

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT AND ADMINISTRATION OF THE
UNITED STATES NAVAL ACADEMY

Report No. 96-026

November 27, 1995

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Acronyms

CNO	Chief of Naval Operations
DAO	Defense Accounting Office
GAO	General Accounting Office
MCR	Management Control Review
NAVCOMPT	Office of the Comptroller of the Navy
SECNAV	Secretary of the Navy



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November 27, 1995

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)

SUBJECT: Audit Report on Management and Administration of the United States
Naval Academy (Report No. 96-026)

We are providing this audit report for review and comment. The audit was performed in response to a congressional request. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. Therefore, we request that the Navy provide additional comments by January 29, 1996, on the elimination of redundant internal reviews, appointment of audit boards to perform cash counts and verifications, and reassignment of responsibility for imprest fund inspections. See Finding A for the required responses.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Harlan M. Geyer, Audit Program Director, at (703) 604-9594 (DSN 664-9594) or Mr. Kenneth Feldman, Audit Project Manager, at (703) 604-9484 (DSN 664-9484). See Appendix H for the report distribution. Audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 96-026
(Project No. 4RA-5051.01)

November 27, 1995

Management and Administration of the United States Naval Academy

Executive Summary

Introduction. This audit was requested by the Chairman, Senate Subcommittee on Manpower and Personnel,* Committee on Armed Services, in response to a provision in the National Defense Authorization Act for FY 1993. That provision originally directed the Inspector General, DoD, to perform an audit of the noninstructional military staff positions at the United States Naval Academy (Academy). The Chairman, however, desired an overall evaluation of the management and administration of the academies.

Audit Objectives. The audit objectives were to determine whether the operations of the Academy were within the intent and scope of United States Code, title 10, and DoD guidance; to evaluate the economy and efficiency of the operations of the Academy; and to follow up on recommendations in Inspector General, DoD, Audit Report No. 93-165, "Noninstructional Military Positions at the United States Naval Academy," September 3, 1993. The audit also evaluated the Academy management control program as applicable to the other objectives.

Audit Results. The Academy was operating within the intent and scope of United States Code, title 10, and DoD guidance and had begun implementing the recommendations in Inspector General, DoD, Audit Report No. 93-165 regarding staffing. The following conditions were identified during the current audit as warranting management action.

- o Oversight resources of the Academy were not efficiently used. As a result, the Superintendent of the Academy had no assurance that the Command Evaluation and Review Program was providing the necessary oversight to help ensure that the Academy was operating in the most economical and efficient manner (Finding A). The Academy management control program needs improvement because no effective followup system is in place to track the status of identified material weaknesses and to report the information to the Superintendent (Appendix A).

- o Accountability for plant and minor property at the Academy was inadequate. As a result, \$6.8 million in plant property was not inventoried or identified as Navy property and no certainty existed that minor property at the Academy was correctly identified or valued (Finding B). The Academy management control program needs improvement because material weaknesses related to controls over plant and minor property were identified (Appendix A).

*Now, Subcommittee on Personnel.

o The Academy was purchasing dairy products from the Naval Academy Dairy Farm, even though use of commercial dairies would have been more economical and the health hazard that led to the current arrangement in 1911 no longer exists. Purchasing from commercial dairies would make better use of midshipmen subsistence funds (Finding C).

Recommendations in this report, if implemented, will improve the economy and efficiency of the Academy as well as increase the effectiveness of Academy programs. About \$1.6 million could be put to better use for FYs 1996 through 2001 by reducing the cost of dairy product purchases. Appendix F summarizes the potential benefits of the audit.

Summary of Recommendations. We recommend changing the focus of command evaluation reviews and reassigning responsibility for quarterly cash counts, cash verifications, and unannounced inspections of imprest funds; establishing a more effective followup system; requiring managers of Academy departments to comply with applicable guidance and regulations; and verifying that support agreements are properly reviewed, negotiated, and renegotiated. We also recommend improving management controls over plant and minor property accountability, proposing legislation for the cessation of operations of the Naval Academy Dairy Farm, and developing a plan for alternative uses of the Dairy Farm property.

Management Comments. The Navy concurred with all but three recommendations in the draft report. The three recommendations relate to the elimination of redundant reviews in areas audited by Certified Public Accounting firms, appointment of audit boards to perform cash counts and verifications, and reassignment of responsibility for imprest fund inspections. The Navy expressed concern that the role of the Command Evaluation Office in financial audits would be unduly limited if our recommendations were implemented. See Part I for a summary of management comments and Part III for the complete text of the comments.

Audit Response. The recommended actions would enhance, not detract from, the effectiveness of the Command Evaluation Office and allow more comprehensive internal review coverage.

We ask that the Navy provide additional comments on the final report by January 29, 1996.

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Part I - Audit Results

Audit Background

This audit was requested by the Chairman, Senate Subcommittee on Manpower and Personnel,* Committee on Armed Services, in response to a provision in the National Defense Authorization Act for FY 1993. That provision originally directed the Inspector General, DoD, to perform an audit of the noninstructional military staff positions at the United States Naval Academy (Academy). The Chairman, however, desired an overall evaluation of the management and administration of the Academy.

The Academy is located in Annapolis, Maryland. The Academy plays an important role in providing the leadership for the United States Navy and Marine Corps. The Brigade of Midshipmen at the Academy had about 4,100 midshipmen at the time of the audit. The mission of the Academy is:

to develop Midshipmen morally, mentally and physically and to imbue them with the highest ideals of duty, honor and loyalty in order to provide graduates who are dedicated to a career of naval service and have potential for future development in mind and character to assume the highest responsibilities of command, citizenship, and government.

For FYs 1993 and 1994, expenditures of the Academy were \$213.3 million and \$212.3 million, respectively. As of July 31, 1994, the Academy (not including subordinate commands) employed 425 military and 1,421 civilian personnel.

The Academy is under the command of the Superintendent, United States Naval Academy. The Superintendent is subordinate to the Assistant Vice Chief of Naval Operations (CNO). The Assistant for Field Support and the Assistant for Educational Resources and Advocacy, both within the Office of the Assistant Vice Chief of Naval Operations, play vital roles in the operation of the Academy. The Assistant for Field Support provides budget formulation and execution oversight. The Assistant for Educational Resources and Advocacy programs resources and provides oversight of program implementation. In addition, the Academy has a Board of Visitors, which provides oversight of the academic programs, fiscal affairs, state of morale and discipline, and other matters relating to the Academy.

The Naval Station, Annapolis; Naval Construction Battalion Unit-403; and the Marine Barracks are units in Annapolis that are also subordinate to the Superintendent.

*Now, Subcommittee on Personnel.

Audit Objectives

The audit objectives were to determine whether the operations of the Academy were within the intent and scope of United States Code, title 10, and DoD guidance; to evaluate the economy and efficiency of the operations of the Academy; and to follow up on recommendations in Inspector General, DoD, Report No. 93-165, "Noninstructional Military Positions at the United States Naval Academy," September 3, 1993. The audit also evaluated the Academy management control program as applicable to the other objectives. See Findings A and B for discussions of the material management control weaknesses we identified and Appendix A for a discussion of the audit scope and methodology and the management control program. See Appendix B for a summary of prior coverage related to the audit objectives. See Appendix C for a discussion of other matters of interest.

Finding A. Command Evaluation and Review Program

Oversight resources of the Academy were not efficiently used. The Command Evaluation and Review Program was not focused sufficiently on the most critical operations of the Academy and did not verify that identified management control weaknesses were corrected. As a result, the Superintendent had no assurance that the Command Evaluation and Review Program was providing the necessary oversight to help ensure that the Academy was operating in the most effective and efficient manner.

Establishment of the Command Evaluation Program

Secretary of the Navy (SECNAV) Instruction 7510.9, "Command Management Economy, Efficiency and Review," April 13, 1989, disestablished the Navy's Internal Review Program. However, while SECNAV Instruction 7510.9 eliminated the Internal Review Program, it also emphasized that commanding officers were still required to maintain an in-house capability to assess the overall efficiency and integrity of all command functions, with particular focus on high risk areas susceptible to waste, fraud, and abuse. Those command functions were to include evaluations of appropriated and nonappropriated funds and other high-interest programs.

To clarify and define that in-house capability, the Superintendent issued United States Naval Academy Instruction 5200.5, "Command Evaluation and Review Program," July 3, 1989. That Instruction assigned responsibility for the Command Evaluation and Review Program to the Deputy for Management. Under the Deputy for Management, the Command Evaluation Office was given the day-to-day responsibility for conducting the Command Evaluation and Review Program, which included:

- o performing Command Evaluation Reviews,
- o overseeing the management control program, and
- o coordinating the support agreement program.

