as well as inputs received from department heads and other managers. Each CE office should include the objective of each evaluation and the amount of time required to complete them in the CE plan.

c. The management control program coordinator should be consulted to identify possible high risk areas that could be evaluated.

3. Scheduling. Notification of intent to conduct the evaluation will be sent to the highest ranking official of the activity or the division to be evaluated. A request for an entrance conference will be included in the notification. Identify only whom you prefer at the meeting and why the area was selected to be evaluated. Reserve the details as to the scope of the evaluation, length of time you may be in the area and data requested for the entrance conference. Prior to sending the written notice, a brief telephone call to the responsible individual/office may save time and confusion.

Techniques (Do's and Don't's)

DO:

- * Provide lots of lead time in scheduling (start early).
- * Set specific time, place and duration.
- * Keep to one-on-one basis, if possible.

DON'T:

- * Get discouraged if you can't make immediate contact.
- * Force a meeting upon the reviewee if avoidable.
- * Schedule a meeting late in the day, just before or after lunch, just before a weekend or vacation.

4. Preliminary Review

a. Compliance studies must be based on clear guidance and not personal beliefs or preconceptions. The individual conducting the CE must be completely familiar with the area under review. It is prudent to remember that they are dealing with personnel who know their jobs and may resent "outsiders." In addition, the reviewer may be called upon to prove his/her facts. NEVER ENTER INTO AN EVALUATION BEFORE YOU HAVE DONE YOUR HOMEWORK!!!

b. Prepare well in advance as to the objectives, scope and methodology of the subject area to be evaluated. CE personnel must examine many facets of operations and become "mini-experts" in the area they intend to evaluate. Before determining their objectives, they must examine relevant directives, instructions and statutes. In addition, they must notify the activity of the intent to conduct a survey based upon an approved CE Plan. The plan should include areas for review which are special interest items to the Secretary of the Navy, Chief of Naval Operations, or the commanding officer.

5. CE Survey

a. The CE Survey is a critical part of all CEs. Determining the actual need for a CE is based on the results of this survey. Recognizing that a CE can rarely provide an in-depth examination of all possible subject areas, the survey enables the evaluator to determine what limitations of scope will be made to permit completion of the review within available resources (time and staff allocation).

b. When conducting a survey:

(1) Review activity MISSION and ORGANIZATION CHARTS in detail.

(2) Examine MANPOWER LISTING which shows civilian and military allowances and onboard strengths by title and organization.

(3) Peruse the activity TELEPHONE BOOKS.

(4) Read current activity NOTICES and INSTRUCTIONS.

(5) Assemble and read all related references in notices and instructions which bear on the area under survey.

(6) Review budgeted amounts and expenses. Find out where the money is.

c. The evaluator should document the major items he/she wishes to review during the survey, e.g., management controls, compliance, savings in work efforts or dollars expended, etc. The evaluator should:

(1) Discuss operating procedures with personnel involved. Be shown what they do. LISTEN. FLOW CHART complicated procedures.

(2) Review management controls.

(3) List all reports prepared by the organization under review. Examine for trends and reviews.

(4) Examine previous reviews.

(5) Observe physical aspects of work or storage areas for overstocking or understocking, accumulation of items which should have been disposed of, safety hazards, fire hazards, SECURITY problems, personal use of government equipment, other forms of conflict of interest, etc.

(6) THINK what we are after:

(a) IMPROVING - quality of operations or services

(b) COMBINING - operations, procedures, material, methods, records, reports, forms, etc.

(c) ELIMINATING - unnecessary operations or services

(d) DEVISING - new tools, equipment or processes

(e) SAVING - manpower, materials or time

(f) REDUCING - cost of material, cost of services, time of delivery, etc.

d. All surveys should be approved by the head of command evaluation before the verification phase commences or the project is formally canceled.

CHAPTER 3

CONDUCTING THE EVALUATION

1. Entrance Conference. The purpose of the entrance conference is to make initial contact and define the scope and objectives of the review. There may be several initial conferences as the process proceeds from management personnel to those who perform the functions to be reviewed. The reviewer should be candid about the objectives and emphasize that minimal disruption to the organization's normal operation will be attempted. The command evaluator's questions should be asked in the tone of a seeker of information, not an inquisitor.

Techniques (Do's and Don'ts)

DO:

- * Arrive on time.
- * Make the other person feel comfortable (put him/her at ease).
- * Control the amount of "small talk."
- * Clearly state the purpose of the review.
- * Ensure that your attitude encourages the person to air out problems.
- * Emphasize that you seek constructive criticism only.

DON'T:

- * Fail to notify person and apologize if you are delayed.
- * Begin too abruptly.
- * Waste time on preliminaries after the ice is broken.

2. Evaluation Process

a. An evaluation program is a step-by-step synopsis of areas/functions to be reviewed to ensure that the objectives are achieved. The program lists specific review steps, promotes adequate coverage by assuring that all necessary verification or procedural tests are included, and assists reviewers in evaluating progress. Evaluation programs can be used as a checklist to measure activity performance during the actual on-site examination.

b. The command evaluator frequently will be led to take additional steps because of facts or conditions disclosed while following the evaluation program. A completed evaluation program, supplemented as necessary, together with supporting workpapers, becomes the basis for the evaluator's findings and

recommendations. The organization of planned evaluation steps promotes maximum use of command evaluation efforts and facilitates meeting key milestone events.

c. The process of developing an evaluation program to make sure it contains proper information is one of the most important aspects in developing a work plan. As an additional aid in developing the evaluation program, it is useful to summarize the probable finding.

3. Performing the Evaluation

a. Once the foundation for the CE has been completed, the actual work can proceed. There are various methods that can be used to obtain the desired information. The methods range from statistical sampling to data gathering using interviewing techniques. Simply stated, it is whatever works best in the environment encountered. There are some basic precepts, however, which are independent of the methodology used and will ensure the integrity of the CE coverage.

