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# Naval Audit Service



## Audit Report



# Project Handclasp Internal Controls

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**N2011-0035**  
**19 May 2011**

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19 May 11

MEMORANDUM FOR DIRECTOR FOR INTERNATIONAL ENGAGEMENT,  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
(N52)  
DIRECTOR, PROJECT HANDCLASP

Subj: **PROJECT HANDCLASP INTERNAL CONTROLS (AUDIT REPORT N2011-0035)**

Ref: (a) Naval Audit Service Memorandum 7510 N2010-NMC000-0132.000, dated 6 Apr 10  
(b) Naval Audit Service Memorandum 7510 N2010-NMC000-0132.000, dated 23 June 10  
(c) Secretary of the Navy Instruction 7510.7F, "Department of the Navy Internal Audit"

Encl: (1) Status of Recommendations  
(2) Pertinent Guidance  
(3) Scope and Methodology  
(4) Comparison of Project Handclasp Costs from Fiscal Years (FYs) 2007 through 2009  
(5) Management Response from the Director, International Engagement, Office of the Chief of Naval Operations (N52)  
(6) Management Response from the Director, Project Handclasp

**1. Introduction.** This report provides the Director for International Engagement (Office of the Chief of Naval Operations (N52)) with the results and recommendations of our audit of Project Handclasp, as announced in reference (a) and reannounced in reference (b). Project Handclasp is a Navy program that delivers goods to needy people worldwide on deploying Navy ships. We concluded that Project Handclasp met its mission requirements. However, the program's resource management and its custodial controls over the Project Handclasp Foundation Inc.'s<sup>1</sup> donated assets of cash and materials needed improvement. We also found the agreement between the Project Handclasp Foundation, Inc. and the Navy did not have an effective date, nor was it signed

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<sup>1</sup> Project Handclasp Foundation, Inc. is a nonprofit corporation that supports the Navy's Project Handclasp program by taking legal title to all donations intended for distribution.

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by the current stakeholders. The conditions occurred because the key Chief of Naval Operations oversight document (Chief of Naval Operations Instruction 5726.3D) did not contain sufficient requirements to ensure effective and efficient management of the program, or that the agreement be signed and periodically reviewed and updated for changes in responsible parties or responsibilities. We analyzed Project Handclasp resource requirements, which included contracted Navy services, travel, and supplies, and the Program's controls over Foundation assets of donated money and materials, for the period Fiscal Year 2007 through the second quarter of Fiscal Year 2010. The conditions noted existed during the period reviewed. The results of our audit work are presented in Paragraph 7: Audit Results and Conclusions.

**2. Communications with Management.** We held discussions with the Deputy to the Director of International Engagement and the Security, Cooperation, and Assessments Branch Head at the Chief of Naval Operations (N52) and with the Project Handclasp Program Director throughout the audit, and briefed the audit results on 1 December 2010 and 14 December 2010, respectively.

**3. Reason for Audit.**

a. The audit objective was to verify that Project Handclasp internal controls ensured efficient and effective use of people and funding resources.

b. This audit was requested by the Director for International Engagement (Chief of Naval Operations (N52)), who assumed primary responsibility for the management and resourcing of Project Handclasp operations from Office of the Chief of Naval Operations (Director, Navy Staff) (DNS-3) effective 1 February 2009, and wanted an audit of Project Handclasp's financial and manpower management.

**4. Background.**

a. Project Handclasp, an official Chief of Naval Operations activity since 1959, receives, transports, and coordinates the delivery of humanitarian, educational, and goodwill material items donated by the public through the Project Handclasp Foundation.<sup>2</sup> Project Handclasp palletizes these donated goods and distributes them to needy people around the world on deploying Navy ships, when space is available, using active duty Navy and Marine Corps personnel assigned to those ships. Project Handclasp also receives, accounts for, and deposits donated cash, and issues donor thank-you and acknowledgement letters on behalf of the Foundation. Project Handclasp cash donations averaged approximately \$21,000 per year from 2007 through 2009, while the average

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<sup>2</sup> Examples of donated items include dehydrated high-nutrition meals, medical supplies, school supplies, books, wheel chairs, treadle sewing machines, toys, and fire trucks.

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value of donated goods averaged approximately \$3.7 million per year.<sup>3</sup> Project Handclasp is headquartered in San Diego, CA.

b. Project Handclasp has nine employees: the Project Handclasp Director, operations coordinator, public private cooperation officer, three shipping coordinators, two warehouse staff, and one administrative person. In Fiscal Year 2010, Project Handclasp had a planned administrative budget of \$190,000. The Project Handclasp Director is a Department of the Navy civilian, while one of the shipping coordinators is a contractor paid for with funds provided to the program by one of the Unified Combatant Commanders. The remaining seven employees are active duty Sailors permanently assigned to Project Handclasp.

- The Project Handclasp Director executes Chief of Naval Operations policy; is responsible for day-to-day operations and effective management of the Project Handclasp program; and serves as the Navy's liaison to the private sector, other government entities, and the Foundation.
- The operations coordinator, working with the Project Handclasp Director, participates in Project Handclasp operations, including receiving donations, providing logistical support, and assisting in the distribution of shipments. The operations coordinator also monitors all shipping coordinators and performs general administrative work.
- The three Project Handclasp shipping coordinators assist in the collection, transportation, and distribution of material to five geographical areas of operations (Asia-Pacific, Africa, Europe, Central Command, and the Western Hemisphere).
- The public private cooperation officer serves as a donor interface for donated goods received in the warehouse; assists shipping coordinators in determining load composition; and coordinates with donors on the receipt of loads that have already been shipped.
- Project Handclasp warehouse personnel receive donated material; conduct inventories; and palletize and prepare donated goods for shipment.
- The Project Handclasp administrative person serves as the administrator for the Project Handclasp headquarters office; tracks all material in-kind and monetary donations; picks up mail; deposits donations on behalf of the Foundation; prepares cost spreadsheets for both Project Handclasp and the Foundation; prepares all donor thank-you letters; and is the approving official for the Project Handclasp Government-wide Commercial Purchase Card.

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<sup>3</sup> Donated goods for 2007, 2008, and 2009 totaled approximately \$1.6 million, \$3.5 million, and \$6 million, respectively.

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5. **Noteworthy Accomplishments.** As a result of this audit, Project Handclasp administrative personnel revised the Incoming Receipt Log<sup>4</sup> to perform monthly reconciliation between the check received date, the date the check was deposited, deposit slips, and bank statements. The reconciliation between the Incoming Receipt Log and monthly and quarterly bank records, including deposit slips, should help ensure that all monetary donations received on behalf of the Foundation are properly recorded.

6. **Federal Managers' Financial Integrity Act.** The Federal Managers' Financial Integrity Act of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify the effectiveness of the agency's internal and accounting system controls. We identified internal control weaknesses in Project Handclasp's resource management and custodial management of the Foundation assets. In our judgment, the weaknesses noted in this report are not systemic to the Navy and do not warrant reporting in the Auditor General's Annual Federal Managers' Financial Integrity Act memorandum to the Secretary of the Navy.

7. **Audit Results and Conclusions.** Although Project Handclasp appeared to have effectively met its mission requirements, there were opportunities to improve governance over the program. Specifically:

- Controls over program resources, and tracking and monitoring of program costs, needed improvement;
- Controls over donated monetary and inventory assets were not sufficient; and
- The Memorandum of Understanding<sup>5</sup> was undated (contrary to Secretary of the Navy guidance) and was not signed by the current stakeholders;

Federal and Department of Defense guidance require management to have controls in place to ensure effective and efficient operations and to provide assurance that significant weaknesses are prevented or detected in a timely manner. The conditions noted occurred because the Program Director did not measure mission and budget performance or have documented procedures for key personnel to ensure the most effective and efficient operational and custodial management of the program. Further, Chief of Naval Operations Instruction 5726.3D does not provide specific guidance that requires the Project Handclasp Director to develop more robust controls to manage the program's resources and safeguard the Foundation's assets, nor does it require a periodic review of the Memorandum of Understanding to ensure it reflects the current stakeholders and agreed-to processes. As a result, the Department of the Navy did not have full assurance

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<sup>4</sup> This tracks both monetary and material donations received on behalf of the Foundation.

<sup>5</sup> The memorandum of understanding between the U.S. Navy's Project Handclasp and Project Handclasp Foundation, Inc. defines the arrangement concerning the respective tasks and functions of Project Handclasp and that of the Foundation.

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that Project Handclasp is making the most efficient use of its resources, or that donated assets were sufficiently safeguarded against potential fraud, waste, or abuse.

a. **Control over Program Resources.** Based on our random sampling of shipments (please see Enclosure (3) for the details of the sampling methodology), we determined that Project Handclasp had met its shipment responsibilities, as there was no backlog of shipments and sampled shipments went to the intended recipients by the assigned ships. However, based on our review of controls over program resources, we concluded there was no assurance the mission was accomplished in the most efficient manner. Details follow.

