



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
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MCO 7510.2E
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MARINE CORPS ORDER 7510.2E

From: Commandant of the Marine Corps
To: Distribution List
Subj: INTERNAL AUDIT OF NONAPPROPRIATED FUND INSTRUMENTALITIES
(NAFI'S) BY THE MARINE CORPS NONAPPROPRIATED FUND AUDIT
SERVICE (MCNAFAS)

Ref: (a) MCO 7510.3D
(b) MCO 5200.24__

Encl: (1) Authorized MCNAFAS Regional Audit Offices and Designated
Areas of Responsibility
(2) Marine Corps Nonappropriated Fund Audit Service Audit
Charter
(3) MCNAFAS Internal Control Checklist

1. Purpose. To prescribe the responsibilities, standards, objectives, organization, and general policies for internal audits conducted on Marine Corps NAFI's by the MCNAFAS.

2. Cancellation. MCO 7510.2D.

3. Background. As directed by the Commandant of the Marine Corps, the mission of the MCNAFAS is to provide the CMC, commanders, and managers with independent and objective value-adding audits of Marine Corps NAFI's and other entities.

4. Authority. The Auditor General of the Navy has overall responsibility for audits within the Department of the Navy. Authority for audit of Marine Corps Nonappropriated Fund Instrumentalities is delegated to the CMC by the Secretary of the Navy and the Auditor General of the Navy. The MCNAFAS, under the operational and technical control of the CMC (P&R), is responsible for conducting internal audits of all Marine Corps NAFI's. The MCNAFAS is headed by the Director, MCNAFAS.

5. Summary of Revision

a. Introduces management assistance reviews as a new service available to commanders and NAFI management.

b. Outlines the function of the Information Systems Audit Team.

c. This Order should be read in its entirety as changes have been made throughout.

DISTRIBUTION STATEMENT A: Approved for public release;
distribution is unlimited.

6. Audit Standards. MCNAFAS conducts audits of Marine Corps NAFI's per Government Auditing Standards issued by the Comptroller General of the United States. The MCNAFAS follows the internal audit policies, methods and procedures prescribed by the DoDIG, the Auditor General of the Navy, the CMC (P&R), the Director, MCNAFAS and the Standards for the Professional Practice of Internal Auditing.

7. Audit Objective. MCNAFAS conducts internal audits of Marine Corps NAFI's with the objective of providing the cognizant commander and NAFI management personnel with value-added, constructive, independent and unbiased appraisals of NAFI policies, operations, functions and activities. These value-adding audit services include (this list is not all inclusive):

a. Evaluating the adequacy and effectiveness of NAFI internal controls and their application to safeguard and efficiently use resources;

b. Assisting management in preventing, detecting, and reporting fraud, waste, and abuse;

c. Appraising the economy and efficiency of NAFI operations;

d. Evaluating the effectiveness of NAFI programs, activities and functions;

e. Determining the integrity and reliability of financial and other data used to make management decisions and the adequacy of the policies and procedures affecting the investment and expenditure of funds;

f. Determining NAFI compliance with applicable laws, regulations and policies (Note that the MCNAFAS does not establish these policies and regulations but uses them as audit criteria to measure performance and compliance.);

g. Determining if the command's method of assessing and maintaining an internal management control system is adequate, as prescribed by reference (a);

h. Providing consulting and management assistance services to NAFI's; and

i. Participating as ex-officio members on quality management boards, ad hoc groups, advisory committees, et cetera.

8. Types of Audits. The following describes the types of audits that MCNAFAS conducts and that commanders or management may request.

a. Performance Audits

(1) Economy and Efficiency Audits---determine whether the NAFI is managing and using its resources (such as personnel, property, space) economically and efficiently; the causes of inefficiencies or uneconomical practices; and whether the entity has complied with laws and regulations concerning matters of economy and efficiency. Economy and Efficiency audits can also provide management with alternatives and solutions to help them improve operations.

(2) Program Results Audits---determine the extent to which the desired results or benefits established by laws and regulations are being achieved; assessing the effectiveness of the NAFI,

program, activity or function; and determine compliance with specific requirements of program laws and regulations or purpose for which established.

b. Financial Audits

(1) Financial Statement Audits---determine whether the financial statements of an entity present fairly the financial position, and the results of operations according to generally accepted accounting principles; and whether the NAFI has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements. This is an attestation to management's assertions on the financial statements. On occasion these audits are conducted in cooperation with an external [Government] audit agency or certified public accounting firm.