Command Evaluation Office

As of May 1995, four personnel were authorized and assigned to the Command Evaluation Office: the Command Evaluation officer and three staff accountants. No written procedures existed for the performance of the functions of the office, but according to the Command Evaluation officer, the staff conducted reviews

Finding A. Command Evaluation and Review Program

from past experience. Each fiscal year, the Command Evaluation officer formulated and published an Annual Command Evaluation and Review Schedule. That schedule was composed of specific reviews requested by the Superintendent and department heads, annual and quarterly reviews required by DoD and Navy regulations, and other activities involving cash and inventory. In addition to the scheduled reviews, the Command Evaluation Office staff also performed unannounced cash counts of the various appropriated and nonappropriated funds at the Academy.

Command Evaluation Reviews

Nonappropriated Fund Reviews. The Command Evaluation Office conducted 144 unnecessary or redundant reviews from October 1992 through February 1995. Those reviews included examinations of financial records, determinations of compliance with regulations, reviews of management controls, and followup on the recommendations of prior reviews.

Seventy-six percent of the reviews done by the Command Evaluation Office were related to quarterly cash verifications of the offices of the midshipmen disbursing officer and the associate disbursing officer within the Brigade Services Division, the Academy Religious Offerings Fund, the imprest fund, the Naval Station Galley, and various activities at the request of the midshipmen supply officer. For example, the Command Evaluation Office reviewed the nonappropriated fund activities of the Brigade Services Division. Those activities involved the Midshipmen Store and Services Trust and the Brigade Nonappropriated Fund Activity Organization Branch. All activities of the Midshipmen Store and Services Trust (except the Laundry and Dry Cleaning Plant), however, were also audited annually by an accounting firm.

The work accomplished by the certified public accounting firm included auditing financial statements, reporting conditions in the management control structure, and providing suggestions for improvement of operations. DoD 7000.14-R, "Financial Management Regulation," volume 13, "Nonappropriated Funds Policy and Procedures," August 1994, allows for audits by certified public accounting firms except when audits involve potential fraud or other serious improprieties. Therefore, the Command Evaluation Review of activities audited by a certified public accounting firm were not necessary, and redundant scheduling significantly limited the review of other command functions with high vulnerability to waste, fraud, and abuse.

Cash Verification Board. The Office of the Comptroller of the Navy (NAVCOMPT) Manual, volume 4, chapter 3, section 2, "Disbursing," January 1991, allows for the establishment of a board of "disinterested" personnel appointed by the commanding officer to perform cash verifications. In January 1991, the Commanding Officer of the Naval Station appointed a board to perform cash verifications of its Religious Offerings Fund. The board was led by the Naval Station Supply Officer. Within the Brigade Services Division of the Academy are the Midshipmen Financial Office, the Midshipmen

Finding A. Command Evaluation and Review Program

Disbursing Office, and a Support Services Contracts Office. Those offices are all staffed by qualified military and civilian financial personnel who could conduct verifications within the Academy as disinterested personnel. The Superintendent should appoint a board of financial personnel to perform quarterly cash counts and verifications. That board could report its results to the Command Evaluation Officer.

Imprest Fund Reviews. Before 1986, the Command Evaluation Office was part of the Comptroller Department with the responsibility for reviewing the imprest fund. In 1986, the Command Evaluation Office was separated from the Comptroller Department. The imprest fund reviews stayed with the Command Evaluation Office instead of with the Comptroller Department. That assignment should not have transferred with the Command Evaluation Office because the Comptroller Department retained responsibility for the fund and had the qualified personnel to perform the reviews. The assignment should be returned to the Comptroller Department.

Evaluation Followup System. United States Naval Academy Instruction 5200.5 also assigned to the Command Evaluation Office responsibility for establishing and maintaining an effective followup system to verify that corrective actions identified during evaluations and reviews were carried out and for monitoring the correction of deficiencies identified by outside audit authorities. The Command Evaluation officer had established and maintained a list of recommendations for corrective actions, including due dates, and a suspense file on those external audit recommendations. However, followup procedures for those recommendations and the corresponding corrective actions were inadequate. Followup reviews were generally a part of the next scheduled review for those areas reviewed annually, but the findings and recommendations identified in reviews that were not mandatory or performed annually may not have received a followup review. Further, because there was no systematic followup procedure, corrective actions by responsible officials had not been tested for adequacy, and discrepancies continued without correction. A formal and comprehensive followup system is needed.

Management Control Program

Management Control Program Establishment and Oversight. DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, was established to involve managers in ensuring the adequacy of controls and evaluation of control systems on a continuing basis. It requires all DoD organizations to implement a management control program. In July 1992, the management control program for the Academy was evaluated by a representative of the Office of the Assistant Vice CNO. Although the evaluation stated that a management control program had been completely implemented at the Academy, the evaluation results identified the following discrepancies.

Finding A. Command Evaluation and Review Program

- o The Academy implementing instruction needed to be updated.
- o Proper comments and documentation were not provided on vulnerability assessments.
- o The followup system on identified material weaknesses needed improvement.

Oversight of the management control program at the Academy had been assigned to the Deputy for Management and the Command Evaluation Office. As part of its oversight, the Command Evaluation Office specifically had the responsibility to evaluate compliance with management control standards, analyze the vulnerability assessments and management control reviews, and report the results to the Superintendent.

Vulnerability Assessments. Key elements to the success of the management control program are vulnerability assessments. Vulnerability assessments are a manager's review of a program's or function's susceptibility to waste, loss, or unauthorized use of resources. That susceptibility is determined by the use of a Vulnerability Assessment Form and indicated by a rating of high, medium, or low. Vulnerability assessments are to be performed at least once every 5 years and as significant changes occur. SECNAV Instruction 5200.35C, "Department of the Navy Management Control Program," January 7, 1991, states that "The longer the interval between systematic operational reviews, the greater the likelihood that system or operational errors go undetected."

The most recent vulnerability assessments had been performed at the Academy during the summer of 1992. As of October 1, 1992, the Academy was divided into 231 assessable units identified by the Academy managers. The vulnerability assessments identified 18 assessable units that had not been evaluated or audited in the previous 24 months. Table 1 shows those assessable units by cost center and the rating for each.

Finding A. Command Evaluation and Review Program

Table 1. Assessable Units Not Evaluated or Audited in More Than 2 Years

<u>Assessable Unit</u>	<u>Cost Center</u>	<u>Rating</u>
Automated Data Processing Operations	Naval Station	High
Physical Inventory	Supply	High
Preparatory School Athletics	Dean of Admissions	High
Programming and Analysis	Computer Services	High
Stock Fund	Comptroller	High
Travel Vouchers/Orders	Comptroller	High
Appropriated Fund (O&M) ¹ Accounting	Comptroller	High
Appropriated Fund (OPN) ² Accounting	Comptroller	High
Personnel Security	Security	Medium
Research, Development, Test, and Evaluation Projects	Academic Dean	Medium
Sail Loft Manufacture and Repair	Naval Station	Medium
Military Identification Cards	Commandant of Midshipmen	Medium
Movie Operations	Commandant of Midshipmen	Medium
Cash Management/Funds	Comptroller	Medium
Inter-Service Support Agreement Program	Command Evaluation	Medium
Military Law	Staff Judge Advocate	Medium
Family Services	Family Service Center	Low
Midshipmen Resignation/Separation Process	Commandant of Midshipmen	Low

¹Operation and Maintenance.

²Other Procurement, Navy.

Further, none of the assessable units in Table 1 were scheduled for a Command Evaluation Review in FYs 1993, 1994, or 1995, even though all but two had a vulnerability rating of high or medium. The Command Evaluation and Review Schedule should reprioritize the efforts of the Command Evaluation Office by evaluating the most critical and vulnerable operations first.

Block 16 of the Vulnerability Assessment Form, "Interval Since Most Recent Evaluation or Audit," is an important part of the assessment for Command Evaluation purposes. The title, review, and date of any reviews or audits of the assessable unit during the previous 24 months is also required to be detailed in the comments block. None of the managers at the Academy accomplished this additional requirement of the vulnerability assessment. Such information should be included because it could assist the Command Evaluation officer in the development of the Annual Command Evaluation and Review Schedule by identifying and prioritizing areas for review of high susceptibility to waste, fraud, and abuse.

Management Control Reviews. The results of vulnerability assessments are provided to the Command Evaluation officer to be maintained and used to

Finding A. Command Evaluation and Review Program

prepare a management control plan and to schedule management control reviews (MCRs). The Command Evaluation Officer uses MCRs to determine the adequacy of management controls and to identify and correct deficiencies and weaknesses. SECNAV Instruction 5200.35C requires that reviews of assessable units rated high or medium be scheduled over a 5-year period, following the completion of the vulnerability assessments. The Instruction also requires that assessable units rated high must be scheduled for review during the first 2 years. Those rated medium can be scheduled over the entire period. Assessable units rated low are reviewed at the discretion of the reviewing organization or as directed by higher authority. The MCRs conducted at the Academy during FYs 1993 and 1994 identified material management control weaknesses. Table 2 describes weaknesses identified in the MCRs conducted at the Academy.