(1) **Recording Cost Information.** Project Handclasp's administrative and operating cost information<sup>6</sup> contained in the program's records for Fiscal Year 2007 through the second quarter of Fiscal Year 2010 was not sufficiently recorded and tracked. Federal and Department of Defense financial management guidance require activities to properly track and monitor their operating expenditures, as well as establish performance indicators for the comparison of actual program results to maintain effective internal controls. Project Handclasp's cost summary spreadsheets should be recorded and updated with actual costs. We found the following data entry and math errors in the Project Handclasp cost spreadsheets: Fiscal Year 2007 costs should have been \$58,739.45, but were recorded as \$62,626.39; Fiscal Year 2008 costs should have been \$111,862.35, but were recorded as \$116,952.60; and Fiscal Year 2009 costs were recorded as \$148,885.43, but should have been recorded as \$151,583.84.

(2) **Administrative and Operating Costs.** For the entire period from 2007 through 2009, overall administrative and operating costs for Project Handclasp increased at a higher rate compared to its mission output (i.e., pallets shipped). (See Table 1 for the comparison of increases in costs to pallets shipped for Fiscal Year 2007 through Fiscal Year 2009.) Project Handclasp's administrative and operating costs are grouped into three cost categories: contracted Navy services,<sup>7</sup> travel, and shipping/office supplies. For additional information on the increases or decreases for those three individual cost categories and their components, including pallets shipped, see Enclosure (4).

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<sup>6</sup> These administrative and operating costs include all costs, fixed and variable, used by Project Handclasp at the program level to run the program, and do not include military and civilian labor costs or other Chief of Naval Operations cost outside the budgeted program that provide indirect support to the program.

<sup>7</sup> As part of our initial analysis (see Enclosure 2), we found these costs to have increased at a reasonable percentage compared to travel and supply costs (Enclosure 4 provides details). Therefore, we did not perform a detailed analysis of contracted Navy services costs.

**Table 1: Comparison of Administrative and Operating Costs<sup>8</sup> to Pallets Shipped**

<b>Comparison of Increases in Costs to Pallets Shipped (Fiscal Year 2007 through Fiscal Year 2009)</b>		
<b>Fiscal Year 2007 to Fiscal Year 2008:</b>		
Costs increased	\$58,739 to \$111,862	90 percent
Pallets shipped increased	750 Pallets to 1,059 Pallets	41 percent
<b>Fiscal Year 2008 to Fiscal Year 2009:</b>		
Costs increased	\$111,862 to \$151,584	36 percent
Pallets shipped increased	1,059 Pallets to 1,658 Pallets	57 percent
<b>Totals from Fiscal Year 2007 to Fiscal Year 2009:</b>		
Costs increased	\$58,739 to \$151,584	158 percent
Pallets shipped increased	750 Pallets to 1,658 Pallets	121 percent

(a) **Travel Costs.** We determined that 2009 travel was the cost category that increased the most as a percentage of total non-labor administrative and operating cost during this period. Specifically, travel costs increased from \$7,190 in 2008 to \$37,915 in 2009 -- an increase of over 427 percent. According to the Project Handclasp Director, the significant increases were due to new coordination initiatives with non-government organizations, host nation governments, U.S. embassy representatives, combatant command organizers, and shipboard representatives. Most of the travel increases were incurred by one shipping coordinator who was also responsible for attending the initial, mid-shipment, and final pre-sail load coordination conferences for the planned shipments inside or outside the Continental United States.<sup>9</sup> According to the Project Handclasp Director, this type of coordination activity did not incur travel costs in Fiscal Year 2007 because the program did not have a travel budget. The Director told us that the travel expense increases were because the program was expanding and building partnerships to meet current Maritime Strategy, so more coordination was needed than in past years. When compared to increases in pallets shipped, although some increases in travel costs from 2008 to 2009 are reasonable, alternative means, such as video teleconferencing or teleconferencing, could have been used to save travel expenses in some coordination situations. (Teleconferencing had, in fact, been done in previous years when the program was smaller in scope and did not have a travel budget.) Project Handclasp had not implemented a policy to describe travel coordination and planning, including historical travel records to show trends. Without such a policy, the travel cost category is very discretionary and difficult to budget.

<sup>8</sup> This comparison excludes labor costs.

<sup>9</sup> Countries visited for the three trips outside the Continental United States during Fiscal Year 2009 (11/5/2008, 3/28/2009, and 9/28/2009) included Germany, Brazil, Italy, Tanzania, and Senegal.

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(b) **Supply Costs.** Shipping/office supplies cost was another area that increased significantly more (as a percentage) than pallets shipped during this period (i.e., from \$19,675 in 2007 to \$65,239 in 2008, an increase of about 232 percent). Over half of these purchases in 2008 encompassed shipping supplies consisting of pallets and tri-walled boxes (e.g., \$37,253 of \$65,239, or 57 percent). The increase in shipping supplies purchased from 2007 to 2008<sup>10</sup> and from 2008 to 2009<sup>11</sup> was at least partially caused by the increase in the number of pallets shipped. However, without establishing supply and shipping metrics, as well as, operating procedures to track the supply cost to shipping production, the program runs the risk of overstocking supplies. (See Enclosure (4) for details on specific increases for travel and supply costs.)

(3) **Personnel Resources.** We concluded personnel staffing levels effectively and efficiently achieved the mission of Project Handclasp. Although Project Handclasp management told us the Program could use additional staff, we did not identify any personnel shortages. Project Handclasp personnel normally did not work overtime, we did not find backlogs of shipments, current staffing levels were meeting mission requirements, and personnel were generally on task performing their assigned duties. However, we found that a contractor was employed to supplement the labor force. The contract labor position was funded by funds provided to the program by one of the Unified Combatant Commanders.<sup>12</sup> Although we are unable to address requirements for any additional staff, we would note that the removal or transfer of additional personnel could potentially impact program output. This is because 78 percent (or 7 of the 9) of Project Handclasp personnel stated that they work more than one job function within the program. Project Handclasp is, however, planning to create a new Chief Operating Officer position to oversee operations and the development of standard operating procedures in the future.

(4) **Purchase Card Program.** During our review of the Project Handclasp's use of its one Government Purchase Card,<sup>13</sup> we found that all 15 judgmentally selected credit card purchases had supporting documentation and maintained the required separation of duties between the requestor, approving official, and the receiving official. However, Project Handclasp did not establish an internal operating procedure for purchase cards as required by Naval Supply Systems Command Instruction 4200.99.

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<sup>10</sup> From 2007 to 2008, pallets shipped increased from 750 to 1,059 or 41 percent, while shipping supplies for pallets and tri-walled boxes increased from \$9,562 to \$37,253 or 290 percent.

<sup>11</sup> From 2008 to 2009, pallets shipped increased from 1,059 to 1,658 or 57 percent, while shipping supplies for pallets and tri-walled boxes only increased from \$37,253 to \$39,822 or 7 percent.

<sup>12</sup> A Military Interdepartmental Purchase Request in the amount of \$75,000 was transferred to Project Handclasp to buy contract labor support for the last half of fiscal year 2010. We did not verify work outside our scoping period, so we were not able to test the amount of work produced by this contractor support.

<sup>13</sup> Government Purchase Card purchases for Fiscal Years 2007 through 2009 were 16 percent (i.e., \$51,085/\$328,474) of total operating expenses.

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(5) **Determining Resource Requirements.** Chief of Naval Operations (N52), the budget sponsor, is still determining the true resource requirements for the Project Handclasp Program. Office of Management and Budget Circular A-123 provides that management is responsible for developing and maintaining effective internal controls to ensure the proper stewardship of Federal resources. Chief of Naval Operations (N52) provided Project Handclasp with significant budget increases to ensure its mission success during the Program Objective Memorandum 2012 budget process.<sup>14</sup> This was because at the time, Chief of Naval Operations (N52) was going through the process of determining the program's resource requirements, but had to rely on poor historical program cost records, because the Program was focused on meeting its mission and Chief of Naval Operations Instruction 5726.3D did not require the Program Director to develop program metrics or sufficiently track actual costs.