Techniques (Do's and Don'ts)

DO:

- * Organize and consolidate your questions.
- * Ask person to repeat or restate if you don't understand.
- * Ask for concrete examples if language is general or vague.
- * Allow periods of silence in which to think.
- * Summarize or re-phrase in order to encourage elaboration.
- * Seek to obtain evaluative information as well as descriptive information.
- * Seek basis for person's opinion.
- * Ask person what opinion he thinks others have about the topic.
- * Ensure you distinguish between opinions or conclusions and the facts.
- * Seek to define what person means by "important" (scope, impact, urgency, etc.).
- * Stimulate questions by the interviewee.
- * Respect and record all questions raised by interviewee.
- * Be wary of answers that:
 - ** are too pat and smoothly stated.
 - ** too agreeably fit your own pre-conceived ideas.
 - ** are sweeping generalizations.
 - ** contain many unfamiliar or complex terms you barely understand.

- * Give the appearance that you're interested in what the person is saying.
- * Remember that the other person is a human being.

DON'T:

- * Debate -- just ask questions.
- * Seek to pinpoint blame.
- * Amplify on the criticism offered by person.
- * Encourage negative or emotional criticism.
- * React negatively to unfamiliar subject matter or new ideas advanced.
- * Jump to conclusions.
- * Ask "loaded" questions.
- * Ask "yes" or "no" questions.
- * Use sarcasm or subtle humor.
- * Act superior or inferior -- just act competent.
- * Contradict a person in front of others.
- * Waste time in disagreeing over any one point -- no matter how important.
- * Let the interviewee engage you in pseudo-arguments.

b. It is important to ask questions. If a given system or the derivation of a particular figure is not understood, the reviewer should ask questions until it is understood. It is important for the reviewer to strive for accuracy and to eliminate assumptions. Otherwise, it is difficult to provide management with objective data. Occasionally, reviewers find that a source of information within the organization who is seldom used is the average worker. Engaging in constructive dialogue with employees has two advantages: (1) the reviewer can obtain potentially useful data and (2) he/she can cultivate relationships that could prove helpful during the course of the review.

c. Evaluators should be cautious, however, in recording verbal information received as fact. Verbal data can be used to support the case only if it is properly and accurately documented, but not if it is simple hearsay. Command evaluators should not construct findings solely on conversation. Cases should be built on facts and those facts can be supported by verbal information, if available.

d. An evaluator should be imaginative in the compilation and analysis of data. Ways should be sought to do the job quicker and more efficiently without sacrificing accuracy or integrity. He/she should also be prepared for any pitfalls which may be encountered and always anticipate the reviewee's response or rebuttal to the findings. And to ensure a proper perspective, look at both sides of the situation.

e. There is absolutely no substitute for good judgement. Certain things can be done, however, which will improve the reviewer's chance for success. The reviewer should always plan

ahead and devise appropriate methods to obtain supporting data. If the review trail appears to be fruitless, then the evaluator should try another approach. The command evaluator should not waste time trying to prove that a deficiency exists when the data appear to prove otherwise.

f. A good evaluator should be flexible and move on to something else when data cannot be found to substantiate findings. He/she should never record superfluous or tangential information and should not gather excessive data, especially when the item under consideration is inconsequential. Conversely, never support a significant item with insufficient data.

g. Occasionally, potential findings are lost during utilization because of sketchy or incomplete data. After rationally assessing the significance of the finding and judging it to be worthwhile, the reviewer should pursue it and gather whatever support is needed to present it clearly to management.

4. Exit Conference. An exit conference should be scheduled with responsible operating officials after their comments on the draft report have been received. The purpose of the exit conference is to discuss and obtain agreement with the results of the review and the recommendations. At that time, any disagreements which still exist should be discussed and resolved. If resolution cannot be reached, a concise explanation of the disagreements will be included in the final report and clearly identified as such. Prior to the exit conference, the evaluator will have already discussed the results with the appropriate division and branch chiefs. In addition, an initial draft report should be prepared and cross-referenced to the working papers prior to the exit conference to discuss the review results. A memorandum should be prepared for each exit conference to record what was discussed and who attended. Comments made by the responsible operating officials would be considered as appropriate when preparing the final report.

Techniques (Do's and Don'ts)

DO:

- * Terminate interview quickly if there is a clash of personalities.
- * Stick to the schedule.
- * Make last few minutes count.
- * "Leave 'em laughing" if possible.
- * Summarize facts before leaving.
- * Thank interviewee for his/her time.

DON'T:

- * Let session drag out.
- * Discourage reviewee if he/she wishes to extend interview.
- * Close interview on a negative note.

CHAPTER 4

WORKING PAPERS

1. General. Working papers provide a file of information. They are used to identify and document all deficiencies noted during the review. They are very important in providing support for discussions with commands and activities under review. More importantly, they provide a line of defense when conclusions and recommendations in the report are challenged. They also serve as the basis for supervisory review of the CE progress. The reviewer's technical ability is evaluated in part based on working papers. Working papers provide invaluable reference and background data for future reviews.

2. Characteristics of Working Papers. The four main characteristics of working papers are: organization, thoroughness, accuracy and neatness.

a. Organization

(1) In order to organize working papers, a logical working paper arrangement should be used. Papers should be structured to provide a table of contents identifying each section. The first section should be the general section which should contain a table of contents; a final review draft, cross-referenced to the working papers; a copy of the initial draft submitted to the activity; summaries of closing conference notes; narrative drafts; exhibits; and schedules of a general nature. Normally, information concerning background of the activity or the function to be reviewed should be included.

(2) In many instances, each evaluation will normally contain more than one file of working papers. A working paper binder should be used for each functional area if the volume of documents or schedules justifies the use. Otherwise, tab separators can be used in a binder. Therefore, each functional area should also contain a table of contents. Review drafts related to that functional area should be included and should be cross-referenced to the working papers. In addition, exhibits, notes, schedules, and procedural writings should also be included for that functional area. Explanations of changes or deletions in the working papers or coverage should also be included.

