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# Naval Audit Service



## Audit Report



### Fiscal and Resource Management at the Naval Postgraduate School

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**N2013-0038**  
**7 August 2013**

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MEMORANDUM FOR PRESIDENT, NAVAL POSTGRADUATE SCHOOL  
 CHIEF OF NAVAL OPERATIONS (N1)

Subj: **FISCAL AND RESOURCE MANAGEMENT AT THE NAVAL POSTGRADUATE SCHOOL (AUDIT REPORT N2013-0038)**

Ref: (a) NAVAUDSVC memo 7510 N2012-156, dated 24 May 2012  
 (b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"  
 (c) UNSECNAV Memorandum for the Naval Inspector General, "Inspection Investigation of Naval Postgraduate School," dated 16 April 2012

1. The report provides the results of subject audit announced by reference (a). Section A of the report provides our findings and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of recommendations. The full text of the management responses is included in the Appendices.

2. Actions planned by the President, Naval Postgraduate School and the Chief of Naval Operations meet the intent of the recommendations. All recommendations are considered open pending completion of planned corrective actions. The open recommendations are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after the target completion date.

3. Please provide all correspondence to the Assistant Auditor General for Financial Management and Comptroller Audits, XXXXXXXXXXXXXXXX, by e-mail at XXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXX. Please submit your 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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4. 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 (b). The report is also subject to followup in accordance with reference (b).

Subj: **FISCAL AND RESOURCE MANAGEMENT AT THE NAVAL  
POSTGRADUATE SCHOOL (AUDIT REPORT N2013-0038)**

5. We appreciate the cooperation and courtesies extended to our auditors.



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# Executive Summary

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## Overview

The Naval Postgraduate School (NPS) was established as the school of Marine Engineering at the United States Naval Academy in 1909. In 1919, the School was renamed the NPS and is located in Monterey, CA. NPS has evolved into an institution whose purpose is to serve naval defense and national security related interests by providing current and future readiness, advances in technology, and educational and operational programs that directly support all facets of national defense and homeland security.

NPS is comprised of four graduate schools, four institutes, a Center for Executive Education, and various research centers. The four graduate schools are the Graduate School of Business and Public Policy; the Graduate School of Engineering and Applied Sciences; the Graduate School of Operational and Information Sciences; and the School of International Graduate Studies. NPS also has four research institutes: the Modeling, Virtual Environments, and Simulation (MOVES) Institute for Defense Modeling and Simulation; the Wayne E. Meyer Institute for Systems Engineering; the Cebrowski Institute for Innovation and Superiority; and the National Security Institute. Additionally, NPS has research centers, which are groups of faculty and staff with a significant concentration of expertise in a particular area of practical applications.

For Fiscal Year (FY) 2011 and the first six months of FY 2012, NPS received direct mission funds of approximately \$93.8 million and \$78.9 million, respectively. NPS also received reimbursable/sponsor funds of approximately \$358.4 million for FY 2011 and approximately \$305.2 million for the first six months of FY 2012. NPS also received \$239,765 in gifts of travel, \$202,046 in general gift fund checks, and approximately \$8.8 million in tuition. NPS spent approximately \$20.3 million on official travel. A funding profile is contained in Exhibit D.

The conditions noted in this report occurred primarily during the 18-month period ending 17 April 2012. We performed audit work from 12 June 2012 through 4 June 2013.

## Reason for Audit

The objectives of this audit of the NPS are to: (1) identify and test internal controls to ensure compliance with applicable laws and regulations on the management of funds;

(2) ensure that travel funds are being used appropriately; (3) identify and test internal controls and accountability for pilferable items; and (4) ensure that wireless communication devices are being used appropriately. In addition, we followed up on a prior Naval Audit Service Audit Report.

This audit was conducted in response to a Memorandum from the Under Secretary of the Navy to the Naval Inspector General, “Inspection and Investigation of Naval Postgraduate School,” dated 16 April 2012, that tasked the Naval Inspector General to conduct a thorough review of academic institutions. The tasking included an in depth look at fiscal and resource management at NPS. In addition to an inspection and investigation by the Naval Inspector General, the Under Secretary of the Navy directed that “subject matter experts” such as the Naval Audit Service be included. Our audit effort originated from the Naval Inspector General coordinating with the Auditor General of the Navy on areas that should be audited.

## **Noteworthy Accomplishments**

During this audit, NPS took action to correct some of the issues identified during the audit. Based on unaudited information provided to us, NPS updated the Gifts of Travel Standard Operating Procedures in November 2012 to clearly identify the procedures and approval requirements for gift acceptance.