(6) **Cause and Effect of Insufficient Controls over Program Resources.** Federal and Department of the Navy budgeting guidelines require management to measure and analyze increases in key expense categories on a periodic basis to determine their causes and manage their expenses. However, the Program Director did not establish performance metrics or track and record actual costs. The Program Director also did not develop written procedures for key personnel and processes, or an internal operating procedure for the Government Purchase Card program. Further, the Chief of Naval Operations Instruction 5726.3D did not require the Program Director to institute such procedures. As a result, there was no assurance the mission was accomplished in the most efficient manner, budgeted resources were reasonable, or that costs incurred would be properly tracked to measure program financial performance and accurately develop future budgets.

b. **Custody Control of the Foundation's Assets.** Controls were not sufficient to ensure effective and efficient custodial management over Foundation monetary (cash and checks) and inventory assets. Specifically, we found insufficient controls over the receipt, deposit, recording, and acknowledgment of cash donations, and over the receipt and documentation of inventory assets. Details follow.

(1) **Monetary Assets.** Project Handclasp's processes on receiving, recording, and depositing of cash on behalf of the Foundation needed improvement.

(a) **Separation of Duties and Physical Controls.** Federal and Department of Defense guidance on controls over cash handling require that key duties and responsibilities be segregated among different people to reduce the risk of error or fraud, including the establishment of proper physical controls to secure and safeguard cash assets. During our audit, we found that the same person picked up the mail, recorded the

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<sup>14</sup> The Fiscal Year 2011 amount was increased by \$84,000 from the amount previously planned for in Fiscal Year 2010 to \$274,000, with approximately 3 percent increase per year for Fiscal Years 2012 through 2017.

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checks in the Incoming Receipt Log, made deposits, and prepared the donor thank-you letters. Further, there was no process to inform donors on who to call if they did not receive a timely and accurate thank-you letter. We also found that checks pending deposit were not secured (e.g., they were left in a folder in an unlocked file cabinet).

(b) **Recording of Monetary Donations.** Monetary donations entered on the Incoming Receipt Logs did not match those recorded and transferred to the Unrestricted Donation Logs.<sup>15</sup> Although we verified all monetary donations shown on both logs to deposit slips and/or bank statements for Calendar Years 2008 and 2009, we found transaction data entry errors<sup>16</sup> made on the Incoming Receipt Logs and Unrestricted Donation Logs for Calendar Years 2007, 2008, and 2009.<sup>17</sup> When we performed reconciliation for Calendar Year 2007 between the two logs (i.e., Incoming Receipt Log and Unrestricted Donation Log) and the total deposits, we found there was \$180 more in deposits than were shown on the two logs. We also noticed that not all cash donations received were deposited in a timely manner (i.e., within 10 work days of being received). We were unable to determine the specific number of checks not deposited in a timely manner for Calendar Year 2007 because we were unable to reconcile the Incoming Receipt Log and Unrestricted Donation Log to the deposit slip totals. For Calendar Years 2008 and 2009, the number of checks not deposited within 10 work days as required in Chief of Naval Operations Instruction 5726.3D and the Memorandum of Understanding are shown in Table 2.

**Table 2: Timeliness of Deposits**

Number of Days and Dollar Amounts					
Calendar Year	0-10 days		11-30 days		Total
	No. of Checks	Value of Checks	No. of Checks	Value of Checks	
2007	-	-	-	-	-
2008	63	\$17,733.00	9	\$2,080	\$19,813.00
2009	58	\$21,642.71	4	\$410	\$22,052.71
<b>Totals</b>	<b>121</b>	<b>\$39,375.71</b>	<b>13</b>	<b>\$2,490</b>	<b>\$41,865.71</b>

(c) **Cause and Effect of Insufficient Controls over Monetary Assets.** Project Handclasp had no written procedures to ensure administrative personnel properly handled and processed cash donations. Chief of Naval Operations Instruction 5726.3D regulating Project Handclasp does not require the Project Handclasp Director to establish

<sup>15</sup> Unrestricted Donation Logs (i.e. Detailed Donation List) are extracted from the Incoming Receipt Logs and are sent to the Fleet and Industrial Supply Center for the Foundation's annual audit of monetary donations by Fleet Industrial Supply Center, San Diego.

<sup>16</sup> Transaction data entry errors included an undeposited check that was not removed from the Incoming Receipt Log, checks included on the Unrestricted Donation Logs were not included on the Incoming Receipt Log, and numerous data entry errors on both logs.

<sup>17</sup> The Project Handclasp Foundation, Inc.'s fiscal year runs from January 1<sup>st</sup> through December 31<sup>st</sup>.

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custodial management safeguarding procedures over donated cash. Department of Defense financial regulations require that cash receipts be recorded immediately upon collection and reconciled with appropriate documents and accounting records. We did not identify any improprieties with donations in our review of available documentation. However, without the proper recording of the checks received, concurrent reconciliation of deposits to bank records (e.g., bank deposit slips, monthly bank statements), and proper security over deposits, the potential existed for cash donations to be unaccounted for, and for donations to be vulnerable to loss or misuse.

(2) **Inventory Assets.** Project Handclasp's processes on receiving and controlling inventory received on behalf of the Foundation needed improvement.

(a) **Receipt of Inventory Assets.** Federal management guidance requires the establishment of physical controls to secure and safeguard physical assets, including periodically reconciling inventories to control records. We found there was no process to provide a receipt to the donor at the time they made the donation; however, a list of donated materials prepared by warehouse personnel was sent to Project Handclasp administrative personnel for recording into the Incoming Receipt Log. Also, warehouse personnel prepared an inventory list once a week, but they did not periodically reconcile the list to outgoing shipments of inventory leaving the warehouse. Even though donor thank-you letters included a description of the donated materials from the list prepared by the warehouse personnel, unless specifically requested by a donor, the letters were generally not signed and sent. It is standard practice for not-for-profit organizations to provide receipts at the time of donations using a sequential receipt form. Without proper receipt of donated goods at the time they are received, and periodic reconciliations of inventory on hand to shipment and receipt logs, the potential exists that not all donated goods are received and accounted for. (See paragraph 6 for a discussion of the unmailed donor thank-you letters.)

(b) **Shipping Documentation.** Shipment recordkeeping was not standardized because Project Handclasp management did not develop specific written operating procedures to guide warehouse and shipment coordinator personnel. Although we were able to verify the number of pallets shipped and countries engaged from our random and judgmental sample, we were unable to verify the data to any one type of source document. We found that shipping coordinators had inconsistent methods for documenting the pallets shipped, supporting documentation was insufficient to cover all shipments, and not all transportation control and movement documents<sup>18</sup> were completely filled out. Other than the general instructions for maintaining the applicable records as they pertain to goods held or distributed, personnel had no other guidance to follow.

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<sup>18</sup> A Transportation Control and Movement Document is used to provide information on the transportation of pallets shipped by Project Handclasp and should be completed for every pallet that leaves the Project Handclasp warehouse in San Diego, CA.

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Secretary of the Navy recordkeeping and Federal internal control guidance require the establishment of good recordkeeping policies and procedures.

**(c) Cause and Effect of Insufficient Controls Over Inventory Assets.**

Controls over inventory assets were insufficient because the Chief of Naval Operations Instruction 5726.3D only provided a general instruction to maintain records, and the Project Handclasp Director did not develop implementing guidance to ensure consistent processes. Not having formal documented standardized receipt and acceptance, shipment, custodial transfer, and inventory reconciliation processes could put the custody of the Foundation's assets at risk and does not ensure that the shipment data used in planning future requirements and measuring mission performance are accurate.

**(3) Letters of Acknowledgment.** Project Handclasp practices on the issuance of donation acknowledgement letters for monetary and material donations needed improvement to ensure compliance with its agreement with the Foundation. As required by the Memorandum of Understanding, Project Handclasp should provide donors with appropriate notice of receipt and gratitude on behalf of both the U.S. Navy's Project Handclasp and the Foundation. However, as of 1 October 2010, we found that the majority of these letters of gratitude were not sent to donors in a timely manner. For example, only 2 of the 112 (1.8 percent), 2 of the 81 (2.5 percent), and 2 of the 93 (2.2 percent) donor thank-you letters were signed for Calendar Years 2008, 2009, and Calendar Year 2010 (through 2 September 2010), respectively. We were informed during our fieldwork, by the Project Handclasp Director, that the letters were not signed and sent because of a legal consideration in the wording of letters. However, we also determined that no prescribed methods existed to ensure donors received acknowledgement letters when they donated either cash or goods. Project Handclasp is planning to bring on a Chief Operating Officer who will address how to best incorporate legal considerations, including the incorporation of the donor thank-you letter process, into future standard operating procedures. The Project Handclasp Director told us, on 24 November 2010, that all of the unsigned and unsent donor acknowledgement letters were now signed and sent.<sup>19</sup> Although according to the Project Handclasp Director, the backlog of signing and sending donor thank-you letters is being addressed, without a Chief of Naval Operations oversight requirement for ensuring donor letters are sent, the potential is increased that all donors will not be properly recognized or thanked for their donation.