(3) Furthermore, a binder should be set aside for a miscellaneous section for areas that are not covered normally by a functional area. It would also contain a table of contents, reviewer's draft, etc. Each binder should be identified. That can be done, for example, by using an alphabetical designator, such as binder A, B, C, D. Each working paper should contain the name of the activity, the name of the reviewer, the date of the

working paper, an objective, the source of the information that is included on the working paper, the security classification, when applicable, and steps performed to achieve the objectives. Lastly, each working paper should have a page number and be recorded in the table of contents.

b. Thoroughness. Working papers should be very thorough, complete in every detail, but not burdened with unrelated matter. Do not leave unanswered questions in working papers. Each working paper should serve a specific purpose and answer a specific question. Do not include documents or schedules that are unrelated to the work that was performed on the review. One of the biggest abuses is including instructions. The only type of instructions that should be included in working papers are those that are difficult to obtain or those that apply to the function under review.

c. Accuracy. Working papers should be accurate. More importantly, the working papers, particularly where schedules are involved, should be footnoted and cross-footnoted to ensure the mathematical accuracy of the figures contained therein. The figures in the report should be verified to these working papers.

d. Neatness. Working papers should be neat. They should be legible and easy to read. All codings used on working papers should be identified as to their meanings. A coding on a working paper that is not identified serves no worthwhile purpose to the reviewer or to a supervisor when attempting to determine what review steps were followed during the evaluation.

3. Indexing and Cross-referencing

a. Working papers should be indexed and cross-referenced. That simplifies the supervisory evaluation of the review. Use by reviewers on follow-up reviews is enhanced when trying to determine facts contained in the reviewer report. The final report is improved by proper referencing. A set of working papers that have been properly indexed and cross-referenced creates a good impression at conferences when reference to the papers is required to support a point.

b. Working papers do not have to be complex. The reviewer should keep the system simple. Detailed supporting schedules should always be totaled and verified. Summary working papers should always contain references to detail as well as identify the supporting working papers. Rough draft figures and statements contained in the report should reference the working papers. Finally, smooth drafts should also be cross-referenced.

4. Control of Working Papers. Working papers are the reviewer's/CE office's property. They provide support for the work done on the review. They should be safeguarded. Normally, working papers should either be put in the desk drawer at night or in the reviewer's briefcase. In those instances involving

classified material, special care should be given to ensure that those working papers are locked up at night, using the appropriate security measures as outlined in the various security manuals and regulations. Working papers should not be released to unauthorized personnel or to anyone who does not have the need to know. It is permissible to release copies of selected working papers to the reviewed organization if they wish to verify the source of information contained in the report. Also, working papers provide an itemized outline of discrepancies that need to be corrected.

5. Special Considerations

a. The reviewer should always be able to go back and trace the steps taken in performing a statistical sampling. The documentation should be clear enough for the supervisor to determine what the reviewer has done in statistical sampling. Some of the minimum working papers that should be contained in the file are those that refer to the definition of the universe, the error rates, confidence level, etc. Working papers should contain an explanation of the sampling plan.

b. Working papers should clearly show the sample results and the reevaluation of the sampling result. There are many other working papers that may be required to support the statistical sample chosen, but as with any other working papers, only include those working papers that definitely support the work done in performing a statistical sample.

c. In data processing, magnetic tapes, discs, card files, etc., are used in performing the review. It is extremely important to know what the source information is. It is necessary, therefore, to establish a tape control system. Working papers should also contain file formats of the tapes used in performance of the review. Instructions to programmers should be included. Reviewers cannot assume that a programmer understands exactly what is asked for. The instructions must be precise and must be included in the working papers. If any type of retrieval systems are used and are prepared by the reviewers, documentation for the retrieval systems should be included.

6. Supervisory Review. The working papers shall be reviewed by the supervisor as the CE progresses. The reviewer should ensure that the work performed was adequate to accomplish the CE objectives. The supervisor should annotate the working papers with an initial and the date of the review.

7. Summary. Working papers provide evidence of the review work. They should be neat, accurate and complete. They should be prepared as the review progresses and cross-referenced to the review reports. Working papers are the property of the reviewer/CE office and should be kept under strict control and not released to unauthorized personnel.

CHAPTER 5

FRAUD, WASTE AND ABUSE AWARENESS

1. General. Command Evaluation has a unique opportunity and responsibility to play a major role in the prevention and detection of fraud, waste and abuse. Much has been written and provided as guidance on this subject and will not be restated here. We will continue to emphasize however, that a key to prevention and detection of fraud, waste and abuse is alert evaluators able to recognize the conditions that allow those practices to go undetected.

a. The following are some of the conditions and situations which, if allowed to exist, provide an environment for fraud, waste and abuse:

(1) Concentration of authority and responsibility for an entire process to one person.

(2) Inadequate feedback on results of operations.

(3) Lack of standards for judging the results of operations.

(4) Lack of independent verification of the accuracy of records, transactions, and reports.

(5) Vague and confusing procedures.

(6) Inability to identify responsibility.

(7) Lack of adequate supervision.

(8) Unrealistic budgetary and procurement requirements.

(9) Lack of adequate supervision.

(10) Failure to enforce contract provisions.

(11) Failure to correct deficiencies identified by existing systems.

b. Areas most susceptible to fraud, waste and abuse:

(1) Commissary Operations

(2) Local Procurement

(3) Overtime Compensation

(4) Food Service Operations

- (5) Military Pay
- (6) Non-appropriated Fund Management
- (7) Property Accountability
- (8) Actions on Reports of Item Discrepancies
- (9) ADP Systems
- (10) Procurement and Contract Administration
- (11) Controls over Narcotics and Other Medical Supplies
- (12) Controls over Travel and Related Expenditures
- (13) Shipments of Household Goods

c. Prevention and detection of fraud, waste and abuse is a total Navy responsibility, not just the domain of reviewers. All managers must be alert to and aware of indicators of those conditions. Command Evaluation must take an active role in that regard by sharing its detection expertise, through guidance and advice, to all managers at their respective locations.

d. An ordinary evaluation is not primarily intended to detect fraud. Evaluators must be alert to suspicious transactions during the detailed examination phase of the Command Evaluation. If fraud is detected, the review should cease. Suspected fraud should not be discussed with personnel other than the commanding officer, unless he/she is implicated, in which case you follow the chain of command. The commanding officer should immediately inform the criminal investigators of the suspected fraud. It is possible that the criminal investigators will request assistance from the CE evaluator.