<u>Assessable Unit</u>	<u>Cost Center</u>	<u>Weakness Description</u>
Preparatory School Supply	Dean of Admissions	Weak inventory control.
Respiratory Protection	Safety	Discrepancies found in program audit uncorrected; no assurances of program compliance.
Weight Handling	Naval Station	Status and operational readiness not controlled by the Small Craft Repair Department.
Sail Loft and Sail Manufacture and Repair	Naval Station	Logging of jobs "spotty" because of lack of personnel.
Minor Property	Personnel and Administration	No control over inventories.

In addition, as of May 1995, the discrepancies identified in Appendix D existed in the vulnerability assessments and MCRs the Academy performed. Those discrepancies need to be corrected to improve the management control program at the Academy. Establishing a formal followup system should correct those inadequacies.

Reporting Results of Assessments. In accordance with SECNAV Instruction 5200.35C, managers determine whether a material weakness is serious enough to be reported to the next higher level of command. In addition, the Instruction requires commands to prepare annual certification statements and semiannual reports for submission to the next higher superior in the chain of command. Also, commanders are to consider reporting to the next higher level when higher level participation can help resolve the problem or the problem is serious enough to be identified as a point of information. The CNO

Finding A. Command Evaluation and Review Program

Instruction 5200.25C, "Chief of Naval Operations Management Control Program," December 5, 1991, requires reporting only those material weaknesses "not correctable at the local level." As a result, the Academy has not submitted an annual management control certification statement or semiannual report to the CNO since 1991.

Followup and Corrective Actions. Navy regulations require that whether or not they are reported to the next higher echelon of command, all identified material weaknesses shall be corrected in a timely manner and that a followup system should be developed and maintained to provide status information for semiannual and other required reports. The regulations also add that completed corrective actions must be tested for adequacy. The Academy did not have a followup system to track the status of identified material weaknesses and report the information to the Superintendent. Establishing a formal followup system should correct that inadequacy.

Support Agreement Program

Support agreements are used to formalize provisions for services between intra-Service, inter-Service, Defense or non-Defense Government agencies. DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," April 15, 1992, requires a review of agreements only "when changing conditions or circumstances may require substantial changes or development of a new agreement." Also, costs listed on support agreements are to be reviewed annually. The instruction further states that modifications and terminations should be made with enough advance notification to allow for funding considerations. Therefore, support agreements must be reviewed before expiration to determine the need for continuing the agreement and any change in costs.

The Command Evaluation officer identified 36 support agreements between the Academy and other Defense and non-Defense organizations. The Academy was the supplier of services for 26 of those support agreements and the receiver of services for the other 10. Of the 36 support agreements, 8 either had passed their expiration dates or had terminated completely, but were still being followed. Appendix E lists those agreements. The Command Evaluation officer explained that support agreements were not a priority because of all the other work that had to be accomplished. No urgency to renew or update the agreements existed, since the terms of the agreements were being followed. However, when the problem was brought to the attention of the Command Evaluation officer, a review of the eight support agreements was initiated to determine the need for continuance. Also, the United States Postal Service was operating a post office at the Academy without an agreement. That problem was identified to the Command Evaluation officer, and negotiations for an agreement had begun. Support agreements between the Academy and other Defense and non-Defense organizations should be reviewed to determine whether changes to or continuance of the agreement is necessary or whether negotiation of a new agreement is required.

Summary

The Command Evaluation Office has a large and important mission at the Academy. However, because the Command Evaluation Office had neither the available time nor sufficient staff, it was unable to review all functional areas of the Academy, perform the followup reviews necessary to verify that recommendations to reports are completed and the corrective actions are adequate, make sure that management is identifying and correcting management control deficiencies identified by MCRs and Vulnerability Assessments, and keep its support agreements current.

A simple way to improve internal oversight would be to reduce the Command Evaluation Office responsibility for the annual reviews, cash verifications, and cash counts identified in this report. That realignment of duties would allow the Command Evaluation Office to review other, more critical, functional areas of the Academy. Further, for the Command Evaluation Office to comply with its responsibilities under the Command Evaluation Program and management control program and to perform any other assigned functions, changes to the focus of the Office are necessary.

Recommendations, Management Comments, and Audit Responses

A. We recommend that the Superintendent, United States Naval Academy:

1. Eliminate from the Annual Command Evaluation and Review Schedule those functional areas that are audited annually by a certified public accounting firm, unless specifically required because of potential fraud or other serious improprieties or special Command interest.

Management Comments. The Navy nonconcurred, stating that the Command Evaluation Office reviews compliance with DoD and Department of the Navy regulations in areas such as procurement, personnel, and payroll that are not covered by a Certified Public Accounting firm audit.

Audit Response. The intent of the recommendation was misunderstood and we have reworded it for clarification. The extensive work by Certified Public Accounting firms obviates the need for annual Command Evaluation Office reviews in the same functional areas. The intent of the recommendation is not to eliminate coverage of any functional area, but to eliminate oversight redundancy and to allow the Command Evaluation Office to review other areas of the Academy that do not receive sufficient attention. If there is cause for additional review in an area already covered by a contracted audit and the prioritization process agreed to in Recommendation 5 is in place, the Command

Finding A. Command Evaluation and Review Program

Evaluation Office could provide the needed supplemental coverage. We request that the Navy reconsider its position and submit additional comments on the final report.

2. Appoint an Audit Board consisting of United States Naval Academy personnel outside the Command Evaluation Office to perform unannounced quarterly cash counts and cash verifications and direct the Audit Board to provide reports of results and followup actions on recommendations to the Command Evaluation officer.

Management Comments. The Navy nonconcurrent and stated that a previous Audit Board at the Academy had not produced results as satisfactory as those achieved by the Command Evaluation Office staff. Also, the staff does more than counting cash, justifying the time allotted to these reviews.

Audit Response. As stated previously, in January 1991, the Commanding Officer of the Naval Station appointed an audit board for the Religious Offering Fund in response to a letter from the Head, Management Control and Review Department (now the Command Evaluation Office). The letter stated that because that office had been given the responsibilities of previous audit boards, the volume of work had grown disproportionately to the size of the staff. The letter recommended that an Audit Board be appointed and that the Management Control and Review Department perform an annual review and "turnover" reviews. We determined that the volume of work, for which the Command Evaluation Office had responsibility, continued to increase. The intent of our recommendation was to apply the expertise of the Command Evaluation Office to functional areas of the Academy where alternative forms of coverage are not readily available. Therefore, we request the Navy reconsider its position and submit additional comments on the final report.

3. Reassign responsibility for the quarterly unannounced inspections of the imprest fund to the Comptroller Department.

Management Comments. The Navy nonconcurrent, stating that the guidance, which places responsibility for inspections in the Comptroller Department, dates back to when Navy offices may have had the internal review function within the Comptroller Department. When the Internal Review Division (now the Command Evaluation Office) was moved out of the Comptroller Department, the responsibility for performing the imprest fund inspection remained with the Internal Review Division. The Navy added that a senior member of the Procurement Management Review team, Naval Regional Contracting Center Philadelphia, Norfolk Detachment, familiar with the Academy supply function agreed that the intent of the guidance was to assure independence of the inspection and that the commanding officer would decide responsibility. Therefore, responsibility for the inspections will stay with the Command Evaluation Office.

Audit Response. The Navy issued Naval Supply Systems Command Instruction 4200.85B, "Shore and Fleet Small Purchase and Other Simplified Purchase Procedures," September 7, 1994, which identifies responsibility for imprest fund inspections as a comptroller function. The responsibility for

Finding A. Command Evaluation and Review Program

imprest fund inspections should be returned to the Comptroller Department because the Comptroller Department has a larger staff (with an accounting background) to adequately perform those inspections. Freeing the Command Evaluation Office from this responsibility would allow the Academy to apply the expertise of that office in functional areas where there is no adequate substitute for that expertise. Therefore, we request that the Navy reconsider its position and submit additional comments on the final report.

4. Establish a formal and comprehensive system for followup action on recommendations of internal and external reviews and on any material management control weakness identified by a Management Control Review or Alternative Management Control Review.

Management Comments. The Navy concurred, stating that the existing formal system of followup action had been expanded and would include material weaknesses identified by the Management Control Program.

Audit Response. Although the Navy concurred, its response did not indicate how the existing followup system was being improved. We request that, in response to the final report the Navy furnish more information on the actions taken to improve the followup system.

5. Develop a new Command Evaluation and Review Schedule from the areas identified in Table 1 and Appendix D and reprioritize the efforts of the Command Evaluation Office to evaluate the most critical and vulnerable operations first.

Management Comments. The Navy concurred, stating that the Superintendent would approve the schedule and prioritize efforts of the Command Evaluation Office according to the operations considered most critical and vulnerable.

6. Require managers of assessable units to properly complete Vulnerability Assessment Forms, especially the critical information required in block 16 and the comments block.

Management Comments. The Navy concurred and stated that corrective action would be accomplished in the next cycle of vulnerability assessments.