**c. Memorandum of Understanding.** Although a Memorandum of Understanding existed for the Project Handclasp Program, it was not dated, nor had it been signed by the current program stakeholders. Secretary of the Navy guidance requires Memorandums of Understanding to include the date the Memorandum of Understanding will take effect.

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<sup>19</sup> We were told by the Project Handclasp director there was not any e-mail or documented correspondence with legal officials because the communication was verbal.

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The purpose of the Project Handclasp Memorandum of Understanding is to define the arrangement concerning the respective tasks and functions of Project Handclasp and that of the Foundation. The Memorandum had not been dated, or signed by the current stakeholders, because the Project Handclasp Program Director inherited the document upon taking the position, and there was no requirement in Chief of Naval Operations Instruction 5726.3D mandating he ensure the agreement was signed or dated. Without a date or current signature, there is no assurance that the Memorandum of Understanding contains up-to-date or current information on policy, directives, or any changes in laws and regulations.

**8. Recommendations and Corrective Actions.**

Our recommendations, summarized management responses, and our comments on the responses are below. The complete texts of the management responses are in Enclosures 5 and 6.

We recommend that the Office of the Chief of Naval Operations (N52):

**Recommendation 1.** Update Chief of Naval Operations Instruction 5726.3D to require the Project Handclasp Director to:

- Develop metric/goals to measure program performance;
- Track actual costs by key cost categories;
- Develop written key process procedures to regulate custody of donations and management of operations;
- Establish controls to ensure donor thank-you letters are promptly signed and sent; and
- Establish a process through which donors contact someone who is separate from the cash and material receipt process if donations are not acknowledged.

**Office of the Chief of Naval Operations (N52) response to Recommendation 1.**

Concur. N52 is currently re-writing Chief of Naval Operations Instruction 5726.3D and will ensure all recommendations are incorporated in the next iteration. The target completion date is 30 September 2011.

**Naval Audit Service comments on response to Recommendation 1.** The Office of the Chief of Naval Operations (N52) response to Recommendation 1 meets the intent of the recommendation. This recommendation remains open pending review of the updated Chief of Naval Operations Instruction that addresses and includes all of our recommendations pertaining to the requirements assigned to the Project Handclasp Director.

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**Recommendation 2.** Update the Memorandum of Understanding between the United States Navy's Project Handclasp and the Project Handclasp Foundation. The Memorandum of Understanding should be signed and dated by all current stakeholders and be reviewed and re-affirmed periodically or upon change of the responsible parties.

**Office of the Chief of Naval Operations (N52) response to Recommendation 2.** Concur. N3N5L will review the Memorandum of Understanding and determine if it requires modification. The modifications, if necessary, will be incorporated into the Memorandum of Understanding, be dated, and signature blocks added for N52, Director of Project Handclasp, and President of the Project Handclasp Foundation Board of Directors. The target completion date is 30 July 2011.

**Naval Audit Service comments on response to Recommendation 2.** In subsequent communication, Office of the Chief of Naval Operations (N52) stated that they plan to sign and date a new Memorandum of Understanding with the current stakeholders. They also stated that their legal staff had reviewed the memorandum and did not recommend any changes. The Office of the Chief of Naval Operations (N52) response to Recommendation 2 meets the intent of recommendation. This recommendation remains open pending the Memorandum being signed by the current stakeholders and the addition of the new date.

We recommend the Director of Project Handclasp:

**Recommendation 3.** Establish and implement written operating procedures to create metrics and written procedures to measure program success by comparing actual administrative and operating costs to budgeted costs and by analyzing cost trends to trends in shipments.

**Director of Project Handclasp response to Recommendation 3.** Concur. Project Handclasp will establish and implement written procedures to create metrics and measure program success. This will include comparison of actual and budgeted costs and trends in costs and shipments. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 3.** The Director of Project Handclasp response to Recommendation 3 meets the intent of the recommendation. This recommendation remains open pending review of the written operating procedures to create metrics and to measure program success by comparing actual administrative and operating costs to budgeted costs and by analyzing cost trends to trends in shipments.

Subj: **PROJECT HANDCLASP INTERNAL CONTROLS (AUDIT REPORT N2011-0035)**

**Recommendation 4.** Establish and implement written operating procedures to assign key operational duties and responsibilities for administrative, warehouse, and shipping coordinators.

**Director of Project Handclasp response to Recommendation 4.** Concur. Project Handclasp will establish and implement written operating procedures to assign key operational duties and responsibilities for Project Handclasp staff positions. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 4.** The Director of Project Handclasp response to Recommendation 4 meets the intent of the recommendation. This recommendation remains open pending review of the written operating procedures that assign key operational duties and responsibilities for administrative, warehouse, and shipping coordinators.

**Recommendation 5.** Create the required internal operating procedure for Government Purchase Card users.

**Director of Project Handclasp response to Recommendation 5.** Concur. Project Handclasp will create the required internal operating procedure for Government Purchase Card users. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 5.** The Director of Project Handclasp response to Recommendation 5 meets the intent of the recommendation. This recommendation remains open pending review of the required internal operating procedures for Government Purchase Card users.

**Recommendation 6.** Establish and implement written travel and conference operating procedures for coordination and planning policy.

**Director of Project Handclasp response to Recommendation 6.** Concur. Project Handclasp will establish and implement written travel and conference operating procedures for coordination and planning policy. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 6.** The Director of Project Handclasp response to Recommendation 6 meets the intent of the recommendation. This recommendation remains open pending review of the written travel and conference operating procedures.

**Recommendation 7.** Design and implement written operating procedures that ensure there is segregation of duties over key cash handling processes for administrative

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personnel, donated checks are properly secured, and reconciliations are performed between incoming receipt logs and bank statements.

**Director of Project Handclasp response to Recommendation 7.** Concur. Project Handclasp will design and implement written operating procedures that ensure there is segregation of duties over key cash handling processes, donated checks are properly secured, and reconciliations are performed between incoming receipt logs and bank statements. Project Handclasp has segregated duties, obtained a safe for securing donated checks, and is performing the recommended reconciliations. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 7.** The Director of Project Handclasp response to Recommendation 7 meets the intent of the recommendation. Although the response notes that Project Handclasp has instituted segregation of duties over key cash handling processes, obtained a safe to secure donated checks, and is performing the recommended reconciliations, this recommendation remains open pending review of the written operating procedures.

**Recommendation 8.** Design and implement written operating procedures that ensure a receipt is provided to the donor at the time of their in-kind material donation, and periodic reconciliations of physical inventory on-hand to donation receipts and shipment records are performed.

**Director of Project Handclasp response to Recommendation 8.** Concur. Director of Project Handclasp will design and implement written operating procedures that ensure a receipt is provided to the donor at the time of their in-kind material donation, and perform periodic reconciliations of physical inventory to donated receipts and shipment of records. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 8.** The Director of Project Handclasp response to Recommendation 8 meets the intent of the recommendation. This recommendation remains open pending review of the written operating procedures that ensure a receipt is provided to the donor at the time of their in-kind material donation and periodic reconciliations of physical inventories are performed.

**Recommendation 9.** Design and implement written operating procedures that provide a standardized shipping process for donated materials.

**Director of Project Handclasp response to Recommendation 9.** Concur. Project Handclasp will design and implement written operating procedures that

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provide a standardized shipping process for donated materials. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 9.** The Director of Project Handclasp response to Recommendation 9 meets the intent of the recommendation. This recommendation remains open pending review of the written operating procedures that standardizes the shipping process for donated materials.

**Recommendation 10.** Design and implement written operating procedures that ensure all donor thank-you letters are signed and mailed in a timely manner.

**Director of Project Handclasp response to Recommendation 10.** Concur. Project Handclasp will design and implement written operating procedures that ensure all donor thank-you letters are signed and mailed in a timely manner. The Project Handclasp thank-you letter policy was clarified and correspondence is current. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 10.** The Director of Project Handclasp response to Recommendation 10 meets the intent of the recommendation. Although the response notes that Project Handclasp thank-you letter policy was clarified and correspondence is current, this recommendation remains open pending review of the written operating procedures that ensure all donor thank-you letters are signed and mailed in a timely manner.

**Recommendation 11.** Establish and implement written operating procedures for a process to educate donors on whom to call if they have not received an accurate or timely donation letter.

**Director of Project Handclasp response to Recommendation 11.** Concur. Project Handclasp will establish and implement written operating procedures for a process to educate donors on whom to call if they have not received an accurate or timely donation letter. The target completion date is 31 March 2012.

**Naval Audit Service comments on response to Recommendation 11.** The Director of Project Handclasp response to Recommendation 11 meets the intent of the recommendation. This recommendation remains open pending review of the written operating procedures that educate donors on whom to call if they have not received an accurate or timely donation letter.