2. Definitions

a. Fraud. Any intentional deception designed to unlawfully deprive the Government of something of value or to secure from the Government for an individual a benefit, privilege, allowance or consideration to which an individual is not entitled. Fraud includes, but is not limited to, the offer, payment or acceptance of bribes; the offer, giving or acceptance of gratuities; making false statements; submitting false claims; using false weights or measures; evading or corrupting inspectors or other officials; deceit either by suppressing the truth or misrepresenting a material fact; and falsifying records and/or books of accounts. It also includes conflict of interest cases, criminal irregularities and the unauthorized disclosure of official information relating to procurement and disposal matters.

b. Waste. The extravagant, careless or needless expenditure of Government funds, or the consumption of Government property that results from the deficient practices, systems, controls or decisions. The term also includes improper practices not involving prosecutable fraud.

c. Abuse. The intentional or improper use of Government resources. Examples include misuse of authority, position or rank or the misuse of resources such as tools, computers, telephones, vehicles or copying machines.

CHAPTER 6

WRITING THE REPORT

1. General. The Command Evaluation (CE) Report should carry out two basic functions: (1) to communicate, and (2) to persuade the manager to take action. To accomplish that, the report should communicate the reviewer's findings simply, clearly and quickly. The report must contain matters of substance and must be readable. The report should place primary emphasis on improvement rather than on criticism of the past. A suggested report format follows:

a. Introduction. This paragraph should be used to provide the reader with any explanatory information considered necessary. It may also be used to comment on the status of findings and recommendations in prior reports.

b. Background. This paragraph provides sufficient background information to provide the reader with an adequate understanding of the entity.

c. Purpose. This paragraph should state why the CE was made and state the objective(s) of the review.

d. Scope. This paragraph should contain a description of the nature and extent of the work performed. A summary of the CE objective is essential to give the reader the proper perspective -- a background against which any report findings may be considered. The date(s) in which the field work was conducted should be included.

e. Summary. This paragraph should contain conclusions on areas reviewed, and a summary of findings and recommendations. The summary evaluation should relate to the stated CE purpose, entity and scope; and should fully inform the reader of the conclusions reached on each stated review, purpose or objective. If there are deficiencies/findings in the report, the summary should normally include a synopsis of each of the major findings and related conditions, causes, effects and solutions reported on in greater detail in specific findings. The summary evaluation should be written in a manner that a person unfamiliar with the subject area can understand the reviewer's overall evaluation of deficiencies cited in the synopsis of findings.

2. Findings and Recommendations

a. Title of the Finding

b. Finding (This section should include the criteria, condition, cause and effect)

(1) Criteria - this element sets forth the standards, measures or expectations used in making the evaluation or verification. It shows what "should be."

(2) Condition - this element presents the factual evidence that the reviewer found in the course of the examination. Normally, a clear and accurate statement of the condition evolves from the reviewer's comparison of the results of fact finding procedures with appropriate evaluation criteria.

(3) Cause - this element shows the reason for the difference between the expected and the actual conditions. It answers the question, "Why did it happen?" If the condition has persisted for a long period of time or is getting worse, that aspect would normally be described.

(4) Effect - this element shows the risk or exposure management faces because the area being reviewed is not working the way it is supposed to. It indicates the impact of the disparity, and shows the extent of the risk inherent in continuing a deficient procedure, practice or control. The effect of an issue will be quantified, when possible.

c. Discussion (The discussion paragraph(s) should provide the details of the condition).

d. Recommendation(s) and Activity Comments.

3. Considerations in Writing the Report. Well developed findings will be written so that each is clearly distinguishable from the others. The reader should have no difficulty understanding what was found, what the effect was, why it happened and what should be done about it. Some suggestions and reminders:

a. The reviewer must determine the most effective method of presenting his/her findings and recommendations before beginning to write the report. He/she should determine the materiality of the findings and recommendations and organize them into the most logical sequence for report presentation. The most significant findings and recommendations should be the first discussed in the report.

b. Deficiencies of minor significance should not be included in the CE report but should be discussed with appropriate operating personnel during or prior to the exit conference.

c. If significant deficiencies are noted on which appropriate corrective action was taken during the review, that information should be included in the report.

d. Be objective. Include all significant, relevant information.

- e. Don't exaggerate, reach or overstate. Make sure the position is warranted by supporting evidence.
- f. Identify important assumptions and opinions.
- g. Avoid stating hearsay as fact.
- h. Don't include information which could mislead.
- i. Be sure the conclusions are reasonable and follow logically from the information presented.
- j. Don't omit important conclusions or positions on the basis that they will be obvious to the reader.
- k. Write constructively. Avoid disagreeable tones, sarcasm, ridicule, and personal references.
- l. Recognize the activity management's effort to correct deficiencies being reported, as well as any progress made to improve conditions noted in prior reviews.
- m. Give appropriate recognition to good performance as well as bad.
- n. Fairly present the reviewee's views and comments on the findings and the reviewer's evaluation of those views and comments.
- o. Give sufficient information on the total picture to put the findings in proper perspective.
- p. Make sure important legal and policy issues have been cleared before the report is submitted for final processing.
- q. Clearly explain the criteria/standards against which existing conditions are measured.
- r. Make clear the actual or potential adverse effects.
- s. Don't project adverse effects carelessly or casually.
- t. Round off estimates of losses, savings, and other items to avoid giving a misleading impression of precision.
- u. Show the causes--underlying reasons for questionable behavior or unsatisfactory conditions.
- v. Use simple, non-technical, and clear language.
- w. Use the active rather than passive voice.
- x. Explain the basis for estimates and projections.