7. Ensure that support agreements are reviewed before expiration date to determine whether changes to an agreement or development of a new agreement is necessary.

Management Comments. The Navy concurred and stated that a system had already been developed to ensure the review of agreements before expiration.

8. Renegotiate support agreements, identified in Appendix E as expired or terminated, for which the Superintendent has determined that there is a need for continuance.

Finding A. Command Evaluation and Review Program

Management Comments. The Navy concurred, stating that the identified agreements had been reviewed and that new agreements, as necessary, would be completed by March 31, 1996.

9. Negotiate a support agreement for the United States Post Office at the United States Naval Academy.

Management Comments. The Navy concurred, stating that an agreement with the United States Post Office is being negotiated.

10. Reassess end-strength authorizations and funding authority of the Command Evaluation Office, after realignments and reprioritizations of the work load are accomplished, to determine the number of additional personnel required to meet assigned requirements.

Management Comments. The Navy concurred, adding that the Naval Audit Service made a similar recommendation in 1978. At that time, the Command Evaluation Office had a staff of one civilian billet. That staff has since been increased to four billets. Further, this past year, when several billets were to be eliminated at the Academy, the Command Evaluation Office was not reduced. The Navy also stated that the Superintendent had reviewed available end-strength authorizations and funding authority and decided that no additional personnel would be assigned to the Command Evaluation Office. Finally, the Navy added that areas of highest interest to the Superintendent would receive priority.

11. Direct the Command Evaluation Officer to develop and maintain written procedures for staff members to facilitate performance of all Command Evaluation and Review Program functions.

Management Comments. The Navy concurred, but added that the staff did have access to various guidance documents to facilitate their performance. The Navy has already recognized the value of procedures for the staff and is working on a handbook for the Command Evaluation Office. The handbook should be completed by March 31, 1996.

Finding B. Plant Property and Minor Property Accountability

Accountability for plant property and minor property at the Academy was inadequate. Accountability was inadequate because Academy managers did not comply with applicable guidance and instructions regarding the reporting of acquisitions, transfers, and dispositions. As a result, \$6.8 million in plant property was not inventoried or identified as Navy property, and Academy managers had no certainty of the identification or value of minor property.

Plant Property Guidance and Instructions

Plant Property Responsibilities. The NAVCOMPT Manual, volume 3, chapter 6, "Plant Property and Other Navy Property," August 1, 1994, assigns to the fiscal officer responsibility for establishing and maintaining the official financial plant property records and for submitting required financial reports for Class 3 and Class 4 plant property. Class 3 property is equipment with a unit acquisition cost of \$50,000 or more (not including industrial-type equipment), and Class 4 property is industrial plant equipment with a unit acquisition cost of \$50,000 or more. The fiscal officer at the Academy is the comptroller. Within the Comptroller Department, the plant account clerk is responsible for the plant property account. The NAVCOMPT Manual also assigns responsibility for "complying with the procedures established by the commanding officer for reporting acquisitions, transfers, dispositions, and other actions relating to plant property," to the department heads. In addition, department heads are to "assist and cooperate with the fiscal office of the accountable activity in the establishment and maintenance of plant property records on a current basis." The NAVCOMPT Manual also requires that "wall-to-wall" inventories be accomplished at least every 3 years. At that time, inventory records of the reporting cost centers and the official records of the Academy comptroller must be reconciled. That reconciliation must be accomplished within 3 months of completion of the physical inventory.

Plant Property and the Work in Progress Account

As of October 1994, \$58.5 million in Class 3 and \$1.1 million in Class 4 plant property was on the accountable records at the Academy. The Work in Progress Account is an account created when items purchased with "Other Procurement, Navy" funds are not matched with a DD Form 1342, "DoD Property Record." When a DD Form 1342 is eventually received by the

Finding B. Plant Property and Minor Property Accountability

Accounting Division, the property is dropped from the Work in Progress Account, added to the plant property inventory, and assigned a Navy identification number and corresponding identification tag.

Reviews and Inventories

Chief of Naval Operations Interest. On August 12, 1986, the CNO sent a letter to Navy organizations that identified "Accountability, Use and Control of Plant and Minor Property" as one of the Navy-wide material management control weaknesses identified in the Secretary of the Navy's Internal Control Certification Statement of November 21, 1985. The CNO requested each organization to take corrective action on any such weaknesses and report those actions in its annual certification statement. The letter identified the following systemic weaknesses:

- o plant property reported on official records that could not be located,
- o property not marked with Navy identification numbers,
- o property marked with wrong Navy identification numbers,
- o property not inventoried within the required time frames, and
- o property not reconciled with the official accounting records.

Internal Review Office Reports. In September 1987, the Internal Review Office (now the Command Evaluation Office) reported on the "Audit of the Triennial Inventory of Class 3 and 4 Plant Property." That audit determined that all but one of the above systemic weaknesses existed at the Academy. (The audit also determined that property was inventoried within the required time frames.) Further, the audit determined that the Academy did not have an accurate official listing of plant property. The Internal Review Office recommended procedural changes to improve management controls. The recommendations also required that inventories be certified and reconciled on an annual basis.

In September 1988, the Internal Review Office again reported on the "Review of Recordkeeping Procedures for USNA [United States Naval Academy] Class 3 and 4 Plant Property." The report stated that the Comptroller Department had converted the Academy plant property records into a computerized data base and was receiving the annual certifications from the department heads. The report went on to state that the accounting officer had performed an MCR of the plant property function that noted no significant weaknesses, even though the department heads were not reporting data in a timely manner, and that management controls were considered adequate to provide reasonable assurance that assets were safeguarded. The report noted, however, a backlog of more

Finding B. Plant Property and Minor Property Accountability

than \$4 million in the Work in Progress Account. Internal Review Office personnel discussed the findings of the review with Comptroller Department personnel, but no recommendations were made for followup.

Management Control Program. In completing the vulnerability assessment, the accounting officer rated the plant property functional area as high in susceptibility to fraud, waste, or mismanagement. Two primary reasons for that rating were that most significant findings or known errors were unresolved and reports were usually inadequate and submitted late. The accounting officer also conducted an MCR in November 1994. The results of that MCR were the same as reported in the 1988 MCR. No weaknesses were identified, and the management controls in place were rated adequate.

1993 Triennial Inventory and Followup Review. The 1993 triennial plant property inventory conducted by the Comptroller Department found many of the same problems that had been identified in the 1987 triennial inventory audit. Those problems included plant property items that could not be located, property not marked with Navy identification numbers, and plant property marked with wrong Navy identification numbers. Also, the listing of plant property was not complete because department heads did not report their inventories in a timely manner.

The Command Evaluation Office later conducted a followup review of "Plant Property Inventory" and reported in December 1993 that management controls at that time were "marginally satisfactory." The report recommended procedures to improve controls. The report also stated that the Work in Progress Account contained almost \$3 million of inventory not promptly cleared in accordance with regulations.

1994 Annual Certification. The annual certification of plant property performed between March and May 1994 once again pointed out the problems with department heads not reporting in a timely manner. Of 63 cost centers within the various departments of the Academy that report plant property inventory, 13 had not complied with the requirements of the annual certification by July 1994. As of February 1995, six of those cost centers still had not complied.

Plant Property Accountability and Control

Plant Property Accountability. More than 10 percent of the total value of plant property at the Academy was not accounted for by various department heads. Plant property included in the Work in Progress Account had not been included on the Academy inventory listing and had not been identified as Navy plant property. Also, the Navy-wide accountability weaknesses identified by the CNO in 1986 and identified at the Academy in 1987 were still present at the time of our audit. In addition, the problem in the Work in Progress Account seemed to be growing. In 1988, the then Internal Review Office identified the amount of inventory not promptly cleared in accordance with regulations at

Finding B. Plant Property and Minor Property Accountability

\$4 million. In 1993, that amount had been reduced to \$3 million according to the "Plant Property Inventory" review by the Command Evaluation Office. However, in January 1995, the Work in Progress Account had grown to \$5.2 million, and a followup review in April 1995 showed an increase to \$6.8 million by the end of the second quarter FY 1995.

Improving Accountability and Reducing Work in Progress

To improve accountability of plant property, the Academy implemented a bar coding system for managing plant property at the start of the 1995 annual certification process. The system was expected to provide a standard data base for maintaining inventory records to facilitate conducting inventories and to improve the accuracy and timeliness of reporting. Also, in 1995, the Comptroller Department developed a suspense system, which was intended to notify department heads of their failure to satisfy their plant property accountability responsibilities. Further, the system will report continued noncompliance of plant property accountability responsibilities to appropriate officials of the Academy for corrective action. However, department heads should provide the DD Form 1342 to the Comptroller Department immediately upon receipt of any plant property.

