



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
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WASHINGTON DC 20350-3000

MCO 7510.2F
P&R (MCNAFAS)
08 Oct 2024

MARINE CORPS ORDER 7510.2F

From: Commandant of the Marine Corps
To: Distribution List

Subj: INTERNAL AUDIT OF NONAPPROPRIATED FUND INSTRUMENTALITIES
BY THE MARINE CORPS NONAPPROPRIATED FUND AUDIT SERVICE
(MCNAFAS)

Ref: (a) Government Auditing Standards (GAO)
(b) SECNAV M-5214.1
(c) SECNAV M-5210.1 w/CH-1
(d) MCO 5210.11F
(e) 5 U.S.C. § 552a
(f) SECNAVINST 5211.5F
(g) MCO 5215.1K w/Admin CH-1

Encl: (1) Authorized Marine Corps Nonappropriated Fund Audit
Service (MCNAFAS) Regional Audit Offices and
Designated Areas of Responsibility

Reports Required: I. Independent Auditor's Report (IAR)
II. Special Audit Report
III. Audit Letter

1. Situation. Marine Corps Nonappropriated Fund Instrumentalities (NAFIs) are established worldwide to give Marines, their families, and other authorized patrons access to programs similar to those available in a comparable civilian community. Marine Corps NAFIs are resourced through appropriated funds, nonappropriated funds, or a combination of both. This Order provides information, guidance, policy, and procedures concerning the conduct of internal audits of Marine Corps NAFIs by the Marine Corps Nonappropriated Fund Audit Service (MCNAFAS). This revision is a substantial change to MCO 7510.2E. This Order is in accordance with references (a) through (g).

2. Cancellation. MCO 7510.2E.

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

3. Mission. The mission of the MCNAFAS is to provide the Commandant of the Marine Corps (CMC), commanders, and managers with independent and objective value-added audits of Marine Corps NAFls and other entities. MCNAFAS carries out the Marine Corps NAFl audit function under the operational and technical control of the Director, Marine Corps Nonappropriated Fund Audit Service (DIR MCNAFAS).

4. Execution

a. Commander's Intent and Concept of Operations

(1) Commander's Intent. To protect the image of the Marine Corps; add value to NAFl Programs; improve processes; strengthen internal controls; ensure compliance with laws and regulations; safeguard assets; and mitigate fraud, waste, abuse, and mismanagement.

(2) Concept of Operations

(a) Audit Standards. MCNAFAS conducts independent audits of Marine Corps NAFls per reference (a) and in accordance with the policies prescribed by the DIR MCNAFAS.

(b) Audit Objectives. To provide the cognizant commander and NAFl management personnel with value-added, constructive, independent, and unbiased appraisals of NAFl policies, operations, functions, and activities. These audit services include:

1. Evaluating the adequacy and effectiveness of internal controls and their application to safeguard assets and efficiently use resources.

2. Evaluating policies and procedures for preventing, detecting, and reporting fraud, waste, and abuse.

3. Appraising the economy and efficiency of operations.

4. Evaluating the effectiveness of programs, activities, and functions.

5. Evaluating the integrity and reliability of financial, operational, and other data used to make management

decisions and the adequacy of the policies and regulations affecting the investment and expenditure of funds.

6. Determining compliance with applicable laws, regulations, and policies.

7. Providing consulting and management assistance services.

8. Participating as ex-officio members on quality management boards, ad-hoc groups, advisory committees, etcetera.

(c) Audits and Other Services Provided. The following describes the types of audits and other services that MCNAFAS conducts, and that commanders or management may request.

1. Performance Audits. Provide an objective analysis to improve operations and program performance, reduce costs, and facilitate decision-making by those parties responsible for overseeing or initiating corrective action.

a. Economy and Efficiency Audits. Determine whether an entity is acquiring, protecting, and using its resources in the most productive manner to achieve program objectives.

b. Program Results Audits. Determine the extent to which a program is achieving its goals and objectives.