(2) Financially Related Audits---examine specific funds, elements, accounts, and items on the financial statements, financial systems, financial information, internal control systems, computer-based systems, and specific compliance requirements covered by the specific audit engagement. These audits do not attest to the financial statements taken as a whole.

c. Information System Audits---determine the adequacy of information system controls, the reliability of the systems processing methods, and compliance with regulations. Information System audits may be a part of a financial or performance audit, or they may be performed as a separate audit.

9. Frequency of Audits

a. The determination of the audit frequency of NAFI's is based on the risk factors associated with the activity or function to be audited and the judgment of the audit manager. The frequency of audits is based on a risk factor index that consists of such factors as: the adequacy and effectiveness of the internal controls; the size in relation to revenue and expenses of the NAFI; extent and adequacy of NAFI operating policies and procedures; susceptibility to fraud; results of prior audits; and the extent and results of audit coverage provided by internal quality control and local command reviews.

b. Annually, MCNAFAS regional offices prepare, audit plans for the upcoming fiscal year and one outyear. The Director, MCNAFAS will consolidate these into a central audit plan. This plan will identify the activity, branch, or function scheduled for audit. The specific objectives and the type of audit are determined during the audit survey stage. For the outyear, only the prospective activities to be audited will be identified. The audit plan is published and distributed for use by field commands after the approval of the CMC (P&R). MCNAFAS audit plans are also published as part of the Naval Audit Service (NAVAUDSVC) audit plan. Audit plans are subject to change based upon risk factors or exposure, available resources, the commander or activity's needs, and the regional director's judgment. Commands will be notified, in writing, by the respective regional director when there will be a significant deviation from the published audit plan.

10. Reporting. Audit reports identify the results of the audit to include, areas for improvement and the corrective action needed.

a. Types of MCNAFAS Audit Reports. There are four basic types of reports:

(1) Independent Auditor's Report (IAR). The IAR provides the commander with a formal written report of the audit results. It contains the objectives of the audit, scope of the audit, methodology used to accomplish the objectives and audit conclusions for each stated objective. The report also provides the commander with recommendations for the action needed to correct any material deficiencies identified. The regional office provides copies of these reports to the Director, MCNAFAS for follow-up and further distribution to program managers. The commander will receive the draft report as soon after the completion of field work (which coincides with the close of the last exit conference with command personnel) but not later than 30 working days. The final report will be published within 60 working days or 90 calendar days from the completion of field work.

(2) Management Assistance Reports (MAR). It is the primary method for reporting on management assistance visits (MAV's) (see paragraph 11 below regarding MAV's).

(3) Special Audit Reports. Special audit reports quickly notify the commander (the Director, MCNAFAS also receives a copy) of:

(a) Suspected improprieties in the NAFI audited.

(b) When quick notification and action of the commander is necessary and normal reporting procedures cannot provide the timely reporting required.

(c) The audit discloses problem areas that are outside the NAFI or the normal purview of the auditor.

(4) Audit Letter. The audit letter notifies the commander and the Director, MCNAFAS that a complete audit is not required as originally scheduled. The regional director may determine this after preliminary appraisal (survey) of an audit activity discloses the following conditions:

(a) As a result of an effective command management control program, internal controls are found satisfactory, any deficiencies noted are minor in nature and corrective action has been initiated;

(b) After examination of command reviews of the NAFI to be audited, MCNAFAS determined that further audit emphasis is not necessary; or

(c) The audit survey indicates that the materiality or potential benefit of the planned audit is no longer valid.

b. Requirement for Command Responses. Per reference (a), commanders shall take prompt action on audit recommendations and implement corrective action on findings with which they concur. Written command responses to audit findings and recommendations are an important part of any audit report. Commanders shall provide written comments to MCNAFAS auditors within 20 working days of receipt of the draft report (the regional director may approve extensions). Command responses should clearly state and explain the command's position on all elements of a finding -- on the facts, conclusions, recommendations, and if applicable, potential monetary benefits. This does not preclude the auditor from obtaining written command responses during the audit. The responses will note:

(1) Concur (action completed) -- provide a statement describing corrective action completed;

(2) Concur (action planned) -- if you concur with a recommendation, state so explicitly and advise as to the completion date for each action taken or planned in response to the recommendation; or

(3) Nonconcur -- state any nonconcurrency explicitly and provide the factual basis for the nonconcurrency.