Minor Property Guidance and Instruction

Minor property is personal property acquired for immediate use and having a unit cost of less than \$50,000 and personal property having an acquisition cost equal to or greater than \$50,000, but with a useful life of less than 2 years. Further, Navy regulations require that a minor property administrator (Administrator) and minor property responsible officers (Responsible Officers) be designated for the Academy. Also, according to the NAVCOMPT Manual, the Administrator is required to maintain a data base organized by Responsible Officer that will include:

all items of minor property costing \$300 to less than the investment/expense funding threshold used by the Congress for appropriating funds; specifically including furniture, fixtures, office or industrial equipment; all equipment that is classified or sensitive, costing less than the investment/expense funding threshold used by the Congress for appropriating funds; and all equipment or items that are pilferable, costing \$100 to less than the investment/expense funding threshold used by the Congress for appropriating funds.

Finding B. Plant Property and Minor Property Accountability

Identified Minor Property Weaknesses

As stated previously, failure to properly inventory minor property was identified as one of the Navy-wide material management control weaknesses in 1985. In July 1988, the Command Evaluation Office (then the Internal Review Office) conducted a review of minor property at the Academy. The review reported weaknesses in identification, tagging, and recordkeeping of minor property by the Responsible Officers. In addition, the Management Assistant in the Office of the Deputy for Operations, who was assigned the responsibility for the minor property program, was unable to manage the program because of other duties assigned. The only recommendation in the report on that review was to assign responsibilities of the minor property program to an Administrator other than the management assistant.

The MCR of the minor property program, conducted in August 1993, again found that because of other duties assigned, the Administrator could not examine information provided on disks. The MCR pointed out that the Responsible Officers submitted their inventory data using various software programs. The Administrator also noted that no physical inventory had been conducted by anyone other than the Responsible Officers since the Command Evaluation Review in 1988.

Minor Property Program Management

Effective accountability for minor property was lacking at the Academy. The voluminous minor property inventory identified by Responsible Officers at the Academy could not be reconciled or quantified by the Administrator or the Responsible Officers. As of May 1995, the method for performing the annual inventory was for the Responsible Officers to record and update the inventory on a computer disk provided by the Administrator, then return the disk to the Administrator. However, because of other duties assigned, the Administrator was not able to examine the information. The Administrator had not established a data base to reconcile the inventory information provided by the Responsible Officers.

In December 1994, we requested printed copies of current minor property inventories from all 72 sub-cost centers of the Academy that report minor property. Only 45 of those sub-cost centers responded to the request. The reports received indicated that Responsible Officers used different software programs and that data elements, such as acquisition date and cost, required by the NAVCOMPT Manual, were not consistently applied in presenting the inventories.

That same month, December 1994, a meeting was held for Responsible Officers by Base Operations. At that meeting, Base Operations personnel instructed Responsible Officers to conduct a "zero-base" inventory to establish a baseline inventory for the Academy. Responsible Officers were to conduct this

Finding B. Plant Property and Minor Property Accountability

inventory from December 1994 through February 1995. At the end of that period, all but six Responsible Officers had responded. However, the results of the new inventory were the same as the results submitted to us in December 1994.

Further, the Academy had not established procedures to manage minor property requisitioned and received throughout the Academy. Responsible Officers could purchase, receive, or dispose of minor property items without the knowledge, approval, or involvement of the Administrator. Responsible Officers were thus required and entrusted to make the appropriate entries into their data bases.

Moves Toward Improvement

The Academy was moving toward establishing and maintaining a viable minor property program. Base Operations had placed responsibility for the Minor Property Program with the Academy Supply Department. Supply Department personnel were in the process of revising procedures for managing the program. Procedures were to include use of a single software program with uniform reporting elements, signature responsibility by Academy department heads, and requisitioning and receiving procedures that would ensure the involvement and control of the Supply Department. In addition, two positions were to be added to the Supply Department to facilitate the implementation of those procedures. Those initiatives must continue to improve the Minor Property Program.

Summary

The problems with plant and minor property accountability represent management control weaknesses that are considered material because of the dollar value of resources involved and the potential loss of more than 5 percent of those resources. Since 1987, internal reviews have repeatedly pointed out those weaknesses. Although adequate guidance existed, management control over resources was inadequate, department heads did not comply with guidance, and Academy personnel with overall responsibility for accountability were not successful in enforcing compliance. As of May 1995, responsible personnel at the Academy have taken steps to improve accountability for both plant and minor property. However, without the cooperation of department heads, the accountability for plant and minor property will remain inadequate at the Academy.

Recommendations and Management Comments

B. We recommend that the Superintendent, United States Naval Academy:

1. Require the Comptroller to provide a quarterly report of the Work in Progress Account for the Superintendent's review and disposition.

Management Comments. The Navy concurred and stated that quarterly status reports would be provided to the Superintendent or his designated representative effective August 1, 1995.

2. Require all department heads to comply with the Office of the Comptroller of the Navy Manual, volume 3, chapter 6, "Plant Property and Other Navy Property," August 1, 1994, by providing the DD Form 1342 to the Comptroller Department immediately upon receipt of any plant property.

Management Comments. The Navy concurred, stating that the Superintendent will require all department heads to comply with the Comptroller of the Navy Manual. That action was completed August 1, 1995.

3. Revise minor property accountability procedures to provide for a single software program for use by all minor property Responsible Officers, signature responsibility by Academy department heads, and processing of all minor property procurement through the Supply Department.

Management Comments. The Navy concurred, stating that the Academy had developed a single software program. In addition, an Academy instruction on minor property was completed in draft form. The projected completion date for implementation of the software program is October 1, 1996, and January 1, 1996, for the minor property instruction.

Finding C. Operation of the Naval Academy Dairy Farm

The Academy purchased products from the Naval Academy Dairy Farm (Dairy) even though use of a commercial dairy would have been more economical. The Academy purchased products from the Dairy because the Dairy was established to provide milk products to the Brigade of Midshipmen, its only customer. The Academy could make better use of midshipmen subsistence funds if it purchased from commercial dairies.

Establishment and Purpose of the Dairy

The Academy established the Dairy in 1911 to provide a safe milk supply to the Brigade of Midshipmen after an outbreak of typhoid fever was traced to milk from a commercial supplier. The initial expenditure for the Dairy was made with midshipmen store funds. From 1913 through 1925, as the size of the Brigade of Midshipmen grew, the Academy had to obtain funds from the Congress to fund the expansion of the Dairy. An Act of Congress, dated March 4, 1925, forgave the remaining portion of the appropriated money and stated, "the dairy and farm . . . shall become and remain the property of the United States" and "the dairy farm shall be continued and operated as an activity of the midshipmen's store."

The Dairy occupies 865 acres in Anne Arundel County, Maryland, with a herd of about 313 cows. In FY 1994, the Dairy produced 232,741 gallons of milk products and 188,466 gallons of other beverages. The Dairy is a self-supporting nonappropriated fund activity that operates as a part of the Midshipmen Store and Services Trust Branch of the Brigade Services Division, with an annual operating budget of \$1.2 million. Sales to the Academy in FY 1994 were about \$927,300; the Academy was the Dairy's sole customer.

Congressional Requirement for Continuing Operations

Section 810 of Public Law 90-110, "Military Construction Authorization Act of 1968," states:

The Naval Academy Dairy Farm is a self-supporting operation, an economic and morale-building asset to the Department of the Navy, and shall continue in its present status and function . . . nor shall any action be taken by the Navy to close, dispose of or phase out the Naval Academy Dairy Farm unless specially authorized by an Act of Congress.

Recent Reviews and Discussions

The Board of Visitors recommended closing the Dairy in April 1991. As a result, the Superintendent commissioned the United States Naval Academy Dairy Evaluation Committee to report on the operation of the Dairy. The resulting report, issued in August 1991, stated that the Dairy operated at no cost to the Government, but the committee had done no comprehensive survey to show cost-effectiveness. In September 1991, the Board of Visitors asked the Superintendent to review profit and loss, productivity, and alternative uses of the land. In May 1992, the Board of Visitors concluded that dairy products could be purchased from commercial suppliers at lower cost and that an acceptable alternative use for the farm had to be determined. Most recently, the Midshipmen Store and Services Branch, Brigade Services Division, contracted with Arthur Anderson and Company, an independent accounting firm, to obtain current price and service information from local commercial dairies to compare those costs with costs of Dairy operations. In June 1994, Arthur Anderson and Company reported to the Academy that \$260,000 per year could be saved by using commercial dairies rather than continuing its own operations.

Providing for the Midshipmen

The Navy provides funds to the Academy, through the Military Personnel Appropriation, to purchase subsistence items for the Brigade of Midshipmen. The midshipmen personnel officer indicates to the midshipmen disbursing officer the total number of midshipmen who dine at the Academy dining hall each month. The midshipmen disbursing officer uses that information to determine the amount of disbursement from the Military Personnel Appropriation to the Academy Midshipmen Food Service Division Account. That account is a nonappropriated fund used solely to purchase subsistence items for the Brigade of Midshipmen and to pay the Dairy for the purchase of products for the previous month.