2. Financial Audits. Provide independent attestation of an entity's reported financial condition.

a. Financial Statement Audits. Determine whether: the financial statements present fairly the financial position and the results of operations in accordance with the applicable financial reporting framework; the internal control structure over financial reporting and safeguarding of assets is suitably designed and implemented; and compliance with the laws and regulations for those transactions and events that may have a material effect on the financial statements.

b. Other Related Financial Audits. Provide for different levels of assurance and entail various scopes of work to complete the specific audit engagement.

3. Follow-Up Audits. Provide an independent assessment on whether appropriate corrective action has been taken to resolve previously reported improvement opportunities. The scope of follow-up audits can encompass one or multiple Independent Auditor's Reports (IARs).

4. Agreed-Upon Procedures (AUP) Engagements - Management Assistance. Provide independent and professional services, the scope of which is dependent upon the users' needs. Providing management assistance does not preclude MCNAFAS from conducting a formal audit at another time. If in the performance of an AUP engagement or other type of management assistance the auditors discover potential or serious irregularities, they have an obligation to report it to the commander and the DIR MCNAFAS. MCNAFAS will terminate the AUP engagement/management assistance if improper conduct, potential fraud, or illegal acts are found, and the effort will become an audit or be referred for further investigative action.

(d) Frequency of Audits

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

2. MCNAFAS prepares an annual audit plan for the upcoming fiscal year. This plan identifies the activity, branch, area, segment, or function (e.g., retail, food, and hospitality) scheduled for audit, and establishes broad audit objectives. The audit plan is published and distributed for use by commanders and NAFI management personnel after approval by the DIR MCNAFAS. Audit plans are subject to change based upon risk factors or exposure, available resources, the commander or activity's needs, and the Audit Manager's judgment. Commands will be notified by the respective Audit Manager when there will be a significant deviation from the published audit plan.

3. Commanders or NAFI management personnel may request auditing services from MCNAFAS. Such requests will be

limited to urgent or unusual requirements that were not anticipated in the annual audit plan.

(e) Reporting. MCNAFAS issues three types of audit reports to communicate the results of their audits and other reviews. This reporting requirement is exempt from reports control per reference (b), part IV, paragraph 7.n.

1. Independent Auditor's Report (IAR).

Provides the commander with a formal written report of the audit results. It contains the objectives, scope, and methodology used to accomplish the objectives, and the conclusions for each stated objective. The IAR also provides the commander with recommendations for the action needed to correct any material deficiencies identified.

a. Draft Independent Auditor's Report (IAR). The commander will receive the draft IAR no later than 30 calendar days after the completion of field work (which coincides with the close of the last exit conference with NAFTI management).

b. Command Responses. Commanders shall provide a written response to MCNAFAS within 30 calendar days of receipt of the draft IAR. This does not preclude MCNAFAS from obtaining a written command response during the audit. This reporting requirement is exempt from reports control per reference (b), part IV, paragraph 7.1. Audit Managers may approve a command's request for additional time to respond. The command's response should clearly state and explain the command's position on all elements of each improvement opportunity - on the facts, conclusions, recommendations, and if applicable, potential monetary benefits - and will note either:

(1) Concur - provide a statement describing the corrective action planned or completed, the anticipated or actual completion date, a point of contact, and concurrence with potential monetary benefits identified.

(2) Non-concur - state any non-concurrence explicitly and provide the factual basis for the non-concurrence along with a point of contact.

(a) The commander should discuss with the Audit Manager any improvement opportunity or recommendation with which the command does not agree and attempt to rectify the cause of the non-concurrence. Should the parties

be unable to reach resolution, the Audit Manager will forward the improvement opportunity to the DIR MCNAFAS for resolution.

(b) If the command concurs with the improvement opportunity and recommendation, but non-concurs with the potential monetary benefits, the command must provide the Audit Manager with their calculations and assumptions or reasons for not agreeing to the monetary benefits.