4. Action on Command Evaluation Reports.

a. Numbering the Report. Reports should be numbered in consecutive series. A new series will be started at the beginning of each fiscal year. The report number will identify the fiscal year to which it pertains.

b. Signature. CE reports will be signed by the chief of the CE element.

c. Utilization Report. During the review utilization phase, which are steps taken at the closing of the review to ensure maximum management use of review findings, the draft report is reviewed by the organization. The review 1) verifies the facts supporting the review findings; 2) ascertains action taken during or after the review toward solving problems presented in the draft report; and 3) determines planned actions, with completion target dates. A draft report should be issued within thirty (30) days after completion of all field work.

d. Replies to the Report. The reviewed activity's reply should contain the actions taken or to be taken for all concurrences and the reasoning for any nonconcurrences. Planned management actions will include estimated completion dates. Nonconcurrences must be adequately supported as they will be elevated to the commanding officer for resolution. The chief of CE should refer the replies to the report to the Reviewer-in-Charge (RIC). The RIC should determine whether or not the reply is responsive to the findings and recommendations and whether the corrective action proposed is appropriate. If nonconcurrences are received and cannot be resolved, a rebuttal letter should be prepared if there is sufficient evidence to refute the nonconcurrency. A reviewer's rebuttal to the nonconcurrency(s) may be appropriate in the final report to the commander.

e. Final Action on the Report. The final report containing the statements of corrective action taken or to be taken will be submitted to the commanding officer for his/her review. The final report should be submitted to the commanding officer within 10 working days of receipt of responsive comments from appropriate operating officials.

f. Resolution of Nonconcurrences. Procedures for resolving nonconcurrences must be implemented. The commanding officer is the final resolution authority. Resolution results will be communicated to the activities impacted by the issue.

CHAPTER 7

FOLLOW UP

1. The Command Evaluation (CE) function is responsible for tracking and performing follow-up reviews on all open recommendations in CE reports issued by the local command. The purpose of this review is to determine whether or not the corrective actions specified by the CE report have been implemented.
2. The Chief of the CE office must maintain a tracking system. Each open recommendation will have an estimated completion date. Within 30 days of this completion date, management must provide the Chief of the CE office with status, indicating management actions are completed/open. Request for a revised estimated completion date must be adequately supported.
3. The Chief of the CE office should maintain a milestone report showing the status of open actions. The report should be updated at least quarterly by input from responsible operating officials. The milestone report should be forwarded to the commanding officer for his/her review and disposition. Commands should be encouraged to implement corrective actions as soon as practicable in order to realize the maximum benefit from the review.
4. The follow-up review will be based on the final CE report and official command position on the corrective actions taken or proposed. Sufficient tests should be made to verify not only that the corrective action was implemented, but also that the corrective action is reasonably effective. That should consist of a limited review (sample/test). The reviewer need not go into great depth to assure that the recommendations are implemented/effective. Only a limited sampling needs to be performed to be assured that the condition is corrected. If a more detailed follow-up review needs to be conducted, a decision should be made to expand the follow-up review or schedule the area for a future CE. Results of the follow-up review will be properly documented in the workpapers and will contain evidence of supervisory review to assure adequacy of CE work.
5. It is the responsibility of management, not the command evaluator, to effectively implement CE recommendations. Given the responsibility and necessity for efficient use of resources, the following guidance is provided:
 - a. On-site verification should be performed within 1 year after management actions are completed.
 - b. When on-site review shows that corrective actions are inadequate, a written directive signed by the commanding officer/deputy should be given to the responsible activity to

take immediate corrective action, establish milestone dates, if necessary, and report to the CE head every 30 days until all corrective actions have been completed. The head of CE should keep the commanding officer regularly informed of the progress on the actions.

CHAPTER 8

COMMAND EVALUATION STANDARDS

1. Independence. Individual evaluators and reviewers must be free from personal, external or organizational impairments and must consistently maintain independence. That standard places upon the reviewer the responsibility of independence so that opinions, conclusions, judgments and recommendations will be viewed as impartial by knowledgeable third parties.
2. Professional Proficiency/Care. Personnel must be assigned who collectively possess the necessary knowledge, skills and disciplines to properly conduct each review. That standard requires command evaluators to be alert to situations or transactions that could be indicative of fraud, abuse or improper expenditures or acts, inefficiencies or ineffectiveness. Exercising due professional care means using good judgment in choosing tests and procedures and in preparing reports. It also includes obtaining a mutual understanding of scope and objectives of the review and follow-up on findings from previous reviews to determine whether appropriate corrective actions have been taken.
3. Scope of Work. The scope of each effort must include an evaluation of the adequacy and effectiveness of the organization's internal controls system and quality of performance in carrying out assigned responsibilities. Expanded scope reviews should encompass the following elements:
 - a. Financial and Compliance. The reviewer must determine whether there is compliance with laws and regulations that could materially affect the activities' financial statements.
 - b. Economy and Efficiency. The reviewer must determine whether there is compliance with laws and regulations that could significantly affect acquisition, management and utilization of the activities' resources.
 - c. Program Results. The reviewer must determine whether programs are being carried out in conformity with laws and regulations.
4. Documentation. Conclusions and recommendations must be supported by information obtained or developed during the evaluation. Sufficient documentation of the activity's internal controls as well as pertinent transactions and events evaluated or reviewed to substantiate the evaluator's judgments and conclusions must be retained by the command/activity in the form of working papers.

5. Reporting. The results of the evaluation should be useful, submitted in a timely manner, accurate, convincing, objective, clear and simplistic, concise, complete and constructive in tone. Commanding officers may request a "quick look" evaluation in which case an oral report substantiated by written documentation (working papers) should be provided.