## **Conclusions**

We reviewed travel, pilferable property, funds management, and wireless communication devices, and followed up on a prior Naval Audit Service Report, N2009-0039; “Follow up of Managing Sponsored Programs at NPS” dated 28 July 2009. We found that:

- NPS did not properly manage and execute their government travel program because they did not have sufficient internal controls in place, and there was insufficient monitoring and oversight by Approving and Certifying Officials, and noncompliance with DoD and NPS guidance.
- NPS did not properly manage and execute their Property Management Program because they did not have sufficient internal controls in place, and there was insufficient monitoring and oversight, and noncompliance with DON guidance.
- NPS did not properly manage their funds in the area of gifts because they did not have sufficient internal controls in place.

- NPS did not properly manage their wireless communication devices because they did not have sufficient internal controls in place as required by DON Chief Information Officer policy.

In addition, NPS management did not sufficiently implement agreed-to corrective actions for 15 of 33 recommendations made in the prior Naval Audit Service report, “Followup of Managing Sponsored Programs at Naval Postgraduate School” (N2009-0039) dated 28 July 2009. We found the following repeat conditions:

- Insufficient day-to-day funds management;
- Property not accounted for in the Defense Property Accountability System (DPAS) (also addressed in the current finding on Pilferable Property Items);
- Defense Acquisition Workforce Improvement Act (DAWIA) requirements were neither monitored nor included in the current NPS instruction 4410.1C, dated 27 February 2012; and
- Untimely review of purchase card transactions.

**Communication with Management.** Throughout the audit, we kept NPS informed of the conditions noted. On 12 June 2012, we held an opening conference with the NPS President, Provost, Comptroller, and other key staff members. On 30 August 2012 and 18 October 2012, we briefed NPS personnel on the status of audit work to date.

We briefed the following DON senior officials on the preliminary audit results:

- On 4 December 2012, Assistant Secretary of the Navy (Manpower and Reserve Affairs).
- On 5 December 2012, the interim President, NPS.
- On 12 December 2012, the Vice Chief of Naval Operations.
- On 21 December 2012, the General Counsel of the Department of the Navy and the Assistant Secretary of the Navy (Financial Management and Comptroller).
- On 6 February 2013, the Under Secretary of the Navy.

## **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. Recommendations 1-27 address issues related to the internal controls over travel, pilferable property, funds management,

wireless communication devices, and audit followup regarding a prior Naval Audit Service report. In our opinion, the weaknesses noted in this report do not warrant reporting in the Auditor General's annual Federal Managers' Financial Integrity Act memorandum identifying management control weaknesses to the Secretary of the Navy. The areas that we identified as repeat findings should be designated as assessable units within the NPS Managers' Internal Control Program. This would support DON's goals of practicing sound internal controls to achieve results and safeguard the integrity of programs.

## **Corrective Actions**

We identified internal control weaknesses in the areas of: (1) Travel, (2) Pilferable Property, (3) Funds Management, (4) Wireless Communication Devices, and (5) Audit followup. We made various recommendations to address the issues noted in Section A of this report, mainly to establish internal controls and provide sufficient oversight in the areas reviewed. Recommendations 1-27 are addressed to the President, NPS and Recommendation 28 is addressed to the Chief of Naval Operations.

The President, NPS concurred with Recommendations 1-27 and is taking appropriate corrective action. Also, the Chief of Naval Operations concurred with Recommendation 28 and is taking appropriate corrective action. Actions planned by NPS and the Chief of Naval Operations meet the intent of the recommendations. All recommendations are considered open pending completion of agreed-to corrective actions.

## Section A:

# Findings, Recommendations, and Corrective Actions

---

## Finding 1: Travel

### Synopsis

The Naval Postgraduate School (NPS) did not properly manage and execute their Government travel program. Specifically, we noted instances in which NPS staff and others on official travel:

- Did not provide sufficient supporting documentation for travel expenses;
- Used unauthorized travel service providers for booking travel without prior authorization;
- Used personal charge cards to pay for expenses that are required to be purchased with the Government Travel Card;
- Did not complete travel vouchers within the required 5-day period;
- Claimed previous payments on travel vouchers, resulting in overpayment of travel expenses;
- Exceeded per diem rates without prior authorization or documentation justifying the need to exceed per diem rates; and
- Did not pay their travel card bills timely and became delinquent while being allowed to travel.

Naval Postgraduate School Instruction (NAVPGSCOL Instruction) 4650.4H, “Policy for Official Travel Performed by NPS Personnel,” dated 16 January 2008, prescribes the policy and procedural guidance for administering official travel by all military and civilian personnel assigned to NPS. The conditions listed above occurred because there were not sufficient internal controls, monitoring and oversight over the travel program by Approving and Certifying Officials, and because Department of Defense (DoD) and NPS travel guidance was not followed. When internal controls are not properly implemented and executed, there is an increased risk of fraud, waste, and abuse of Government funding.