(a) The commander should discuss with the MCNAFAS regional director any finding or recommendation with which the command does not agree and attempt to rectify the cause of nonconcurrency. Should the parties be unable to reach resolution the regional director will forward the finding to the CMC (P&R) to be resolved by the HQMC staff. OMB Circular A-50 and the Inspector General Act of 1978 require resolution of the issues within six months.

(b) If the command concurs with the opportunity for improvement and the recommendation, but does not concur with the potential monetary benefits, the command must provide the regional director with their calculations and assumptions or reasons for not agreeing to the monetary benefits.

When responses are not received by the specified date, MCNAFAS must assume the command does not concur with the finding (recommendation, opportunity for improvement, monetary benefit, et cetera).

c. Final Report. After completing the audit field work and briefing the command, the regional director issues a draft audit report to the commander. Upon receipt of the commander's response, the regional director evaluates the command's comments and prepares the auditor's comments. Management comments may be included verbatim, although obvious errors in spelling, grammar, and sentence structure shall be corrected. The regional director has the authorization to make changes to the findings and recommendations as well as to the command's comments so that MCNAFAS' reports contain only pertinent, responsive, and rational comments. The regional director will discuss changes with the command that would affect the overall context of the report or the command's position before the report's publication. The audit report is complete after insertion of the command's comment and auditor's response. The final report will be published within 90 calendar days of completion of field work.

d. Report Distribution. The commander of the NAFI audited is the addressee of the audit report. Internal command distribution of copies of the reports is the responsibility of the command. The Director, MCNAFAS also receives a copy of the report and further distributes it to the applicable program managers.

e. Release of Reports and Audit Records. All records, reports and reviews performed by the MCNAFAS are privileged information and shall not be released outside the Department of the Navy without prior approval of the CMC (P&R).

f. Repeat Findings. Auditors will identify findings that are repeat in nature. Repeat findings are those findings previously reported to the command in an IAR and concurred with, but not corrected.

11. Audit Follow-up

a. Headquarters Marine Corps follows up on all audits of Marine Corps activities and functions. The CMC (RFR) maintains the official Marine Corps automated follow-up data base for all NAF findings in the Marine Corps. Through this system correspondence is sent to commanders when there are open findings which require certification that appropriate corrective action was taken. Commanders should request an extension of time to implement corrective action only in unusual circumstances.

b. Follow up by MCNAFAS on audit findings also takes place during subsequent audits to determine if the command took action to correct the deficiencies. Those not corrected will be identified as repeat findings. On occasions the audit staff may elect to conduct follow up 120 days after the close of the initial audit (naturally, those findings that require more time will be deferred until a later date). However, MCNAFAS will follow-up all previously reported findings within two years.

12. Management Assistance. Occasionally, commanders or management may request auditing service from MCNAFAS. Such requests would generally be of an urgent or unusual nature and would not be anticipated in the annual audit plan where other management requests may be scheduled.

a. Definition. Management assistance is providing independent and professional services to the CMC, commanders, external agencies and NAFI managers, which employ the technical and analytical skills, experience, education, observations, and knowledge of MCNAFAS auditors. The types of management assistance are:

(1) Advisory services involve giving advice to command or management personnel based on existing knowledge or limited research and analysis;

(2) Consulting services include such activities as problem solving, identifying opportunities, evaluation of alternatives, feasibility studies, benchmarking and others;

(3) Ex-officio participation in quality management boards, ad hoc committees, et cetera; and

(4) Assisting investigative agencies with audit expertise.

Providing management assistance does not preclude MCNAFAS from conducting a formal audit at another time. If during a MAV the auditors discover potential or serious irregularities, they have an obligation to report it to the commander and the Director, MCNAFAS. The advisory service will terminate if improper conduct, potential fraud, or illegal acts are found; and the effort will become an audit or be referred for investigative action.

b. Reporting. MCNAFAS usually reports to the commander or requester of the assistance in written format, but oral reports may be made depending on the work objectives and the desires of the requester.