- a. Soliciting input from department or division heads to identify problems in related functional areas;
- b. preparing an annual (fiscal year) evaluation plan for approval by the commanding officer;
- c. identifying annual training requirements of CE personnel;
- d. conducting special studies, reviews, analyses, evaluations and investigations of activity operations as directed by the commanding officer or approved in the annual plan;
- e. signing CE reports;
- f. ensuring that CE reports are addressed and submitted directly to the commanding officer with copies to appropriate personnel; and
- g. following up on CE and external audit report recommendations and documenting that action taken has corrected the deficiencies.

CHAPTER 9

RESPONSIBILITIES

1. The Assistant Vice Chief of Naval Operations (OP-09B) is responsible for CE program management and administration within OPNAV, CNO subordinate commands and activities. His responsibility includes:

- a. developing, issuing and interpreting CE policy and procedures;
- b. issuing program and technical guidance;
- c. monitoring the performance and execution of the CE function at all naval commands and activities reporting to CNO;
- d. providing advice on matters of organization and staffing of CE function;
- e. disseminating information on CE training.

2. Intermediate headquarters commands in the chain of command are responsible for supporting the CE Program and for monitoring the performance and execution of the CE function at subordinate commands and activities. Echelon Two commanders shall maintain liaison between the Assistant Vice Chief of Naval Operations and subordinate activities on CE Program matters.

3. Commanding officers are responsible for ensuring that an effective and responsive CE Program is established. Key responsibilities of command officers include:

- a. ensure that the CE function is appropriately placed, adequately staffed and that the head of CE reports directly to the commanding officer or deputy on all matters relating to CE responsibilities;
- b. ensure that the organizational placement of the CE function does not impede or limit the scope of reviews or result in "sanitization" of reports;
- c. periodically evaluate with the head of CE the effectiveness of the function within the activity; and
- d. act as the final resolution authority for CE recommendations when management nonconcur and ensure that deficiencies noted in CE reports are promptly corrected.

4. The head of CE is responsible for:

CHAPTER 10

CASE STUDIES

CASE STUDY 1

MANAGEMENT CONTROL

The Commissary Store Officer requests assistance from the Command Evaluation Division to determine why the store is experiencing disproportionate losses in the Grocery/Household Goods area. It is reported to you that during the period 1 March to 31 August 19XX the overall loss was \$81,854.00 (a disproportionate loss of \$19,808.00); and for the period 1 September to 31 October 19XX the overall loss was \$29,535.00 (a disproportionate loss of \$8,546.00). The allowed loss is equal to 1 percent of sales. In view of the significant loss (\$111,389.00 overall and \$28,354.00 disproportionate) over an 8-month period, the Command Evaluation Division responds immediately to the assistance request. One of the first steps taken upon arrival at the Commissary Store office is to verify from existing records whether the loss actually exists. To do that, the reviewer must first verify beginning and ending inventory balances, receipts, expenditures, surveys, sales, food coupons, food stamps, and credit memoranda. The reviewer confirms that all data recorded on the Operating Statement and Balance Sheet are correct. In order to isolate more specifically the area of loss, the reviewer prepares Exhibits 1 and 2 (follows page 10-3) from financial data available in the office. In view of the variance in the "Difference" columns of Exhibits 1 and 2, the reviewer decides to "zero in" on those areas first to try to determine reasons(s) for the loss.

During the on-site review, the reviewer discovers the following:

1. During an inspection of the main Commissary Warehouse (Building No. 317), the reviewer discovers that half of the building is used as a Commissary Store Warehouse and the second half is used by the Public Works Department to stow Plant Account equipment. The reviewer also discovers that there is a wire mesh fence that divides the two areas. It is noticed, however, that the fence does not extend all the way to the ceiling which makes access to the Commissary Warehouse by unauthorized personnel easy, i.e., a person can transit from the Plant Account section to the Commissary Store section by simply climbing over the fence. Warehouse personnel secure at 1530. Public Works Department personnel secure at 1600.

2. While at the main Commissary Store Warehouse, the reviewer observes that, prior to transit of the delivery truck between the warehouse and the Commissary Store, which is located on-base five miles from the warehouse, prenumbered metal seals are attached to

the cargo compartment door after the cargo has been loaded and the door closed and locked with a padlock. The metal seal number is then recorded in the Warehouse Seal Control Log. Upon arrival at the Commissary Store, the metal seal is broken and the cargo unloaded. The seal is discarded in the trash and no further action is taken by Commissary Store personnel.

3. It is observed that merchandise is forwarded from the main Commissary Store Warehouse to the Commissary Store during the day; however, the quantity of merchandise delivered is not checked for accuracy/quantity count upon arrival of the truck. An accuracy check is made sometime after it has been delivered by the night crew (stockmen). Delivery discrepancies (overages/shortages) are forwarded the next work day to the main Commissary Store Warehouse for investigation. At that time the discrepancies are investigated and confirmed or inventory adjustments are made.

4. During a review of the inventory control records, the reviewer discovers that inventory adjustments (gains/losses) are frequently made to the main Commissary Warehouse mechanized inventory report to bring the on-hand balance into agreement with the physical inventory. Inventory discrepancies are normally discovered during spot inventories, reconciliation of deliveries between the main Commissary Warehouse and the Commissary Store, and Inventory Price Adjustments (IPAs). There is no record maintained that provides a summary of the net dollar value of the adjustments made each month and they can be made without written approval of the Commissary Store Officer. The adjustments bring the mechanized (book) inventory levels into agreement with the actual inventory on hand and at the end of the accounting period can make it appear that there were very few inventory discrepancies with a minor dollar impact. Under that procedure, however, the dollar impact is shifted from the Warehouse to the sales floor, thereby disguising the real area of gain or loss.

5. When the reviewer was asked to investigate the disproportionate loss, the Commissary Store Officer could not produce any report that highlighted the losses by functional area other than the Commissary Store Operating Statement which only shows the overall net gain or loss. One would think that the manager, responsible and accountable for the Commissary Store merchandise, would definitely want to know at the end of each accounting period exactly where losses were occurring.