(c) When the command's response is not received by the specified date, MCNAFAS assumes the command's concurrence with the improvement opportunity, recommendation, and applicable monetary benefits, and will issue the final IAR.

c. Final Independent Auditor's Report (IAR). Upon receipt of the command's response, the Audit Manager evaluates the command's comments and prepares the auditor's comments. Command comments may be included verbatim, although obvious errors in spelling, grammar, and sentence structure shall be corrected. The Audit Manager has the authority to make changes to the improvement opportunities and recommendations as well as to the command's comments so that the report contains only pertinent, responsive, and rational comments. The Audit Manager will discuss changes with the command that would affect the overall context of the IAR or the command's position before its publication. The IAR is complete after insertion of the command's response and the auditor's response. The final IAR will be published within 90 calendar days of completion of field work.

2. Special Audit Report. Issued when quick notification and action of the commander is necessary and normal reporting procedures cannot provide the timely reporting required. Special audit reports notify the commander and the DIR MCNAFAS of suspected improprieties or problem areas that are outside the NAFI or the normal purview of the auditor.

3. Audit Letter. Issued to notify the commander and the DIR MCNAFAS that a complete audit is not required as originally scheduled. The Audit Manager may determine this after the audit survey of an 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, further audit emphasis is not an efficient use of audit resources.

c. The audit risk, materiality, or potential benefit is no longer valid.

4. Report Distribution. The commander of the NAFI audited is the addressee of the report. Internal command distribution of copies of the report is the responsibility of the command. The DIR MCNAFAS also receives a copy of the report for follow-up and further distribution to the applicable program managers.

5. Release of Reports and Audit Records. All records, reports, and reviews performed by MCNAFAS are privileged information and shall not be released outside the Department of the Navy (DON) without prior approval of the Deputy Commandant for Programs and Resources (DC P&R).

(f) Audit Follow-Up

1. Follow-up on audit improvement opportunities to determine if the command took action to correct the deficiencies occurs during subsequent audits. MCNAFAS should follow-up on all previously reported improvement opportunities within two years.

2. Repeat Improvement Opportunities. Auditors will identify improvement opportunities that are repeat in nature. Repeat improvement opportunities are those previously reported to the command in an IAR and concurred with but not corrected.

(g) Quality Assurance Policy. To ensure MCNAFAS maintains the highest professional standards, and compliance with legal and regulatory requirements throughout the performance of NAFI audits and other services:

1. The DIR MCNAFAS conducts internal quality control and assurance reviews of Marine Corps NAFI audits and other services performed by the regional offices on a regular basis.

2. Independent external peer reviews are conducted on MCNAFAS per reference (a).

(h) Audit Methodology

1. Notification. MCNAFAS will provide written notification at least 30 calendar days before the commencement of an audit. The notification will include: the planned arrival date; the activities to be audited; the audit scope and objectives; audit personnel; estimated audit length; customer-prepared documentation; and administrative support requirements. Upon receipt of notification, the commander will appoint a point of contact to serve as the liaison between the command/management and the audit staff.

2. Entrance and Exit Conferences. Upon arrival at the command, MCNAFAS 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 the command's audit needs and desires. Upon completion of the audit, the Audit Manager or designated representative will hold an exit conference to discuss the audit results. The exit conference provides the opportunity for the commander, managers, and auditors to discuss the overall audit results, confirm the improvement opportunities before the audit team's departure, resolve all issues, and discuss the command's preliminary response.

3. On-Site Audit. While on-site, MCNAFAS auditors interview cognizant NAFI management and staff, review internal management controls, test records and documents, 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 improvement opportunities to get their perspective and collaboration on the development of solutions. The primary purpose of these discussions is to verify supporting facts and auditor conclusions. The audit staff will inform cognizant personnel of material audit improvement opportunities before the scheduled exit conference, either through informal briefs or scheduled interim briefs.

(i) Organization and Structure of Marine Corps Nonappropriated Fund Audit Service (MCNAFAS). MCNAFAS is organized into a headquarters office and two regional offices. Enclosure (1) lists the authorized regional offices and their designated areas of responsibility. Each regional office

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includes Audit Managers who report to the Senior Auditor. These offices are attached to local commands for administrative purposes only.

1. Operational Control. Reference (a) requires MCNAFAS auditors remain organizationally independent and maintain an independent attitude and appearance. Therefore, MCNAFAS personnel will not be assigned responsibilities or used for local assignments, duties, inspections, or investigations without approval of the DIR MCNAFAS.