9. Actions taken by the Office of the Chief of Naval Operations (N52) and the Director, Project Handclasp meet the intent of Recommendations 1-11. These recommendations are considered open pending completion of the planned corrective actions, and are

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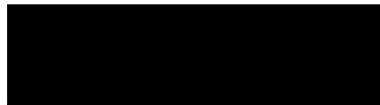
subject to monitoring in accordance with reference (c). Management should provide a written status report on the recommendations within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Internal Controls, Contracting, and Investigative Support Audits, XXXXXXXXXXXX, XXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

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10. Any request for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (c). This report is also subject to followup in accordance with reference (c).

11. We appreciate the cooperation and courtesies extended to our auditors during their visit.



XXXXXXXXXXXXXXXXXX  
Assistant Auditor General  
Internal Controls, Contracting, and  
Investigative Support Audits

FOIA (b)(6)

- Copy to:  
UNSECNAV  
DCMO  
OGC  
ASSTSECNAV FMC  
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ASSTSECNAV EIE  
ASSTSECNAV MRA  
ASSTSECNAV RDA  
CNO (VCNO, DNS-33, N40, N41)  
CMC (RFR, ACMC)  
DON CIO  
NAVINGEN (NAVIG-4)  
AFAA/DO

**Enclosure 1:****Status of Recommendations**

Recommendations							
Finding No.	Rec. No.	Page No.	Subject	Status <sup>20</sup>	Action Command	Target Completion Date	Interim Target Completion Date
1	1	12	Update Chief of Naval Operations Instruction 5726.3D to require the Project Handclasp Director to: <ul style="list-style-type: none"> <li>• Develop metric/goals to measure program performance;</li> <li>• Track actual costs by key cost categories;</li> <li>• Develop written key process procedures to regulate custody of donations and management of operations;</li> <li>• Establish controls to ensure donor thank-you letters are promptly signed and sent; and</li> <li>• Establish a process through which donors contact someone who is separate from the cash and material receipt process if donations are not acknowledged.</li> </ul>	O	Office of the Chief of Naval Operations (N52)	9/30/11	
1	2	13	Update the Memorandum of Understanding between the United States Navy's Project Handclasp and the Project Handclasp Foundation. The Memorandum of Understanding should be signed and dated by all current stakeholders and be reviewed and re-affirmed periodically or upon change of the responsible parties.	O	Office of the Chief of Naval Operations (N52)	7/30/11	
1	3	13	Establish and implement written operating procedures to create metrics and written procedures to measure program success by comparing actual administrative and operating costs to budgeted costs and by analyzing cost trends to trends in shipments.	O	Director Project Handclasp	3/31/12	
1	4	14	Establish and implement written operating procedures to assign key operational duties and responsibilities for administrative, warehouse, and shipping coordinators.	O	Director Project Handclasp	3/31/12	

<sup>20</sup> O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress

Recommendations							
Finding No.	Rec. No.	Page No.	Subject	Status <sup>20</sup>	Action Command	Target Completion Date	Interim Target Completion Date
1	5	14	Create the required internal operating procedure for Government Purchase Card users.	O	Director Project Handclasp	3/31/12	
1	6	14	Establish and implement written travel and conference operating procedures for coordination and planning policy.	O	Director Project Handclasp	3/31/12	
1	7	14	Design and implement written operating procedures that ensure there is segregation of duties over key cash handling processes for administrative personnel, donated checks are properly secured, and reconciliations are performed between incoming receipt logs and bank statements.	O	Director Project Handclasp	3/31/12	
1	8	15	Design and implement written operating procedures that ensure a receipt is provided to the donor at the time of their in-kind material donation, and periodic reconciliations of physical inventory on-hand to donation receipts and shipment records are performed.	O	Director Project Handclasp	3/31/12	
1	9	15	Design and implement written operating procedures that provide a standardized shipping process for donated materials.	O	Director Project Handclasp	3/31/12	
1	10	16	Design and implement written operating procedures that ensure all donor thank-you letters are signed and mailed in a timely manner.	O	Director Project Handclasp	3/31/12	
1	11	16	Establish and implement written operating procedures for a process to educate donors on whom to call if they have not received an accurate or timely donation letter.	O	Director Project Handclasp	3/31/12	

## **Pertinent Guidance**

General guidance regarding management's internal controls over recordkeeping, operations, and the proper stewardship of Federal and Foundation resources includes:

- United States Code Title 31, Chapter 11, Government Performance and Results Act of 1993, Section 115, Performance Plans, requires agencies to establish performance goals to define the level of performance and express such goals in an objective, quantifiable, and measurable form.
- Office of Management and Budget Circular A-11, Preparation, Submission, and Execution of the Budget, Section 200, "Overview of Strategic Plans, Performance Budgets/Annual Plans, and Annual Performance Reports," January 2005, states that senior agency leaders are expected to hold goal-focused, data-driven reviews at least once every quarter to review progress on agency priorities and to assure followup steps are taken to increase the likelihood of achieving better outcomes with managers being accountable.
- Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," 21 December 2004, states that management has a fundamental responsibility to develop and maintain effective internal control with Federal employees ensuring programs operate and resources are used efficiently and effectively, because effective internal controls provide assurance that significant weaknesses are prevented or detected in a timely manner.
- Department of Defense (DoD) Financial Management Regulation (FMR), establishes requirements, principles, standards, systems, procedures, and practices necessary to comply with financial management statutory and regulatory requirements applicable to the DoD. Applicable sections from the DoD FMR pertaining to this audit include:
  - DoD FMR Volume 4, Chapter 1, "Financial Control of Assets" (September 2008), paragraph 010304, requires that cash receipts be recorded immediately upon collection, with such receipts being reconciled with appropriate documents and accounting records.
  - DoD FMR Volume 5, Chapter 1, "Purpose, Organization, and Duties," (August 2010), paragraph 010303.B, prescribes that the duties of recording transactions and receiving assets should be assigned to separate individuals.
- Secretary of the Navy Instruction 5210.8D, "Department of the Navy Records Management Program" dated December 2005, establishes Department of the Navy (DON) policy, responsibility, and requirements over records management. The

instruction also requires records to be managed efficiently and effectively, and to provide the facts and information required to support effective decisionmaking.

- Secretary of the Navy Manual M-5216.5, “Department of the Navy Correspondence Manual” dated March 2010, requires memorandums of agreement and understanding to include a date the memorandum will take effect.
- Department of the Navy, Budget Guidance Manual, Part I, General Guidance and Policies, Paragraph 4 “Other DON Organizational Responsibilities,” January 2005, states that during the programming process, the resource sponsor is responsible to ensure an effective and balanced program with assigned fiscal controls, with the program sponsor being responsible for determining program objectives, time phasing and support requirements.
- Naval Supply Systems Command Instruction 4200.99, “DON Policies and Procedures for the Operation and Management of the Government-Wide Commercial Purchase Card Program (GCPC),” dated October 2006, provides policy and procedures regarding the Government Purchase Card Program and use of the card. This instruction requires that the approving official ensure proper receipt, acceptance, and inspection prior to payment, and that activities develop an internal operating procedure to manage and operate the local purchase card program.

Program specific guidance concerning Project Handclasp’s current organizational structure, operations, consigned<sup>21</sup> and unconsigned<sup>22</sup> materials, monetary donations, and receipts of records are as follows:

- Office of the Chief of Naval Operations Instruction 5726.3D, September 26, 2006: Reissues policy concerning Project Handclasp as an official U.S. Navy program which coordinates transportation and delivery of material donated by the Project Handclasp Foundation, Inc. This Instruction further states:
  - Project Handclasp may receive monetary donations on behalf of the Project Handclasp Foundation and as soon as practicable and in any case not more than 10 working days from receipt deposit into the appropriate Foundation account.
  - Project Handclasp shall maintain records of receipts, inventory, and disbursements for all material and money that are handled and transported by Project Handclasp, as well as maintaining those records for 3 years.
- Memorandum of Understanding Between the U.S. Navy’s Project Handclasp and Project Handclasp Foundation, Inc. defines the arrangement concerning the

<sup>21</sup> Consigned material is material that organizations or individuals provide for transportation through Project Handclasp to the port of embarkation.

<sup>22</sup> Unconsigned material is material donated for general distribution overseas.

respective tasks and functions of Project Handclasp and that of the Foundation. This Memorandum of Understanding further prescribes that Project Handclasp may act as an initial collection point for donations, provide donors with an appropriate notice of receipt and of gratitude, and shall maintain adequate records for all goods received, held, and distributed. In addition, Project Handclasp shall as soon as practicable and in any case not more than 10 working days from the date of receipt deliver any donations of money it may have received to the Project Handclasp Foundation.