6. The reviewer notices that after the store secures for the night, the cleaning contractor arrives in a truck along with a crew to clean up the store. There is a security guard assigned to watch the store after closing hours and during the time that the cleaning contractor is in the building.

7. "Sweethearting" is a term often used to describe the process whereby the cashier does not ring up all merchandise through the

cash register or rings up a price significantly less than the actual retail value. For example, an item that sells for \$10.98 is registered for \$1.98. During the on-site review, the reviewer notices several cashiers that appear to be overly friendly and some customers who shop frequently, some more than once per day.

SHORTAGE ANALYSIS
 Book Inventory compared to Physical Inventory
 Period 1 March - 31 August 19XX

<u>Location/Area</u>	<u>Book Inventory</u>	<u>Physical Inventory</u>	<u>Difference</u>
Warehouse Bldg 317	\$628,211.22	\$626,824.97	\$ -1,386.35
Security Storeroom Bldg 694 1/	14,071.68 2/	29,523.00 2/	+15,451.32
Frozen Foods Bldg 694	32,991.21	26,872.83	-6,118.38
Store Operations Bldg 694 3/	<u>213,490.22</u> 3/	<u>123,689.06</u> 3/	<u>-89,801.16</u>
Total	\$888,764.33 =====	\$806,909.86 =====	\$ -81,854.47 =====

Grocery-Household Good sales: 1 March 19XX through 31 August
 19XX \$6,204,689.00

Overall Grocery-Household Goods loss at retail when compared to
 Grocery-Household Goods sales equals 1.31 percent loss.

Overall loss	\$ 81,854.00
Allowed loss (1% of sales)	<u>-62,046.00</u>
Disproportionate loss	<u>\$ 19,808.00</u> =====

- 1/ Dollar value obtained from the Gondola No. 26 section of the 25 August 19XX Breakout Report. Value shown is adjusted from Gondola No. 26 items.
- 2/ No line item inventory was conducted of the Security Storeroom. A price line inventory was taken by the Washington Inventory Service. Since the Security Storeroom includes nonmechanized items such as spices and medications, the physical inventory appears to be overstated when compared to the retail value of the inventory recorded in the Gondola No. 26 section (Security Storeroom) of the Breakout Report.
- 3/ Forced figures computed from the remaining inventory value.

EXHIBIT 1

Period 1 March - 31 August 19XX

<u>Location/Area</u>		<u>Book Inventory</u>		<u>Physical Inventory</u>		<u>Difference</u>
Warehouse						
Bldg 317		\$729,210.70		\$721,494.00		\$ -7,716.70
Security Storeroom						
Bldg 694	1/	34,084.04	2/	56,366.00	2/	+22,281.96
Frozen Foods						
Bldg 694		23,006.34		19,538.00		-3,468.34
Gondola No. 32						
items (at store						
Bldg 694)	3/	1,495.50		1,495.50		0
Store Operations						
Bldg 694	4/	<u>175,008.05</u>	4/	<u>134,376.50</u>	4/	<u>-40,632.00</u>
Total		<u>\$962,805.08</u>		<u>\$933,270.00</u>		<u>\$ -29,535.08</u>

Grocery-Household Good sales: 1 September 19XX through 31 August
October 19XX \$2,098,947.00

Overall Grocery-Household Goods loss at retail when compared to
Grocery-Household Goods sales equals 1.40 percent loss.

Overall loss	\$ 29,535.00
Allowed loss (1% of sales)	<u>-20,989.00</u>
Disproportionate loss	<u>\$ -8,546.00</u>

- 1/ Dollar value obtained from the Gondola No. 26 section of the 1 October 19XX Breakout Report. Value shown is adjusted from Gondola No. 26 items in Warehouse 317.
- 2/ Price line inventory conducted by Washington Inventory Service. Same comments made in footnote 2/ in Exhibit 1 pertain.
- 3/ Value of Gondola No. 32 items actually stowed in the Commissary Store vice the Warehouse.
- 4/ Forced figures computed from the remaining inventory value.

EXHIBIT 2

DIRECTIONS: On a separate sheet of paper, write your recommendations for each of the given situations.

1. Put yourself in the place of the reviewer. Based on your observations, do you think that existing controls are sufficient to preclude a repeat of the overall disproportionate loss (\$28,354) that occurred during the period 1 March 19XX to 31 October 19XX? Cite specific examples for each of the items a through g (see paragraphs 1 through 7, pages 10-1 through 10-3).

2. Write specific recommendations that you, as the reviewer, would make to the Commissary Store Officer. Provide a TITLE for each recommendation.

Item a). Recommendation:

Item b). Recommendation:

Item c). Recommendation:

Item d). Recommendation:

Item e). Recommendation:

Item f). What problems could occur with this arrangement?
Recommendation:

Item g). What does this suggest to you, the reviewer? What would you do to determine whether "Sweethearting" was occurring? Recommendation:

TURN PAGE TO SEE SOLUTION

CASE STUDY 1

SOLUTION

MANAGEMENT CONTROL

1. Existing management controls are very weak and provide opportunities for employees or other base personnel to misappropriate groceries, household goods or other merchandise with little chance of being caught. For example:

a. Personnel of the Public Works Department that share the Commissary Store Warehouse could easily climb over the fence that divides the two areas and help themselves to merchandise. Since Commissary Store personnel secure at 1530, the possibility of catching a thief would not be very good.

b. Since no one at the Commissary Store logs and verifies the metal seal number used on the cargo truck which transits between warehouse and store, there is an opportunity to offload merchandise at a place on the base other than the store. Another metal seal could be used and no one would know the difference.

c. Merchandise delivered to the store from the warehouse is not checked for accuracy/quantity count by the day crew. It is simply offloaded and left for the night crew to check, which provides an excellent opportunity for day crew personnel to help themselves without much chance of being caught.

d. There is no accountability for adjustments to the inventory records. If merchandise is missing, the records are simply adjusted to bring the Book Inventory into agreement with the material actually on hand in the warehouse and accountable storerooms.

e. Accounting records are not maintained to accurately identify losses to a specific functional area. Losses are reported as overall losses.

f. There is a security guard on duty during the night while the cleaning contractor is cleaning the store. Since there is only one security guard, the opportunity for collusion and theft by guard and cleaning contractor is real.

g. There is a strong possibility that "Sweethearting" is occurring at the register. Merchandise could be leaving the store through the front door without being purchased.