13. Quality Assurance Policy. To ensure the maintenance of the highest standards throughout the performance of NAFI audits, the

Director, MCNAFAS conducts reviews of Marine Corps NAFI audits performed by the regional offices on a regular basis. The NAVAUDSVC reviews the MCNAFAS triennially.

14. Audit Methodology

a. Notification. MCNAFAS will provide written notification at least 30 days before the commencement of an audit. The notification will include: MCNAFAS' planned arrival dates; the activities to be audited; identification of audit personnel; estimated length of the audit; any requirements for customer-prepared documentation; and administrative support requirements the audit team may have. Upon receipt of notification and per reference (a), the commander should appoint a point of contact to act as liaison between the command/management and the audit staff.

b. Entrance and Exit Conferences. Upon arrival at the command, the senior MCNAFAS auditor on site will meet with the commander or the designated command representative and NAFI personnel. The purpose of the meeting will be to discuss the intended audit, the manner in which it will occur and inquire about the command's needs and desires. Upon completion of the audit, the senior auditor on site will hold an exit conference to discuss the audit results. The exit conference provides an excellent opportunity for the commander, managers and auditors to discuss overall audit results, confirm the findings before the audit team's departure, resolve all issues and discuss the command's preliminary response.

c. On-Site Audit. While on site, the MCNAFAS auditors review internal management controls, test records and documents on a statistical and judgmental sample basis, interview cognizant NAFI management and staff, and conduct such other tests, analyses and evaluations as deemed necessary to accomplish the audit objectives. During the audit, the audit staff will apprise cognizant operating and management personnel of potential findings to get their perspective and collaboration on the development of solutions. The primary purpose for these discussions is to verify supporting facts and auditor conclusions. The staff will inform cognizant personnel of material audit findings before the scheduled exit conference, either through informal briefs or scheduled interim briefs.

15. Organization, Structure, and Control of MCNAFAS. The CMC (P&R) through the Director, MCNAFAS administers the program for the internal auditing of all NAFI's. The Director, MCNAFAS is responsible to the Head, Auditing and Review Branch of the P&R Department for the accomplishment of the organizational mission and efficient operation of the MCNAFAS. The MCNAFAS will not provide audit services to other activities without prior approval of the CMC (P&R).

a. Table of Organization. MCNAFAS is a field command reporting to CMC (P&R). Marine Corps Field Service Assignments (T/O 5050) lists the billets authorized for MCNAFAS.

b. Authorized Offices. Enclosure (1) lists the authorized regional offices and their MCC's. Additional audit offices will be authorized and staffed only upon the approval of the CMC (P&R).

c. Operational Control and Assignments

(1) The complexities of auditing, coupled with the small staff authorized and the educational requirements demand optimum

use of trained personnel. It is essential that CMC (P&R) maintains control over assignments of audit personnel. These personnel are under the operational control of the CMC (P&R) and they are assigned to the local commands for administrative purposes only. Therefore, personnel with MOS 3410 and 3441 will not be included in Quota Serial Number listings and will not be transferred or reassigned except as directed by the CMC (MMEA) and (MMA) based on the recommendations of the Director, MCNAFAS.

(2) Government auditing standards require that MCNAFAS auditors remain organizationally independent and must maintain an independent attitude and appearance. Therefore, MCNAFAS personnel will not be used for local assignments, duties, inspections or investigations without approval of the Director, MCNAFAS.

d. Administrative Matters

(1) General. Command funding to support MCNAFAS has historically been included in the command's budget baseline. Commands which host MCNAFAS audit offices are responsible for providing non-reimbursable administrative support to the maximum extent practical. To ensure regional offices receive sufficient support directors will adhere to the command's budgeting procedures. Administrative support includes, but is not limited to, the following:

(a) Adequate office space; office equipment; ADP equipment and software; and telephone other communication services. Local commands will provide ADP repairs for all MCNAFAS ADP assets, to include ADP assets that are issued by the Director, MCNAFAS and are not on local CMR's;

(b) Office supplies, technical reference materials, and other requested operation and maintenance-type support;

(c) Government-owned or leased vehicles for travel to adjacent and local commands, and for transportation to other commands when more convenient, and advantageous to the Government. This is to include operation and maintenance costs; and

(d) Required military training.

(2) Travel Audits. The CMC (P&R) funds MCNAFAS travel costs for the performance of travel audits. The Director, MCNAFAS issues budgeting and funding instructions by separate correspondence.