## Enclosure 3:

# Scope and Methodology

We audited Project Handclasp financial processes (program resources that include contracted Navy services, travel, and supplies), staffing processes (roles and responsibilities, production backlogs, and workload trends), and custodial processes over donated cash and material (cash received and deposited, material donated, and pallets shipped) for the period from Fiscal Year 2007 through the second quarter of Fiscal Year 2010. We interviewed employees on 19 May 2010, with followup interviews conducted on 27 May 2010, to determine key processes, roles, and responsibilities, including any overtime worked. We only visited the Project Handclasp headquarters office and warehouse located in San Diego, CA. Our audit was conducted from 6 April 2010 to 1 April 2011.

To determine the reasonableness of the program's budgeted resources, we performed a comparative analysis using the cost data provided by Project Handclasp, after making adjustments,<sup>23</sup> for Fiscal Years 2007 through 2009 by calculating dollar and percentage increases or decreases for total costs and the three cost categories (contracted Navy services, travel, and supplies). We compared the results of the analysis to increases or decreases in pallets shipped, including following up with Project Handclasp officials to determine the reasonableness of significant or notable increases or decreases. We assessed controls over management data and funding processes, tested Government Purchase Card purchases to ensure the purchases were properly authorized and supported, and obtained and reviewed the Program Objective Memorandum 2010 and Program Review 2011. We judgmentally selected 15 sampled purchase card transactions, valued at \$15,786, based on high dollar value and pilferability, and compared these transactions to the cardholder's credit card statements. The universe of credit card transactions consisted of 87 purchases totaling \$58,062 for the period from Fiscal Year 2007 through the second quarter of Fiscal Year 2010. We also attempted to compare prior actual costs to those presented in the Office of the Chief of Naval Operations budget. However, we were not able to perform the comparison, because prior to the 2009 realignment, Project Handclasp costs were comingled and not separately accounted for by the Office of the Chief of Naval Operations, and the Director of Project Handclasp did not maintain accurate detailed program records of historic costs.

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<sup>23</sup> To perform our analysis, we made adjustments to data provided on the Project Handclasp cost worksheets to reflect actual costs. In our analysis, we corrected data entry errors made by Project Handclasp administrative personnel. They included, revising the total amount shown on the Fiscal Year 2007 Project Handclasp cost spreadsheet down after finding data entry errors and overstated travel costs. They also included revising the total amount shown on the Fiscal Year 2008 Project Handclasp cost spreadsheet down after finding data entry errors, overstated Navy service contract and supply costs, and understated travel costs. Lastly, they included revising the total amount shown on the Fiscal Year 2009 Project Handclasp cost spreadsheet upward after finding data entry errors, along with understated travels costs.

To determine if internal controls were sufficient to safeguard donated goods, we observed and analyzed receipt, inventory and shipment procedures, and discussed the processes with personnel working at the Project Handclasp Global Logistics Center (i.e. Warehouse) and Enterprise Office (Headquarters), San Diego. We also analyzed shipments and mission workload using both a random sample of 26 shipments and judgmental sample of 10 high dollar value shipments. The universe of shipments for the period from Fiscal Year 2007 through the second quarter of Fiscal Year 2010 included a total of 175 shipments consisting of 4,527 pallets of donated goods with a value of \$16,659,625.17. The random sample of 26 shipments included a total of 355 pallets with an associated value of \$1,032,370. The judgmental sample of 10 high dollar value shipments included a total of 2,441 pallets or 54 percent of the pallet universe with an associated value of \$11,205,123 or 67 percent of the universe value. The samples were used to determine if shipping record keeping was standardized and the recorded number of pallets distributed and countries engaged for Fiscal Year 2007 through the second quarter of Fiscal Year 2010 was accurate. We traced the sampled shipments contained in the Project Handclasp Consolidated Shipping Report to Project Handclasp source shipping documents (e.g., Transportation Control and Movement Documents and Feedback Reports from ship commanders). Once we verified that pallets were in fact shipped to the intended recipients, we calculated trends between years to compare to the budgeted costs trends.

To determine if internal controls were sufficient to safeguard donated cash, we analyzed the cash receipt, custody, deposit, and reconciliation procedures. We also analyzed the donor notification and the annual audit processes.<sup>24</sup> We reconciled cash donations between the Foundation's Financial Audit Reports, Incoming Receipt Logs (i.e. Master Listing by year for donated cash and materials), Unrestricted Cash Donation Logs (i.e., Listing by year for donated cash only), and deposits from either deposit slips or bank statements. Finally, we calculated the number of checks that were not deposited in accordance with Project Handclasp and Memorandum of Understanding guidance.

To assess the reliability of data used in our analysis (i.e., cost information for Fiscal Years 2008 through the 2<sup>nd</sup> quarter of Fiscal Year 2010), we compared Project Handclasp cost data to source documents (e.g., funding documents, travel claim vouchers, Government-Wide Commercial Purchase Card statements, etc.) provided by the Field

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<sup>24</sup> Audits on the accuracy of the Foundation's financial statements are requested by the Director of Project Handclasp and do not include an examination of in-kind material donations. The examination of the memorandum of accounts, bank statements, expenditures, deposits and withdrawals, and the financial statements as prepared by the Director of Project Handclasp is conducted by the Fleet and Industrial Supply Center, San Diego annually.

Support Activity, Department of the Navy Assistant for Administration Field Service Support Division, or Project Handclasp.<sup>25</sup>

No prior audits were conducted on Project Handclasp or that of its operations. Therefore, we did not perform any followup audit work.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objective.

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<sup>25</sup> We were unable to verify Fiscal Year 2007 contracted Navy services, travel, and supply costs, because the Field Support Activity and Project Handclasp were unable to locate the items requested. Field Support Activity personnel stated that, "all electronic files issued prior to FY [Fiscal Year] 2009 would have to be pulled and sorted manually due to a NMCI [Navy Marine Corps Intranet] software conversion that made these files inaccessible." In our opinion, the lack of this documentation did not affect our results, because the manner in which cost data was collected over the years did not change (i.e. Project Handclasp did not alter its reporting methods of tracking service, travel, and supply costs) and our adjustments on Project Handclasp cost worksheets were made based on data entry errors made by Project Handclasp personnel. Transaction data received from the Field Support Activity was downloaded from the Standardized Accounting and Reporting System – Field Level, which is regulated by the Defense Finance and Accounting Service. We did not perform tests of general and application controls or in any way assess the reliability of the Standardized Accounting and Reporting System – Field Level data because doing so was beyond the scope of our objective. However, we were able to establish data reliability for the information by comparing data with source documentation for the transactions reviewed. We did not find any material errors that would preclude the use of the data to meet the audit objective or would change the conclusion of this report.