The funds disbursed into the Academy Midshipmen Food Service Division Account do not vary based upon source of procurement. The funds are determined as described in the above paragraph. Therefore, using a more economical source than the Dairy would result in more funds available for the remaining subsistence purchases.

Summary

As a result of our review and evaluation of the relevant portions of the congressional acts, minutes of Board of Visitors meetings, the Dairy Evaluation

Finding C. Operation of the Naval Academy Dairy Farm

Committee report, and the Arthur Anderson and Company survey, we concur that milk and other products now purchased from the Dairy could be obtained at a lower cost from commercial suppliers and that Dairy operations should cease.

Academy officials agree that the operations of the Dairy should cease and that commercial dairies could provide the services to the Brigade of Midshipmen at a lower cost. Academy officials indicated that the only obstacle to ending the operations of the Dairy is obtaining congressional approval. That approval should be obtained, and an alternative use of the Dairy land to benefit the Brigade of Midshipmen should be planned by Academy management.

Recommendations and Management Comments

C. We recommend that the Superintendent, United States Naval Academy:

1. Propose congressional legislation through the Department of the Navy for the cessation of operations of the Naval Academy Dairy Farm.

Management Comments. The Navy concurred and stated that legislation is being drafted for submission and no action would be taken at the farm until the legislation is submitted and approved. The projected completion date is January 1, 1997.

2. Develop a plan for an alternative use of the land that the Dairy now occupies that would best benefit the midshipmen and the Navy.

Management Comments. The Navy concurred and stated that upon approval of proposed congressional legislation, the Academy would develop a plan for alternative use of the land. The projected completion date for this action is January 1, 1998.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

To assess the economy and efficiency of the operations and management of the Academy, we reviewed functional areas of the Academy that we determined were most vulnerable to waste, fraud, and abuse. We interviewed managers and other responsible personnel, where possible, within each area. We reviewed relevant guidance and procedures to determine Academy compliance with applicable management controls. We reviewed and analyzed documentation of office procedures within each area. In addition, we reviewed minutes of the Academy Board of Visitors meetings and reports of external audit and review organizations that related to the areas in the findings in this report. We also reviewed the coordination between Academy offices and other Navy and Defense agencies. We reviewed, analyzed, and documented work performed by the Command Evaluation Office in the execution of its responsibilities to provide management oversight of the Academy.

Methodology

We reviewed the status of the implementation of the recommendations of Inspector General, DoD, Report No. 93-165, "Noninstructional Military Positions at the United States Naval Academy," September 3, 1993. We reviewed staffing documents and other official documents that identify planned actions.

Computer-Processed Data. We used computer-processed data to identify problems with the Academy's minor property inventories. The reliability of the data was not assessed because the objective was to determine whether required data elements were included in the data base. Not establishing the reliability of the data does not affect the results of the audit.

Audit Period, Standards, and Locations. We performed this economy and efficiency audit from August 1994 through May 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. We did not use statistical sampling procedures in the development of any finding in the report. Appendix G lists the organizations we visited or contacted.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of the Academy management control program. Specifically, we reviewed applicable Military Department guidance, the vulnerability assessments for all assessable units, management control reviews conducted during FYs 1993 and 1994, and related documentation.

Adequacy of Management Controls. We identified material management control weaknesses for the Academy as defined by DoD Directive 5010.38 and applicable Military Department guidance. The management control program at the Academy did not ensure that identified material weaknesses were reported and corrected. Also, management controls were not adequate to ensure that Class 3 and Class 4 plant property and minor property were accounted for properly. Recommendations A.4., A.6., B.2., and B.3., if implemented, will improve the Academy's management control program, Command Evaluation Program, and the controls over plant and minor property. See Appendix F for all benefits associated with the audit. A copy of the report will be provided to the senior official in charge of management controls for the Navy.

Adequacy of Management's Self-Evaluation. Management had performed some self-evaluation of its controls. Academy managers identified assessable units and performed vulnerability assessments; however, those assessments were not complete. Also, management control reviews were not completed in a timely manner. Although, Academy managers identified Class 3 and Class 4 plant property and minor property as assessable units and, in our opinion, correctly identified the risk associated with them as high, this audit determined that material control weaknesses in those assessable units had not been corrected.

Appendix B. Summary of Prior Audits and Other Reviews

During the last 5 years, the General Accounting Office (GAO) issued two reports that discussed oversight at the Service Academies. The Office of the Inspector General, DoD, also issued two reports that discussed areas of management and administration of the Academy. In addition, Accession Policy, Office of the Assistant Secretary of Defense (Force Management and Personnel) (now the Office of the Under Secretary of Defense [Personnel and Readiness]), studied the Academy Preparatory School.

General Accounting Office

In October 1989, the Senate Armed Services Committee requested the GAO to conduct a management audit of the Service Academies. As a result, the GAO issued several reports that suggest that efficiencies could be attained and that operations could be more efficient at the Academies. Report No. T-NSIAD-90-28, (OSD Case No. 8294), "Review of the Cost and Operations of DoD's Service Academies," April 4, 1990, and Report No. NSIAD-91-79, (OSD Case No. 8585), "DoD Service Academies: Improved Cost and Performance Monitoring Needed," July 16, 1991, discuss audit oversight of the Academies. The reports recommended that the Secretary of Defense evaluate alternative means of providing external oversight and advice to the Academies.

Inspector General, DoD

Inspector General, DoD, Report No. 94-026, "Service Academies' Foreign Student Program - Tuition Billing," December 28, 1993, was requested by the Under Secretary of Defense for Policy. The overall objective was to determine whether Academy procedures for billing foreign governments for tuition were adequate to ensure that foreign governments were properly billed for the cost of their students in the Service Academies. Report No. 94-026 recommended the issuance of guidance to implement Public Law 98-94, "Defense Authorization Act of 1984," September 24, 1984, on the Foreign Student Program; that action be taken to bill foreign countries that had not been billed for their students' full tuition; and that all billed but unpaid tuition costs be collected. The Assistant Secretary of the Navy concurred with all recommendations and revised Navy procedures after the Office of the Secretary of Defense issued guidance to implement the public law.

Inspector General, DoD, Report No. 93-165, "Noninstructional Military Positions at the United States Naval Academy," September 3, 1993, was

Appendix B. Summary of Prior Audits and Other Reviews

requested by the Senate Committee on Armed Services. The overall objective of the audit was to determine which noninstructional positions at the Academy were essential for the accomplishment of the Academy's mission or for the maintenance of the quality of life for the Brigade of Midshipmen. Report No. 93-165 recommends the deletion of 11 noninstructional military billets and conversion to civilian of an additional 26 noninstructional military billets. It also recommends other billet actions. The Navy concurred with all of the recommendations except for the conversion of two clinical psychologist positions. That exception was accepted.

Office of the Secretary of Defense

The Assistant Secretary of Defense (Force Management and Personnel) studied the Academy Preparatory Schools, as recommended in a GAO report, GAO/NSIAD 92-57 (OSD Case No. 8928), "DoD Service Academies: Academy Preparatory Schools Need a Clearer Mission and Better Oversight," March 1992. The Assistant Secretary of Defense (Force Management and Personnel) Accession Policy tasked the Military Installation Voluntary Education Reviews to assess the effectiveness of the academic mission at the Service academies' preparatory schools, provide an independent basis for comparison of those programs to enhance oversight of the Service academy programs, and ensure that Service academy preparatory school education is appropriate and consistent with the standards of post-secondary education. The "Service Academy Preparatory Schools Project Final Report" was issued June 15, 1993. That report recommends that the DoD develop a statement that clarifies the mission of each school, requires faculty members to possess degrees in their assigned subject areas, and requires that academic standards approximate the academic rigor experienced at the parent academy.

Appendix C. Other Matters of Interest

The Defense Accounting Office (DAO) Arlington, Virginia, was the Authorization Accounting Activity for the Academy. The functions of DAO Arlington included appropriation, stores, plant property, cost, and civilian payroll accounting for the Academy. The Academy Comptroller Department experienced problems obtaining the plant property abstract, accurate reimbursable collections, and billings reports from DAO Arlington. Those reports either were not received in a timely manner or were not received at all. According to DAO Arlington officials and the Academy Comptroller Department, a breakdown in communications caused the problem.

As a result of the reorganization of the Defense Finance and Accounting Service, DAO Arlington was scheduled to cease operating at the end of May 1995. The functions of the office were transferred to DAO Charleston, South Carolina, in March 1995. Officials of the Academy Comptroller Department and the DAO Charleston were working together to reconcile records and to ensure that their financial management operations interact efficiently and effectively.

Appendix D. Vulnerability Assessment and Management Control Review Discrepancies

Vulnerability assessments and management control reviews identified the discrepancies shown in this table.