(3) Technical Training. The CMC (P&R) funds technical training for MCNAFAS personnel.

(4) Order-Issuing Authority. The Director, MCNAFAS and regional directors are authorized to issue temporary additional duty travel orders required in the accomplishment of their mission, citing funding authorized by the Director, MCNAFAS.

(5) Fitness Reports. The Director, MCNAFAS is the reporting senior for regional directors. Regional directors are the reporting seniors for auditors-in-charge (AIC) (or audit supervisors where there is no AIC) and the regional NCOIC. Audit supervisors are the reporting seniors for auditors under their charge and the regional director will be the reviewing officer.

(6) Applying for Marine Corps Programs. Audit personnel that apply for various Marine Corps Programs such as, Degree Completion, Warrant Officer, Limited Duty Officer will submit their applications to the CMC through the regional director and via the Director, MCNAFAS and Deputy Chief of Staff for Programs and Resources. Because of the small size of MCNAFAS, and the technical and educational requirements of MCNAFAS, it is imperative that only the best qualified are selected for the various Marine Corps programs. All personnel holding MOS 3410 or 3441 applying for any of these Marine Corps programs are required to submit the applicable package directly to the Director, MCNAFAS for endorsement.

16. MCNAFAS Relationship to Activities Audited

a. Independence. To obtain the greatest benefit of audit, the MCNAFAS organization and auditors must be free from personal and external impairments to independence. To this end, MCNAFAS is an independent field command reporting directly to the CMC (P&R).

(1) MCNAFAS auditors will not work either voluntarily or involuntarily in any capacity for a NAFI that is audited by any regional audit office. They shall not be responsible for or involved in duties related to collecting, handling, verifying or maintaining custody of NAFI assets or in any part of the NAFI operations. Complete objectivity is essential to the audit function. Thus, MCNAFAS personnel are not authorized to engage in a management or line capacity of a NAFI nor will they change, develop or install procedures, prepare records, or engage in any other activity that they normally review or appraise.

(2) MCNAFAS personnel must also ensure their dependents are not employed by or associated with a NAFI in a manner that could cause command, NAFI or other audit personnel to question the independence of the MCNAFAS audit. If the independence of a MCNAFAS auditor is questionable, the Director, MCNAFAS will make a determination to reassign the auditor to another audit team, regional office or MOS.

b. Access to Records. MCNAFAS auditors shall have access to all records, documents, personnel and material needed to accomplish the objectives of the audit. This includes, but is not limited to, personnel, books, accounts, records, files, and all other papers, things, or property belonging to or in use by the NAFI audited. Upon request command and management shall provide to the auditors, reports from inspections, internal reviews, quality assurance reviews and investigations. MCNAFAS personnel shall be afforded full and unrestricted access for verifying transactions with vendors, suppliers and the balances of securities held by depositories, fiscal agents, and custodians. A disagreement between auditors and managers as to the need for access to information will be reported through appropriate audit and command channels to the management level necessary to resolve the issue. Only the Head of the DoD Component can deny access to the area under his cognizance. Such denials will only be for reasons necessary to preserve the national security interests of the United States as set forth in the Inspector General Act, Public Law 95-452, Section 8.

17. MCNAFAS Relationship with Command Resource Evaluation and Analysis and Other Internal Quality Assurance Organizations.

Reviews conducted on NAFI's by the local command review organizations are an important part of the overall internal control of Marine Corps NAFI's. In keeping with the Comptroller

General's Government Auditing Standards, "Auditors should rely upon the work of other auditors to the extent feasible if they satisfy themselves as to the other auditor's independence, capability and performance by appropriate tests of their work or by other acceptable methods." When MCNAFAS auditors prepare their audit plans they may consider the work of the command's review organization. The audit staff may consider this work during their audit survey. MCNAFAS auditors may use the work of others if the work is considered acceptable and the MCNAFAS auditor has:

a. Verified the objectivity of the reviewing organization.

b. Reviewed the workpapers and conducted tests of the internal work conducted by either: (1) examining some of the transactions, balances, or work that internal reviewers have examined, or (2) by examining similar transactions, balances or work but not that actually examined by the internal review activity.