**Enclosure 4:**

# Comparison of Project Handclasp Costs from Fiscal Years (FYs) 2007 through 2009

Comparative Analysis of Project Handclasp Costs/Pallets between FY 2007 and FY 2009							
Expenses	Summary of Costs by Year			Cost Increase/Decrease from Year to Year			
	FY07	FY08	FY09	FY08 Cost/Pallet Increase/Decrease from FY07	FY08 Percentage Increase/Decrease from FY07	FY09 Cost/Pallet Increase/Decrease from FY08	FY09 Percentage Increase/Decrease from FY08
<b>Category 1: Contracts</b>							
<b>Navy Services</b>							
Forklift Services	\$ 23,287.00	\$ 4,650.00	\$ 8,640.00	\$ (18,637.00)	-80%	\$ 3,990.00	86%
Phone Services	\$ 689.00	\$ 1,000.00	\$ 3,100.00	\$ 311.00	45%	\$ 2,100.00	210%
Transportation Services	\$ 10,623.16	\$ 25,013.41	\$ 32,009.00	\$ 14,390.25	135%	\$ 6,995.59	28%
Recycling and Trash Services	\$ 4,465.25	\$ -	\$ 1,000.00	\$ (4,465.25)	-100%	\$ 1,000.00	N/A
Truck Rental	\$ -	\$ 1,190.00	\$ 631.68	\$ 1,190.00	N/A	\$ (558.32)	-47%
Minor Work	\$ -	\$ 2,000.00	\$ 600.00	\$ 2,000.00	N/A	\$ (1,400.00)	-70%
Recurring Services	\$ -	\$ 3,000.00	\$ 1,000.00	\$ 3,000.00	N/A	\$ (2,000.00)	-67%
Utilities & Environmental	\$ -	\$ 2,000.00	\$ 1,200.00	\$ 2,000.00	N/A	\$ (800.00)	-40%
Emergency Services	\$ -	\$ -	\$ 1,000.00	\$ -	N/A	\$ 1,000.00	N/A
Crating Material	\$ -	\$ 580.00	\$ -	\$ 580.00	N/A	\$ (580.00)	-100%
<b>Total</b>	<b>\$ 39,064.41</b>	<b>\$ 39,433.41</b>	<b>\$ 49,180.68</b>	<b>\$ 369.00</b>	<b>1% increase</b>	<b>\$ 9,747.27</b>	<b>25% increase</b>
<b>Category 2: Travel*</b>							
Project Handclasp Director	\$ -	\$ 4,634.80	\$ 1,795.29	\$ 4,634.80	N/A	\$ (2,839.51)	-61%
Warehouse #1	\$ -	\$ -	\$ 3,291.83	\$ -	N/A	\$ 3,291.83	N/A
PPC**	\$ -	\$ -	\$ -	\$ -	N/A	\$ -	N/A
Warehouse #2	\$ -	\$ -	\$ -	\$ -	N/A	\$ -	N/A
Shipping Coordinator	\$ -	\$ 1,705.00	\$ 31,327.80	\$ 1,705.00	N/A	\$ 29,622.80	1737%
Travelers not identified	\$ -	\$ 850.00	\$ 1,500.00	\$ 850.00	N/A	\$ 650.00	76%
<b>Total</b>	<b>\$ -</b>	<b>\$ 7,189.80</b>	<b>\$ 37,914.92</b>	<b>\$ 7,189.80</b>	<b>- increase</b>	<b>\$ 30,725.12</b>	<b>427% increase</b>
<b>Category 3: Shipping/Office Supplies</b>							
Credit Card Purchases	\$ 4,966.54	\$ 26,727.89	\$ 19,446.44	\$ 21,761.35	438%	\$ (7,281.45)	-27%
Non-Credit Card Purchases	\$ 14,708.50	\$ 38,511.25	\$ 45,041.80	\$ 23,802.75	162%	\$ 6,530.55	17%
<b>Total</b>	<b>\$ 19,675.04</b>	<b>\$ 65,239.14</b>	<b>\$ 64,488.24</b>	<b>\$ 45,564.10</b>	<b>232% increase</b>	<b>\$ (750.90)</b>	<b>-1% decrease</b>
<b>Grand Total**</b>	<b>\$ 58,739.45</b>	<b>\$ 111,862.35</b>	<b>\$ 151,583.84</b>	<b>\$ 53,122.90</b>	<b>90% increase</b>	<b>\$ 39,721.49</b>	<b>36% increase</b>
<b>Pallets Shipped</b>	<b>750</b>	<b>1,059</b>	<b>1,658</b>	<b>309</b>	<b>41% increase</b>	<b>599</b>	<b>57% increase</b>

\* We did not calculate the FY 2008 percentage increase from FY 2007 for travel, because there were no FY 2007 travel costs.

\*\* PPC = Public Private Coordination Officer

**Enclosure 5**

**Management Response from the Director,  
International Engagement, Office of the Chief  
of Naval Operations (N52)**



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

7500  
Ser  
18 Apr 11

From: Director, International Engagement (N52)  
To: Auditor General of the Navy  
Subj: DRAFT AUDIT REPORT: PROJECT HANDCLASP INTERNAL CONTROLS  
#N2010-NMCG00-0132.000, 1 April 2011  
Ref: (a) SECNAVINST 7510.7F  
Encl: (1) Response to Recommendations 1 and 2  
1. In response to reference (a), enclosure (1) is submitted to  
complete action for recommendations 1 and 2.  
2. OPNAV N52 point of contact is [REDACTED] who can be  
reached at [REDACTED] or by e-mail at [REDACTED].

[REDACTED]  
[REDACTED]  
Director

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**OPNAV International Engagement (N52) Response to  
Naval Audit Service Draft Report on Project Handclasp  
Internal Controls  
N2010-NMC000-0132.000**

**Overall Comments:** N3/N5 stood up N52 in December of 2008. Project Handclasp (PH) was transferred to N52 from DNS shortly thereafter in February of 2009. A *Cooperative Strategy for Twenty First Century Seapower* elevated Humanitarian Assistance and Disaster Response to a core capability and there was an immediate increase in demand for PH donated items. This demand quickly depleted PH inventory, packing materials, and increased transportation costs. As a result, PH's budget was insufficient to meet its current operating environment. After attending a PH Board of Directors meeting in November of 2009 and through subsequent analysis of PH operations, a full audit was requested in order to determine optimal manning levels and to establish reasonable criteria for return on investment. The audit confirmed concerns that there are several administrative and operational issues associated with PH. The audit noted two specific issues in which OPNAV N52 can ensure compliance with Naval Audit Service recommendations.

**Recommendation #1:** Update Chief of Naval Operations Instruction 5726.3D to require the Project Handclasp Director to: Develop metric/goals to measure program performance, track actual costs by key cost categories, develop written key process procedures to regulate custody of donations and management of operations, establish controls to ensure donor thank-you letters are promptly signed and sent, establish a process through which donors contact someone who is separate from the cash and material receipt process if donations are not acknowledged.

Enclosure (1)

**OPNAV N52 Response:** Concur. N52 is currently re-writing the instruction and will ensure all recommendations are incorporated in the next iteration of the Project Handclasp OPNAVINST 5726.3D.

**Target Completion Date:** 30 SEP 2011

**Recommendation #2:** Update the Memorandum of Understanding (MOU) between the U.S. Navy's Project Handclasp and the Project Handclasp Foundation. The Memorandum of Understanding should be signed by all current stakeholders and be reviewed and re-affirmed periodically or upon change of the responsible parties.

**OPNAV N52 Response:** Concur. N3N5L will review the MOU and determine if it requires modification. The modifications, if necessary, will be incorporated into the MOU, the MOU will be dated, and signature blocks added for N52, Director Project Handclasp, and President of the Project Handclasp Foundation Board of Directors.

**Target Completion Date:** 30 JUL 2011

Enclosure (1)

**Enclosure 6:**

# Management Response from the Director, Project Handclasp



DEPARTMENT OF THE NAVY  
DIRECTOR, U.S. NAVY'S PROJECT HANDCLASP  
537 N. HARBOR DR. - SUITE 104  
SAN DIEGO, CA 92132-0058

7500  
Ser 132  
29 Apr 11

From: Director, Project Handclasp  
To: Auditor General of the Navy  
Subj: DRAFT AUDIT REPORT: PROJECT HANDCLASP INTERNAL CONTROLS  
#N2010-NMC000-0132.000, 1 April 2011  
Ref: (a) SECNAVINST 7510.7F  
Encl: (1) Response to Recommendations 3 through 11

1. In response to reference (a), enclosure (1) is submitted to complete action for recommendations 3 through 11.

2. Project Handclasp (PH) point of contact is [REDACTED]  
(phone: [REDACTED], email: [REDACTED].

FOIA (b)(6)

FOIA (b)(6)

**Project Handclasp (PH) Response to  
Naval Audit Service Draft Report on Project Handclasp  
Internal Controls  
N2010-NMC000-0132.000**

**Overall Comments:** The U.S. Navy's Project Handclasp is the only American outreach entity of its type in the U.S. armed forces. It stemmed from a White House initiative in the Eisenhower administration and became an official Navy program in 1962. It will have 50 years of service in 2012. Project Handclasp is slated to be a budgeted program of record for the first time in FY12 (via the Program Objective Memorandum (POM) process).

Project Handclasp has been adapting to substantial programmatic challenges in recent years (summary provided below). In navigating through this period, priority was placed on mission accomplishment in the new strategic environment, building the public-private partnerships needed to operate, mitigating resource conditions, conducting the first change of program structure on the Navy staff in more than 20 years, preparing to become a POMed program of record for the first time in 50 years, and supporting the professional and personal development of Project Handclasp team members under unpredictable conditions. Challenges included standing up a management team from scratch (starting with only one officer position that was gapped), two 100% turnovers of the three-member logistics team in compressed periods, and a recently completed year-long gap in the Logistics Supervisor position (senior enlisted member and one-third of the logistics team).

Project Handclasp set records for new levels of national contribution during this period. This was encouraged and recognized by Navy and other government leaders and a host of public-private partners.

Focus can now be placed on establishing a sustainable programmatic framework for the future. Project Handclasp appreciates the professionalism and assistance of the Naval Audit Service in this process. The Project Handclasp and audit teams worked closely on this effort for more than a year.

Enclosure (1)

One of the steps taken since the audit was establishing Project Handclasp Chief Operating Officer (PH COO) functionality. The role is performed by a Navy logistics and financial management professional (Supply Corps Captain). As the manager of internal Project Handclasp functions, he will draft the recommended written operating procedures for review and approval by Director, Project Handclasp. This will integrate and align audit recommendations, logistics and financial practices of the Supply community, N3/N5 protocols, Navy operational factors, and strategic considerations.