2. Administrative Matters

a. General. Commands which host MCNAFAS regional audit offices are responsible for providing non-reimbursable administrative support to the maximum extent practical. Funding to administratively support MCNAFAS is included in the command's budget baseline. To ensure regional audit offices receive sufficient support, Audit Managers will adhere to the command's budgeting procedures. Administrative support includes, but is not limited to:

(a) Adequate office space; office equipment; and telephone and other communication services.

(b) Office supplies; janitorial/custodial support; technical reference materials; and other requested operations and maintenance-type support.

(c) Vehicles owned or leased by the government, to include operation and maintenance costs, for travel to adjacent and local commands, and for transportation to other commands when more convenient and advantageous to the Government.

b. Personnel. DC P&R funds MCNAFAS personnel costs.

c. Travel Audits. DC P&R funds MCNAFAS travel costs for the performance of travel audits. The DIR MCNAFAS issues budgeting and funding instructions by separate correspondence.

d. Technical Training. DC P&R funds technical training for MCNAFAS personnel.

e. Order-Issuing Authority. The DIR MCNAFAS and Audit Managers are authorized to issue temporary additional duty travel orders required in the accomplishment of their mission, citing funding authorization by the DIR MCNAFAS.

(i) Relationship to Activities Audited

1. Independence. Reference (a) requires the MCNAFAS organization and individual auditor to be independent. To that end, MCNAFAS is an independent field command reporting to the Assistant Deputy Commandant for Programs and Resources (ADC P&R), and has implemented the following safeguards to eliminate or reduce to an acceptable level, threats to independence.

a. MCNAFAS auditors will not work for a NAFI that is audited by any regional audit office in any capacity that would question their independence. They will not be assigned responsibilities or duties (e.g., collection, handling, verifying, or maintaining custody of NAFI assets) related to any NAFI operation under MCNAFAS' audit cognizance. Complete objectivity is essential to the audit function. Thus, MCNAFAS auditors are not authorized to engage in a NAFI management or line capacity, nor will they change, develop, or install procedures, prepare records, or engage in any other activity that they normally review or appraise.

b. MCNAFAS personnel must also ensure their dependents are not employed by or associated with a NAFI in a manner that could cause the command, NAFI, or other audit personnel to question their audit independence. If independence is questionable, the Audit Manager will remove the auditor from the assignment.

2. 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 or property belonging to, or in use by, the NAFI under audit. Upon request, the command and management shall provide the auditors with inspection, internal review, quality assurance review, and investigation reports. 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. Any disagreement between auditors and managers as to the need for access to information

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will be reported through appropriate audit and command channels to the management level necessary to resolve the issue.

(j) Relationship with Command Resource Evaluation and Analysis and Other Internal Quality Assurance Organizations. Effective resource management and internal controls reviews conducted on NAFIs by the local command review organizations are an important part of the overall internal control of Marine Corps NAFIs. Per reference (a), 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.

(k) Relationship with External Audit Agencies. The CMC relies on the audits of the Department of Defense Inspector General, Naval Audit Service, and other federal and non-federal auditors. MCNAFAS will provide assistance to external agencies conducting audits of Marine Corps NAFIs 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.

b. Subordinate Element Missions

(1) Deputy Commandant for Programs and Resources (DC P&R). DC P&R shall ensure audits of Marine Corps NAFIs are conducted in accordance with this Order.

(2) Director, Marine Corps Nonappropriated Fund Audit Service (MCNAFAS). The DIR MCNAFAS shall ensure the policy and procedures set forth in this Order are implemented.

(3) Audit Managers. Audit Managers shall ensure:

(a) Their offices are operated per the provisions of this Order; and,

(b) Local funding budgets are prepared per the instructions of the host command.