Identified Discrepancies		
<u>Assessable Unit</u>	<u>Cost Center</u>	<u>Description of Discrepancy</u>
Public Safety Communications	Security	No assessment submitted
Photographic Supplies and Equipment	Public Affairs	No assessment submitted
Media Services/Relations	Public Affairs	No assessment submitted
Public Affairs/Information Publications	Public Affairs	No assessment submitted
Prep School Supply	Dean of Admissions	Block 16 marked "N/A"
Prep School Administration	Dean of Admissions	Block 16 marked "N/A"
Prep School Athletics	Dean of Admissions	MCR not submitted
Recruiting/Midshipmen	Dean of Admissions	MCR not submitted
Admissions Information System	Dean of Admissions	MCR not submitted
Programming and Analysis	Computer Services	MCR not submitted
Software Inventory	Computer Services	MCR not submitted
Equipment Inventory	Computer Services	MCR not submitted
Telecommunications Facilities	Computer Services	MCR not submitted
Position Classification	Civilian Personnel	MCR not submitted

Appendix E. Expired Support Agreements

Table E-1. Naval Academy Supplier

<u>Activity</u>	<u>Expiration Date</u>	<u>Agreement Number</u>
Office of Legal Counsel	Dec. 1991	N00161-86001-011
Engineer Field Activity-Chesapeake	Sept. 1992	N00161-86266-013
Navy Federal Credit Union	Nov. 1994	N00161-85001-018
Naval Academy Sailing Foundation	Nov. 1989	N00161-83311-022
Naval Security Group Command	Nov. 1993	N00161-87340-024

Table E-2. Naval Academy Receiver

<u>Activity</u>	<u>Expiration Date</u>	<u>Agreement Number</u>
Fort Meade (Tipton Airfield)	Apr. 1994	W23A71-88122-142
Whiting Field	Dec. 1994	N60508-88335-001
Naval Undersea Warfare Center	Aug. 1994	N66604-94159-001

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
A.1.	Economy and Efficiency. Avoids duplication of effort.	Undeterminable. ¹
A.2., A.3. and A.5.	Program Results. Allows Command Evaluation Office to better comply with regulatory responsibilities.	Nonmonetary.
A.4., A.6.	Program Results and Management Controls. Improves the management control program at the Academy and allows the Command Evaluation Office to better comply with regulatory responsibilities.	Nonmonetary.
A.7., A.8.	Program Results. Improves the Support Agreement Program at the Academy.	Nonmonetary.
A.9.	Compliance With Regulations. Requires negotiation of a support agreement.	Nonmonetary.
A.10, A.11.	Economy and Efficiency. Improves the capability of the Command Evaluation Office to conduct more reviews using uniform procedures.	Undeterminable. ¹
B.1.	Program Results. Improves plant property accountability at the Academy.	Nonmonetary.
B.2.	Management Controls and Compliance with Regulations. Reduces the potential for misuse of plant property resources.	Nonmonetary.

¹Upon implementation of the recommendations, the Navy will be able to determine the monetary benefits.

Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
B.3.	Management Controls and Program Results. Improves the controls over minor property resources.	Nonmonetary.
C.1.	Economy and Efficiency. Improves utilization of midshipmen subsistence funds.	\$1.6 million of midshipmen subsistence funds (nonappropriated) put to better use for FYs 1996 through 2001. ²
C.2.	Economy and Efficiency. Improves use of land for the benefit of the Brigade of Midshipmen.	Undeterminable. ¹

¹Upon implementation of the recommendations, the Navy will be able to determine the monetary benefits.

²\$260,000 x 6 years = \$1,560,000.

Appendix G. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Personnel and Readiness, Washington, DC

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller),

Washington, DC

Assistant Vice Chief of Naval Operations, Washington, DC

United States Naval Academy, Annapolis, MD

Other Defense Organization

Defense Accounting Office, Defense Finance and Accounting Service, Arlington, VA

Appendix H. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
 Deputy Chief Financial Officer
 Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness
Assistant Secretary of Defense (Economic Security)
Assistant to the Secretary of Defense (Public Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy
Assistant Vice Chief of Naval Operations
Superintendent, United States Naval Academy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
 Inspector General, National Security Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
 General Accounting Office

Non-Defense Federal Organizations (cont'd)

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Personnel, Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security
House Subcommittee on Military Installations and Facilities, Committee on National
Security
House Subcommittee on Military Personnel, Committee on National Security

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Part III - Management Comments

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

SEP 13 1995

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR
GENERAL FOR AUDITING

Subject: DODIG DRAFT REPORT: "MANAGEMENT AND ADMINISTRATION OF
THE UNITED STATES NAVAL ACADEMY" (PROJECT NO. 4RA-
5051.01)

I am responding to the draft audit report forwarded by
you in your letter of July 17, 1995 regarding the Management
and Administration of the United States Naval Academy.

The Department of the Navy, in general, agrees with the
findings and recommendations of the draft report. However, I
do not concur with the recommendations that limit or replace
the role of the Command Evaluation office in audits, as that
office was created to correct audit deficiencies and add greater
technical expertise to reviews.

Specific comments are provided at Attachment 1. As
specified in the attachment, the Naval Academy has taken, or is
planning to take specific action to improve management and
administration oversight.

A handwritten signature in cursive script, reading "Bernard D. Rostker", is positioned above the typed name and title.

BERNARD D. ROSTKER
ASSISTANT SECRETARY OF THE NAVY
(MANPOWER AND RESERVE AFFAIRS)

Copy to:
NAVINGEN (02) w/o attachment
FMO-31

Attachment:
1. Superintendent, USNA ltr 7500 5-122 of 18 Aug 95 w/end



DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
2000 NAVY PENTAGON
WASHINGTON, D.C. 20350-2000

IN REPLY REFER TO

130 A 11 1995

FIRST ENDORSEMENT on Superintendent, United States Naval Academy
ltr 7500 5-122 of 18 Aug 95

From: Chief of Naval Operations
To: Assistant Secretary of the Navy (Manpower and Reserve
Affairs)

Subj: AUDIT REPORT ON MANAGEMENT AND ADMINISTRATION OF THE
UNITED STATES NAVAL ACADEMY (PROJECT NO. 4RA-5051-01)

1. Forwarded, strongly concurring with the comments and recommendations of the Superintendent, U.S. Naval Academy.
2. In recommendation A of the draft report, the DODIG would restrict or replace the Naval Academy Command Evaluation Office role in various reviews. These recommendations do not take into account the fact that a major reason for establishment of the command evaluation function was to correct deficiencies and improve the quality of audit functions. If adopted, the recommendations would have the unintended effect of reducing the scope and quality of audits.

A handwritten signature in black ink, appearing to read "T. C. Lynch", is positioned above the typed name.

T. C. LYNCH
DIRECTOR, NAVY STAFF

Department of the Navy Comments



DEPARTMENT OF THE NAVY

UNITED STATES NAVAL ACADEMY
121 BLAKE ROAD
ANNAPOLIS, MARYLAND 21402-5000

7500
5-122
18 AUG 1995

From: Superintendent, United States Naval Academy
To: Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Via: Chief of Naval Operations (N09BC)

Subj: AUDIT REPORT ON MANAGEMENT AND ADMINISTRATION OF THE UNITED STATES NAVAL ACADEMY (PROJECT NO. 4RA-5051.01)

Ref: (a) DoDIG memo of 17 Jul 95

Encl: (1) USNA Response to DoD IG Draft Audit Report

1. Reference (a) requested management comments on the subject draft report. Enclosure (1) provides the Naval Academy's comments.

2. Point of contact is Joanne L. Decker, Command Evaluation Officer, DSN 281-1630 or CML (410) 293-1630.

A handwritten signature in cursive script, appearing to read "C. R. Larson", is written over a horizontal line.

C. R. LARSON

USNA RESPONSE TO THE DOD IG DRAFT AUDIT REPORT
ON MANAGEMENT AND ADMINISTRATION OF THE
UNITED STATES NAVAL ACADEMY (PROJECT NO. 4RA-5051.01)

FINDING A. COMMAND EVALUATION AND REVIEW PROGRAM

Recommendation A. We recommend that the Superintendent, United States Naval Academy:

1. Eliminate from the Annual Command Evaluation and Review Schedule those functional areas that are audited annually by a certified public accounting firm, unless specifically required because of potential fraud or other serious improprieties.

USNA Response. Nonconcur. The CPA firm provides a complete audit of the financial statements and expresses an opinion as to the state of management controls. The audit does not include compliance with DoD and DoN regulations for areas such as procurement, personnel, and payroll. The Command Evaluation Office reviews those areas not covered by the CPA firm, and therefore ensures a complete review of the functional areas for the Superintendent.

2. Appoint an Audit Board consisting of United States Naval Academy personnel outside of the Command Evaluation Office to perform unannounced quarterly cash counts and cash verifications and require that all Audit Boards provide reports of results and followup actions on recommendations to the Command Evaluation Officer.

USNA Response. Nonconcur. The Naval Academy used Audit Boards prior to the establishment of the office now called the Command Evaluation Office. The results were never as satisfactory as those produced by the trained members of the Command Evaluation Office. The staff completes more review work than merely counting cash and thus the time allotted to these cash verifications is appropriate.