18. Relationship with External Audit Agencies. Besides audits conducted by the MCNAFAS, the CMC relies on the audits of the NAVAUDSVC and non-Federal auditors. The MCNAFAS will provide assistance to external agencies conducting audits of Marine Corps NAFI's upon request. The assistance can be in the form of (but not limited to) coordinating on-site audit work, providing MCNAFAS working papers, and providing personnel to assist the external agency in the performance of their audit.

19. Action

a. CMC (P&R) shall ensure:

(1) audits of Marine Corps NAFI's are conducted per this Order; and

(2) follow up of MCNAFAS audit reports is conducted per reference (a) and this Order.

b. The Director, MCNAFAS shall ensure that the policy and procedures set forth in the references and this Order are implemented;

c. Regional Directors shall ensure:

(1) their offices are operated in accordance with the provisions of this Order; and

(2) local budgets are prepared per the instructions of the host command.

d. Commanders shall:

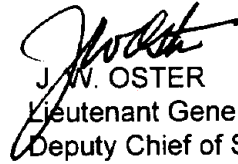
(1) designate a point of contact to act as the command liaison between the audited activity and the MCNAFAS regional office in accordance with reference (a).

(2) provide written comments to audit reports according to the provisions of paragraph 10b of this Order.

(3) provide administrative support as outlined in paragraph 15d(1) (a)-(d).

e. Commanders and NAFI management shall ensure MCNAFAS personnel have access to records according to the provisions of paragraph 16b.

20. Reserve Applicability. This Order is not applicable to the Marine Corps Reserve.



J.W. OSTER
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AUTHORIZED MCNAFAS REGIONAL AUDIT OFFICES AND
DESIGNATED AREAS OF RESPONSIBILITY

| <u>OFFICE/LOCATION</u> | <u>MCC</u> | <u>AREAS OF RESPONSIBILITY</u> |
|--|------------|---|
| <u>NORTHEAST REGION</u> MCCDC, Quantico, VA | U9U | HQMC Henderson Hall, Arlington, VA MB 8th & I, Washington, DC MCCDC, Quantico, VA 1st MCD, Garden City, NY 9th MCD, Kansas City, MO Richards-Gebaur Memorial Airport, Kansas City, MO MSFCO Keflavik, Iceland MSFCO London, England MSFCO Naples, Italy |
| <u>SOUTHEAST REGION</u> MCB, Camp Lejeune, NC | U9X | MCB, Camp Lejeune, NC MCAS, Cherry Point, NC MCAS (H), New River, NC Camp Elmore, VA MSFCO GTMO, Cuba |
| <u>SOUTHERN REGION</u> MCAS, Beaufort, SC | UA0 | MCAS, Beaufort, SC MCRD/ERR, Parris Island, SC MCLB, Albany, GA |
| <u>WESTERN REGION</u> MCB, Camp Pendleton, CA | UA6 | MCB, Camp Pendleton, CA MCAGCC, Twentynine Palms, CA MCLB, Barstow, CA MCAS, El Toro, CA MCAS, Tustin, CA MSFCO, Bremerton, WA |
| <u>SOUTHWEST REGION</u> MCRD, San Diego, CA | UA7 | MCRD, San Diego, CA MCBH, Kaneohe Bay, HI MCAS, Yuma, AZ MCAS, Miramar (once established) |
| MCB, Camp S. D. Butler | UAG | MCB, Camp S. D. Butler, JA MCAS, Iwakuni, JA Camp Fuji, JA |
| Information Systems Audit Team | UGA | All Marine Corps NAFI's |

ENCLOSURE (1)

MARINE CORPS NONAPPROPRIATED FUND AUDIT SERVICE
AUDIT CHARTER

(a) Policy Statement. It is the policy of the Marine Corps Nonappropriated Fund Audit Service (MCNAFAS) to maintain an audit capability as a means of providing the Commandant of the Marine Corps, the Marine Corps Nonappropriated Fund Board of Directors, and all levels of management with information to assist in the control of operations and to assist senior management in reaching a conclusion concerning the overall control over assets and the effectiveness of the system of internal control in achieving its broad objectives. Additionally, the MCNAFAS will review the effectiveness and efficiency of operations and organizational structures. A complementary objective of the MCNAFAS is to develop personnel.