5. Administration and Logistics

a. Records Management. Records created as a result of this Order shall be managed according to National Archives and Records Administration (NARA)-approved dispositions in reference

(c), SECNAV M-5210.1 w/CH-1, to ensure proper maintenance, use, accessibility, and preservation, regardless of format or medium. Records disposition schedules are located on the Department of the Navy/Assistant for Administration (DON/AA), Directives and Records Management Division (DRMD) portal page at: <https://portal.secnav.navy.mil/orgs/DUSNM/DONAA/DRM/Records-and-Information-Management/Approved%20Record%20Schedules/Forms/AllItems.aspx>. Refer to reference (d), MCO 5210.11F, for Marine Corps records management policy and procedures.

b. Privacy Act. Any misuse or unauthorized disclosure of Personally Identifiable Information (PII) may result in both civil and criminal penalties. The DON recognizes that the privacy of an individual is a personal and fundamental right that shall be respected and protected. The DON's need to collect, use, maintain, or disseminate PII about individuals for purposes of discharging its statutory responsibilities shall be balanced against the individuals' right to be protected against unwarranted invasion of privacy. All collection, use, maintenance, or dissemination of PII shall be in accordance with the Privacy Act of 1974, as amended [reference (e)] and implemented per reference (f).

c. Forms. There are no forms used in this Order.


d. Updates. Updates made to this Order shall be done in accordance with the current iteration of reference (g).

e. Recommendations. Recommendations concerning the contents of this Order are welcomed and may be forwarded to DC P&R (MCNAFAS) via the appropriate chain of command.

6. Command and Signal

a. Command. This Order is not applicable to the Marine Corps Reserve.

b. Signal. This Order is effective the date signed.


J. H. ADAMS
Deputy Commandant for
Programs and Resources

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Authorized Marine Corps Nonappropriated Fund Audit Service
(MCNAFAS) Regional Audit Offices and Designated Areas of
Responsibility

Office/Location	MCC	Areas of Responsibility
Eastern Region		
MCB, Camp LeJeune, NC	U9X	HQMC
		Henderson Hall, Arlington, VA
		MB 8th and I, Washington, DC
		MCB, Quantico, VA
		MCB, Camp LeJeune, NC
		MCAS, Cherry Point, NC
		MCAS, New River, NC
		Camp Allen, Norfolk, VA
		MCAS, Beaufort, SC
		MCRD/ERR, Parris Island, SC
		MCLB, Albany, GA
Western Region		
MCB, Camp Pendleton, CA	UA6	MCB, Camp Pendleton, CA
		MCAGCC, Twentynine Palms, CA
		MCLB, Barstow, CA
		MCRD/WRR, San Diego, CA
		MCAS, Miramar, CA
		MCB, Camp S. D. Butler, JA
		MCAS, Iwakuni, JA
		Camp Fuji, JA
		MCB, Hawaii

APPENDIX A

Glossary of Acronyms and Abbreviations

ADC P&R	Assistant Deputy Commandant for Programs and Resources
AUP	Agreed-Upon Procedures
CA	California
CMC	Commandant of the Marine Corps
DC	District of Columbia
DC P&R	Deputy Commandant for Programs and Resources
DIR MCNAFAS	Director, Marine Corps Nonappropriated Fund Audit Service
DON	Department of the Navy
DON/AA	Department of the Navy/Assistant for Administration
DRMD	Directives and Records Management Division
GA	Georgia
GAO	Government Accountability Office
HQMC	Headquarters Marine Corps
IAR	Independent Auditor's Report
JA	Japan
MB	Marine Barracks
MCAGCC	Marine Corps Air Ground Combat Center
MCAS	Marine Corps Air Station
MCB	Marine Corps Base
MCC	Monitored Command Code
MCLB	Marine Corps Logistics Base
MCNAFAS	Marine Corps Nonappropriated Fund Audit Service
MCO	Marine Corps Order
MCRD/ERR	Marine Corps Recruit Depot/Eastern Recruiting Region
MCRD/WRR	Marine Corps Recruit Depot/Western Recruiting Region
NAFI	Nonappropriated Fund Instrumentality
NARA	National Archives and Records Administration
NC	North Carolina
PII	Personally Identifiable Information
SC	South Carolina
SECNAV	Secretary of the Navy
SECNAVIST	Secretary of the Navy Instruction
U.S.C.	United States Code
VA	Virginia