Project Handclasp plans to develop the recommended operating procedures in alignment with its POMed framework for FY12, N3/N5 procedures, and establishment of the permanent PH COO position.

#### **PROJECT HANDCLASP DEVELOPMENT SUMMARY**

##### **FY06:**

- First Director turnover in more than 33 years (outgoing Director retired after 53 years of service). Incoming Director highlighted the following:
  - Lowest relative resource level in the 45 year history of the program (Incoming Director had only one officer and 4 enlisted personnel). This unprecedented condition was the cumulative result of disparate Navy Staff conditions in preceding years. Project Handclasp traditionally had a management team of several officers and an office administrator, as well as a logistics team of four enlisted personnel. This had been the case since Project Handclasp was just a local program for ships based in San Diego during the 1970s.
  - Need for a Chief Operating Officer (COO) to serve as day-to-day manager of internal functions. Additionally, Project Handclasp never had an officer-level logistics or financial management professional assigned (Supply Officer).
  - There had not been a budget increase in more than 25 years (during the era the program expanded from only a local activity for ships homeported in San Diego to a larger worldwide effort). Project Handclasp existed on a legacy annual stipend from Director, Navy Staff (DNS) that was unchanged from the 1980s. The amount was not adjusted for inflation over the years.
  - Half of Project Handclasp logistics manning (2 of 4 positions) were not designated for Navy Logistics Specialists. The Logistics Supervisor position was designated for and filled by a Machinery Repairman. The Logistics Petty Officer position was designated for and filled by a Boatswain's Mate.

Enclosure (1)

- The Office Administrator position was not filled. Duties include serving as the financial manager for both government funds and private-sector donations (separate functionalities). The unfilled status of the position required internal reassignment of one of the 4 enlisted logisticians (decrementing logistics manning from 4 to 3).
- Navy conducted its first dedicated Humanitarian Assistance (HA) deployment (Pacific Partnership 2006/USNS MERCY). Project Handclasp had a unique role in this and subsequent Navy HA deployments (that are now routine and ongoing).
- The Project Handclasp instruction was revised for the first time in 14 years (Sep 2006 revision replaced the May 1992 version).

**FY07:**

- The only existing Project Handclasp officer position was gapped. Coupled with the office administrator position being unfilled, Project Handclasp had zero management manning.
- The new U.S. Maritime Strategy was introduced (*A Cooperative Strategy for Twenty First Century Seapower* (CS-21)).
- Project Handclasp began an enhanced, unique role under the strategy.
- The strategy elevated Humanitarian Assistance and Disaster Response to core elements of maritime power. It also increases emphasis on themes central to Project Handclasp, including: preventing war, building partnerships, and greater synergy of all elements of national power. The strategy highlights the following concepts: preventing war is as important as winning war, trust and confidence can't be surged (must be built), and that seapower is a unifying force for building a better tomorrow.

**FY08:**

- Project Handclasp received its first budget increase in more than 27 years.
- Project Handclasp received its first travel budget in the 46 year history of the program. This enhanced program relevance and credibility as a bona fide military activity.
- Project Handclasp officer manning had its first increase from existing lows.
- The International Engagement Division (N52) was established on the Navy Staff (Dec 2008).

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**FY09:**

- Project Handclasp was realigned on the Navy Staff from Director, Navy Staff (DNS) to N52 in the context of the Maritime Strategy (1 Feb 2009).
- This was the first change in program structure on the Navy Staff in more than 20 years.

**FY10:**

- Both Project Handclasp contractors were terminated following non-renewal of Navy funding (Dec 2009).
- Project Handclasp's Logistics Supervisor/senior enlisted position began a one-year gap (beginning in Feb 2010).
- Project Handclasp Chief Operating Officer (PH COO) functionality was stood up. It was initiated as a collateral duty of a designated Navy Supply Captain assigned to another command, pending establishment of the permanent position.

**FY11:**

- The excess officer obtained by Director, Project Handclasp completed a one year assignment (Jan 2011). This resulted in Project Handclasp having one less officer than it had in 2010 and during the audit process.
- Project Handclasp's Logistics Supervisor/senior enlisted position was filled following a year gap (Feb 2011).
- All existing Project Handclasp billets were filled.
- The Project Handclasp Chief Operating Officer (PH COO) position remained a collateral duty assignment of a designated Supply Captain assigned to another command (vice permanent Project Handclasp position). The Acting PH COO can only conduct Project Handclasp work on a not-to-interfere basis with priority tasking from the Supply community and his actual assignment (Director of Operations of the Navy's largest Fleet and Industrial Supply Center (FISC)). For example, the member was drafted to serve on the Libya CTF/JTF embarked on USS MOUNT WHITNEY overseas.
- An officer-level logistics or financial management professional (Supply Officer) position has not been established in Project Handclasp to date.

**PROJECT HANDCLASP RESPONSES TO AUDIT RECOMMENDATIONS**

**Recommendation #3:** Establish and implement written operating procedures to create metrics and written procedures to measure  
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program success by comparing actual administrative and operating costs to budgeted costs and by analyzing cost trends to trends in shipments.

**Project Handclasp Response:** **Concur.** Project Handclasp will establish and implement written procedures to create metrics and measure program success. This will include comparison of actual and budgeted costs and trends in costs and shipments.

**Target Completion Date:** 31 MAR 2012

**Recommendation #4:** Establish and implement written operating procedures to assign key operational duties and responsibilities for administrative, warehouse, and shipping coordinators.

**Project Handclasp Response:** **Concur.** Project Handclasp will establish and implement written operating procedures to assign key operational duties and responsibilities for Project Handclasp staff positions.

**Target Completion Date:** 31 MAR 2012

**Recommendation #5:** Create the required internal operating procedure for Government Purchase Card users.

**Project Handclasp Response:** **Concur.** Project Handclasp will create the required internal operating procedure for Government Purchase Card users. Update: Project Handclasp now has two authorized Government Purchase Card users (Logistics Leading Petty Officer (LPO) and Logistics Petty Officer (PO)). They are both assigned to the Project Handclasp Global Logistics Center (GLC). The second card holder has been added since the audit. This will be reflected in the internal operating procedure.

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**Target Completion Date:** 31 MAR 2012

**Recommendation #6:** Establish and implement a written travel and conference operating procedures for coordination and planning policy.

**Project Handclasp Response:** **Concur.** Project Handclasp will establish and implement written travel and conference operating procedures for coordination and planning policy.

**Target Completion Date:** 31 MAR 2012

**Recommendation #7:** Design and implement written operating procedures that ensure there is segregation of duties over key cash handling processes for administrative personnel, donated checks are properly secured, and reconciliations are performed between incoming receipt logs and bank statements.

**Project Handclasp Response:** **Concur.** Project Handclasp will design and implement written operating procedures that ensure there is segregation of duties over key cash handling processes, donated checks are properly secured, and reconciliations are performed between incoming receipt logs and bank statements. Update: Segregation of duties is in effect, the safe for securing of donated checks has been obtained, and recommended reconciliations are being performed.

**Target Completion Date:** 31 MAR 2012

**Recommendation #8:** Design and implement written operating procedures that ensure a receipt is provided to the donor at the time of their in-kind material donation, and periodic

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reconciliations of physical inventory on hand to donation receipts and shipment records are performed.

**Project Handclasp Response:** **Concur.** Project Handclasp will design and implement written operating procedures that ensure a receipt is provided to the donor at the time of their in-kind material donation, and periodic reconciliations of physical inventory on hand to donation receipts and shipment records are performed.

**Target Completion Date:** 31 MAR 2012

**Recommendation #9:** Design and implement written operating procedures that provide a standardized shipping process for donated materials.

**Project Handclasp Response:** **Concur.** Project Handclasp will design and implement written operating procedures that provide a standardized shipping process for donated materials.

**Target Completion Date:** 31 MAR 2012

**Recommendation #10:** Design and implement written operating procedures that ensure all donor thank-you letters are signed and mailed in a timely manner.

**Project Handclasp Response:** **Concur.** Project Handclasp will design and implement written operating procedures that ensure all donor thank-you letters are signed and mailed in a timely manner. Update: Thank you letter policy was clarified and correspondence is current.

**Target Completion Date:** 31 MAR 2012

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**Recommendation #11:** Establish and implement written operating procedures for a process to educate donors on whom to call if they have not received an accurate or timely donation letter.

**Project Handclasp Response:** **Concur.** Project Handclasp will establish and implement written operating procedures for a process to educate donors on whom to call if they have not received an accurate or timely donation letter.

**Target Completion Date:** 31 MAR 2012

Enclosure (1)

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