CASE STUDY 1

SOLUTION (CONTINUED)

2. RECOMMENDATIONS:

a. Warehouse Security. To ensure minimum security standards in the main Commissary Store Warehouse (Building No. 317), immediate action is recommended to extend the existing wire fence from its present height to the ceiling of the building. Additionally, a security guard could be stationed at the fence at least until Public Works Department personnel depart each evening.

b. Control of Prenumbered Seals. To verify that the pre-numbered metal seal has not been tampered with, it is recommended that receiving personnel at the Commissary Store record the seal number in a receiving log book. Additionally, the seal number should be verified via telephone at the first available opportunity with the person at the main Commissary Warehouse responsible for forwarding the merchandise.

c. Verification of Quantity of Merchandise Received at the Commissary Store. Upon receipt of merchandise delivered from the warehouse to the Commissary Store, day crew receiving personnel should conduct an immediate quantity check.

d. Control of Inventory Adjustments. To ensure firm control over inventory adjustments, it is recommended that no adjustment be made to the Warehouse inventory balances without prior investigation and the written approval of the Commissary Store Officer.

e. Shortage Analysis Report. Preparation of a Shortage/Overage Analysis Report is recommended at the end of each accounting period to specifically identify the functional area where the overage or shortage occurred.

f. Surprise Inspection of Cleaning Contractor's Vehicle. It is recommended that the cleaning contractor's vehicle be checked for misappropriated merchandise on a surprise basis upon departure of the vehicle from the base.

g. Cash Register Operator Accuracy Verification. Checking the cash register operators frequently on an unannounced surprise basis is recommended.

CASE STUDY 2

FRAUD AND PREVENTING FRAUD

DIRECTIONS: Using a separate sheet of paper, write your RECOMMENDATION for each of the following conditions in light of the potential for a fraudulent act.

You have just been assigned to a command evaluation billet at a small Naval activity. The Commanding Officer is concerned about the management of his Chief Petty Officer's Mess (Open). You spend several days observing the operation of the mess, reviewing management procedures and talking to employees.

You note the following management practices:

1. Purchase orders are often not complete as to all data elements.
2. W-4 forms (or waiver) are not on file in employee records.
3. No system of retail accountability has been installed.
4. Employees are issued signed blank checks to shop at the Commissary and other stores.
5. The bookkeeper is allowed to prepare the payroll, prepare the paychecks and reconcile bank statements.
6. Records of checks used are incomplete. Many checks are missing.
7. Bank statements are not always reconciled.
8. The club manager approves and signs his own paychecks.
9. Records indicate that several paychecks issued over a year ago have not yet been cashed.

TURN PAGE TO SEE SOLUTION

CASE STUDY 2

SOLUTION

FRAUD AND PREVENTING FRAUD

1. Unless each purchase order is filled out completely before approval, there is the possibility that fraudulent entries could be made after the approving authority has signed it (NAVSO P-3520, par. 230).

Recommend filling out all purchase orders in their entirety before signature; further, purchase orders should be serially numbered and strictly accounted for.

2. The lack of W-4 forms means that computed amounts of wages withheld for Federal Income Tax may be inconsistent with existing laws and the desires of the employee (NAVCOMPT Manual 0330080). While the condition is not in itself indicative of fraud, it is an example of shoddy record keeping which is an open invitation to fraudulent activity.

Recommend obtaining a W-4 (or waiver) from each employee and withholding amounts in agreement with the amounts appropriate for the number of dependents claimed plus any additional amount requested.

3. A system of retail accountability provides a positive control over the inventory of resale merchandise. The lack of such a system is an open door to theft of merchandise, money or both.

Recommend installing retail accountability.

4. Under no circumstances should checks be signed in advance or made payable to cash or bearer.

Recommend that, when possible, determine the purchase price in advance and drawing checks for the exact amount. Other purchases (e.g., small purchases at the commissary) should be handled out of a petty cash fund.

5. Ideally, each of the functions should be performed by a different person. Unauthorized payments to employees or payments to fictitious employees are possible when one person does it all. In a small mess where there may be only the manager and a book-keeper to perform the functions, something less than the ideal situation may have to be accepted. For example, if the book-keeper is allowed to prepare the payroll and paychecks, his/her work should be carefully checked by the manager or a disinterested third party before the manager approves the payroll and signs the checks. The manager could then perform the bank reconciliations but it would be best if some disinterested third party were called in.

6. Checks should be serially numbered and strictly accounted for in order to prevent unauthorized use. Incomplete records and missing checks indicate a deliberate attempt to conceal fraud. Copies of all missing checks should be obtained from the Mess Central Accounting Unit and reconciled to existing records.

Recommend placing tighter controls over issue and use of checks.

7. Bank reconciliations are required monthly (NAVSO P-3420, par. 2-5). Failure to do so deprives the organization of one of its most effective tools in the prevention and detection of fraud.

Recommend reconciliation of bank statements monthly.

8. No person should ever be allowed to approve and sign his/her own paychecks. In this case, if the manager is allowed to approve both his paycheck and the bookkeeper's paycheck, the door is wide open to collusion.

Recommend that someone in the chain of command over the manager (Mess Coordinator, Executive Officer, etc.) approve and sign his checks.

9. Paychecks that are never cashed may have been fraudulently issued to nonexistent employees. Each overdue check must be investigated to determine if it was issued to a legitimate employee. Failure to perform regular bank statement reconciliations contributed to this problem.

Recommend investigation of overdue checks and regular bank reconciliations.