3. Reassign responsibility for the quarterly unannounced inspections of the imprest fund to the Comptroller Department.

USNA Response. Nonconcur. Per NAVSUPINST 4200.85B, Shore and Fleet Small Purchase and Other Simplified Purchase Procedures, the unannounced inspections shall be performed by individuals from the fiscal or comptroller office when such offices exist. This guidance dates back to the time when many Navy activities either did not have a separate internal review office or placed that function within the comptroller office. When the Navy determined that the internal review function should not be located within the comptroller or other functional

Enclosure (1)

Department of the Navy Comments

organization, the Academy moved the Internal Review Division (predecessor of the Command Evaluation Office) out of the Comptroller Department. The Internal Review Division retained the responsibility for conducting the imprest fund inspections because they were trained to do them. This situation was discussed with a senior member of the Procurement Management Review team, Naval Regional Contracting Center Philadelphia, Norfolk Detachment, who frequently reviews our supply function. He agreed with our present arrangement and indicated that the intent of the instruction is to ensure that the person conducting the inspection is independent of the Imprest Fund function. Which specific office is assigned the responsibility is up to the commanding officer. Responsibility for the quarterly unannounced inspections of the imprest fund will remain with the Command Evaluation Office as designated by the Superintendent.

4. Establish a formal system for followup action on recommendations of internal and external reviews and on any material management control weakness identified by a Management Control Review or Alternative Management Control Review.

USNA Response. Concur. The Command Evaluation Office has expanded the existing formal system of followup action on recommendations of internal and external reviews and will include those material weaknesses identified by the Management Control Program. Action completed for reporting purposes 1 August 1995.

5. Develop a new Command Evaluation and Review Schedule from the areas identified in Table 1 and Appendix D and reprioritize the efforts of the Command Evaluation Office to evaluate the most critical and vulnerable operations first.

USNA Response. Concur. The areas identified in Table 1 and Appendix D will be used to develop the next Command Evaluation and Review Schedule. The Superintendent will approve the final schedule to ensure that the efforts of the Command Evaluation Office are used to evaluate the operations he considers the most critical and vulnerable first. Action completed for reporting purposes 1 August 1995.

6. Require managers of assessable units to properly complete Vulnerability Assessment Forms, especially the critical information required in block 16 and the comments block.

USNA Response. Concur. As agreed in the evaluation conducted by the Office of the Assistant Vice CNO, these requirements will be included in the next cycle of vulnerability assessments. Action completed for reporting purposes 1 August 1995.

7. Ensure that support agreements are reviewed before expiration date to determine whether changes to an agreement or development of a new agreement is necessary.

USNA Response. Concur. A tickler system has been developed to ensure that support agreements are reviewed before their expiration date. Action completed for reporting purposes 1 August 1995.

8. Renegotiate support agreements identified in Appendix E as expired or terminated for which the Superintendent has determined that there is a need for continuance.

USNA Response. Concur. All support agreements identified in Appendix E as expired or terminated have been reviewed to determine the need for continuance. New agreements will be developed as needed. Projected completion date: 31 March 1996.

9. Negotiate a support agreement for the U.S. Post Office located at the United States Naval Academy.

USNA Response. Concur. A support agreement between the United States Naval Academy and the U.S. Post Office is being negotiated. Projected completion date: 31 March 1996.

10. Reassess end strength authorizations and funding authority of the Command Evaluation Office, after realignments and reprioritizations of the work load is accomplished, to determine the number of additional personnel required to meet assigned requirements.

USNA Response. Concur. Naval Audit Service Audit Report A31128, United States Naval Academy, 25 September 1978, noted a similar finding and recommendation. They reported that the Internal Review Division (predecessor of the Command Evaluation Office) lacked the manpower needed to effectively perform the internal audit function. At that time the internal review staff consisted of one civilian billet. USNA concurred with the recommendation that the staff be increased so that today the office consists of four billets. This past fiscal year when the Academy was required to eliminate several billets, the Superintendent made the decision not to reduce the size of the Command Evaluation Office. After careful review of available end strength authorizations and funding authority, the Superintendent has decided that no additional personnel will be assigned to the Command Evaluation Office. Priority will be given to review of those areas of highest interest to the Superintendent. Action completed 1 August 1995.

Department of the Navy Comments

11. Direct the Command Evaluation Officer to develop and maintain a set of written procedures for staff members to facilitate performance of all Command Evaluation and Review Program functions.

USNA Response. Concur. The finding is misleading in that it infers that the staff has no procedures to follow other than past experience. The staff has access to a number of guidelines which provide direction for the performance of reviews: DoN Command Evaluation Manual; CNO Management Control Program Manual; Naval Audit Service P-7511.3, Local Audit Function Policies and Standards; BUPERSINST 7510.1, Local Fiscal Oversight and Reviews of Nonappropriated Fund Instrumentalities; NAFI Fiscal Oversight and Internal Controls Review Training Course (10 modules); GAO Government Auditing Standards; Handbook of Internal Accounting Controls. The staff uses the experiences of past reviews as documented in the files, discussed during staff meetings, and through on-the-job training. There is a folder of audit procedures developed by the Command Evaluation Officer. However, we recognize the value of having one central set of procedures that the staff can turn to for guidance. The Command Evaluation Officer, by her own initiative, had already been working on a handbook for the office. Projected completion date: 31 March 1996.

FINDING B. PLANT PROPERTY AND MINOR PROPERTY ACCOUNTABILITY

Recommendation B. We recommend that the Superintendent, United States Naval Academy:

1. Require the Comptroller to provide a quarterly report of the work in progress account for the Superintendent's review and disposition.

USNA Response: Concur. The Comptroller will provide quarterly status reports of the work in progress account to the Superintendent or his designated representative for review and disposition. Action completed for reporting purposes 1 August 1995.

2. Require all department heads to comply with the Office of the Comptroller of the Navy Manual, volume 3, chapter 6, "Plant Property and Other Navy Property," August 1, 1994, by providing the DD Form 1342 to the Comptroller Department immediately upon receipt of any plant property.

USNA Response: Concur. The Superintendent will require all department heads to comply with the NAVCOMPT Manual. The Comptroller will forward a blank DD Form 1342 and remind

department heads of this requirement upon receipt of plant property items and charges to the work in progress account. Action completed for reporting purposes 1 August 1995.

3. Revise minor property accountability procedures to provide for a single software program for use by all minor property Responsible Officers, signature responsibility by Academy department heads, and processing all minor property procurement through the Supply Department.

USNA Response: Concur. A single software program to manage the Academy's minor property program has been locally developed and is currently under review to determine usability. An Academy instruction on minor property is currently in draft form. This instruction will require signature custody responsibility for minor property by Academy department heads. Procedures will also be implemented to ensure appropriate involvement and control by minor property personnel assigned to the Supply Department. Projected completion date for full software program implementation: 1 October 1996. Projected completion date for minor property instruction: 1 January 1996.

FINDING C. OPERATION OF THE NAVAL ACADEMY DAIRY FARM

Recommendation C. We recommend that the Superintendent, United States Naval Academy:

1. Propose congressional legislation through the Department of the Navy for the cessation of operations of the Naval Academy Dairy Farm.

USNA Response: Concur. Legislation is currently being drafted for submission. No action will be taken concerning ceasing or downsizing milking operations at the farm until such legislation has been submitted and approved. Projected completion date: 1 January 1997.

2. Develop a plan for an alternative use of the land that the Dairy now occupies that would best benefit the midshipmen and the Navy.

USNA Response: Concur. Upon approval of the proposed congressional legislation, the Academy will investigate all alternatives concerning the future of the farm and develop a plan for an alternative use of the land. Projected completion date: 1 January 1998.

Department of the Navy Comments

APPENDIX A. SCOPE AND METHODOLOGY

Adequacy of Management Controls

USNA Comments. We do not agree with the assessment that the management control program at the Academy did not ensure that material weaknesses were being identified and corrected. The point of disagreement between the DoD IG audit team and the Academy centers around the definition of the term "material" weakness. To ensure that the intent of the program is met, the Command Evaluation Officer will prepare a report for the Superintendent on the weaknesses identified by functional managers. The Superintendent will then determine which weaknesses need to be reported up the chain of command.

We also do not agree that the specific management controls were not adequate to ensure that Class 3 and 4 plant property and minor property were accounted for properly. The proper procedures were in place. The problem was one of timely compliance rather than lack of management controls.

APPENDIX F. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation Reference C.1. Monetary - \$1.6M for FY1995-2000

USNA Comments. The original amount of potential savings was based on a one-time market survey on milk and beverage prices in the Annapolis area. This figure will fluctuate on an annual basis depending on market prices. In addition, this figure does not take into account potential costs for modifications required to King Hall in order to accommodate milk and beverage delivery by civilian contractor vice the Dairy Farm. These costs have not been determined and would offset total savings. Therefore, while we do not concur with the potential monetary benefit figure, neither can we verify its accuracy.

Audit Team Members

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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