(b) Responsibility of the Director, MCNAFAS. The Director, MCNAFAS is responsible for properly managing the department so that (1) audit work fulfills the purposes and responsibilities established herein; (2) resources are efficiently and effectively employed; and (3) audit work conforms to the generally accepted government auditing standards, and the Standards for the Professional Practice of Internal Auditing.

(c) Reporting and Relationship to the Commandant of the Marine Corps. The Director, MCNAFAS will report to the Commandant through the DC/S, P&R for approval on audit scope, policy and administration. The Director will report in writing on all internal audits conducted in the Marine Corps and will attend the meetings of the Marine Corps Nonappropriated Fund Board of Directors to advise the Director, Fiscal Division and report on significant recommendations and the operations of the internal audit function.

(d) Independence. Independence is essential for effective operation of the internal audit function. It is the policy of the MCNAFAS, therefore, that all audit activities shall remain free of influence by any organizational elements. This shall include such matters as the scope of audit programs, the frequency and timing of examinations, and the content of audit reports.

(e) Scope of Audit Activities. Audit coverage will encompass, as deemed appropriate by the Director, MCNAFAS, independent reviews and evaluations of any and all management operations and activities to appraise: measures taken to safeguard assets, including tests of existence and ownership as appropriate; the reliability, consistency, and integrity of financial and operating information; compliance with policies, plans, standards, laws, and regulations that could have significant impact upon operations; economy and efficiency in the use of resources; effectiveness in the accomplishment of the mission, objectives, and goals established for the activities operations and projects. Audit activities will be coordinated, to the extent possible, with the public accountants and other audit agencies so as to enhance audit efficiency.

(f) Access and Confidentiality. In accomplishing his activities, the Director, MCNAFAS and his staff are authorized to have full, free, and unrestricted access to all Marine Corps functions, activities, operations, records, data files, computer programs, property, and personnel that may have an affect on the activity under audit. Under appropriate circumstances, the Director, MCNAFAS is specifically authorized to communicate directly to the Commandant, or the Marine Corps Nonappropriated Fund Board of Directors. It is expected that the Director, MCNAFAS and his staff will exercise discretion in the review of records to ensure the confidentiality of all matters that come to their attention.

ENCLOSURE (2)

(g) **Responsibility For Corrective Action.** The commander, manager and/or head of the organization, activity, department, function, or site audited is responsible for seeing that corrective action on concurred-in recommendations made or deficient conditions reported by the auditor is planned and taken. If the proper corrective action is not taken, the Director, MCNAFAS is responsible for presenting a report on significant matters to the program manager, Marine Corps Nonappropriated Fund Board of Directors, or the Commandant of the Marine Corps (P&R).

(h) **Limitation of Authority and Responsibility.** In performing their functions, the Director, MCNAFAS and the MCNAFAS audit staff members have neither direct authority over, nor responsibility for, any of the activities reviewed. Internal auditors will not develop and install procedures, prepare records, make management decisions, or engage in any other activity which could be reasonably construed to compromise their independence. However, in connection with the complementary objectives of this audit function, Internal Audit may recommend policies and procedures for approval and implementation by appropriate management. Therefore, internal audits do not in any way substitute for other activities or relieve other persons in the organization of the responsibilities assigned to them.

ENCLOSURE (2)

MCNAFAS Internal Control Checklist

1. Function, Program, or Assessable Unit: Internal Audits of NAFI's
2. Applicable Guidance: MCO 7510.2E
3. Unit Functions and Responsibilities:
 - a. Has the commander appointed a point of contact to act a liaison between the command and the MCNAFAS regional office?
(1) Yes ____ (2) No ____
 - b. Has the command provided written comments to the auditor's reports?
(1) Yes ____ (2) No ____
 - c. Do the comments indicate whether the command concurs or nonconcurrs with the findings contained in the audit report?
(1) Yes ____ (2) No ____
 - d. Has the command responded to the report within the specified time frame?
(1) Yes ____ (2) No ____
 - e. Has the command provided administrative support to the audit team or regional office as applicable?
(1) Yes ____ (2) No ____
 - f. Have concurred-in recommendations been implemented or verified?
(1) Yes ____ (2) No ____
 - g. Has the MCNAFAS audit team been granted access to NAF activities and records as specified in the Order?
(1) Yes ____ (2) No ____
 - h. Are NAFI management and personnel aware of the access rights granted to MCNAFAS?
(1) Yes ____ (2) No ____

ENCLOSURE (3)