## Discussion of Details

### Background

Government travel funds are provided to NPS personnel for expenses incurred while conducting official business on behalf of the Department of the Navy (DON). Travel funds are provided by both internal and external sources and used for academic or training demands, research requirements, operational taskings, or routine administrative needs. Per NAVPGSCOL Instruction 4650.4H, travel should be limited to the amount necessary to effectively and efficiently carry out the mission of the command.

NPS has implemented the Defense Travel Management Office concept of operations, which focuses on mission requirements, empowers authorizing officials to approve travel and funding, and views travelers and supervisors as ethical clients. NPS categorizes travel in several categories: local travel, overseas travel, fund cite authorizations, and invitational. Invitational Travel Authorizations, also known as Invitational Travel Orders, are issued to civilian individuals who are not Federal Government employees or members of the United States Uniformed Services, who are performing official business for NPS.

### Pertinent Guidance

**DoD Financial Management Regulations, Volume 9, Chapter 3.** This regulation provides guidance on travel delinquency management.

**DoD Joint Travel Regulation (JTR), Department of Defense Civilian Personnel, Volume 2.** This regulation pertains to per diem, travel and transportation allowances and certain other allowances of DoD civilian employees and civilians who travel using DoD Funding

**NAVPGSCOL Instruction 4650.4H, Policy for Official Travel Performed by NPS Personnel, 16 January 2008.** This instruction prescribes the policy and procedural guidance for administering official travel by all military and civilian personnel assigned to NPS.

## Audit Results

We reviewed 390 travel authorizations and travel vouchers that were judgmentally and statistically selected. We found that NPS did not properly manage and execute their Government travel program because they did not have sufficient internal controls in place, there was insufficient monitoring and oversight by Approving and Certifying Officials, to ensure compliance with DoD and NPS guidance. Specifically:

**Travelers did not provide sufficient supporting documentation for travel expenses.** NPS travelers were not providing sufficient documentation for travel expenses incurred, as required by NPS guidance. We found that 47 of 390 travel vouchers (12.1 percent) were missing one or more of the following types of documentation required by the JTR and NAVPGSCOL Instruction 4650.4H:

- Airline receipt;
- Lodging receipt;
- Rental car receipt;
- Receipt for any expense of \$75 or more;
- Cost comparison for flights to ensure that the amount did not exceed Government rates when a Government contract fare is not used; and
- Prior authorization for actual expenses above the authorized Government rates.

For example, one traveler was approved and reimbursed \$465 for a taxi service without providing a receipt. NPS must ensure that travelers are made aware of their responsibility to properly account for travel expenditures incurred for official Government business. If documentation is not provided according to policy, and expenses cannot be independently verified, reimbursement should not be allowed, according to the JTR.

**Travelers used unauthorized travel service providers for booking travel without prior authorization.** During our review of the travel authorizations and vouchers, we found that for 32 of 390 travel vouchers (8.2 percent), the traveler procured a portion of their air transportation from a source other than the Commercial Travel Office, contrary to requirements in the JTR. For example, one traveler used a commercial online travel company that provides travel reservations to book a portion of their official Government travel. NPS personnel must use the Commercial Travel Office to book official Government travel to ensure that expenditures are authorized, reasonable, and do not exceed established Government travel rates.

**Travelers used personal charge cards to pay for expenses that are required by the Joint Travel Regulation to be purchased on the Government Travel Card.** We found 71 of 390 voucher (18.2 percent) for which the traveler did not use their Government issued charge card for lodging, auto rental, or airfare. We also found that travelers that did not have a Government issued travel card did not put the required expenses on the centrally billed account as required by NAVPGSCOL Instruction 4650.4H. Additionally, we found an instance in which an employee was delinquent in paying their Government Travel Card balance and put the Government travel expenses on a personal credit card. NPS must ensure that all travelers use their

Government-issued travel cards for required expenses to allow sufficient oversight of expenditures within the travel program.

**Travelers did not complete travel vouchers within the required 5-day period.**

We found that 196 of 390 vouchers (50.3 percent) were not submitted within 5 working days as required by NAVPGSCOL Instruction 4650.4H. Of the 196 travel vouchers that were not submitted within 5 working days, 161 were submitted between 6 and 30 days, 29 were submitted between 31 and 100 days, and 6 were submitted over 100 days, with the highest being 300 days late. NPS must ensure that all travelers submit travel vouchers in a timely manner for accurate accountability of travel expenditures incurred during official Government travel.

**Travelers claimed previous payments on travel vouchers, resulting in an overpayment of travel expenses.** We found 14 of 390 vouchers (3.6 percent) on which previous payments were claimed. The previous payments represented either:

- a. A traveler receiving advanced reimbursement for travel expenses incurred prior to the completion of travel and the previously reimbursed expenses being included and reimbursed again to the traveler upon completion and approval of the final voucher. For example, a traveler charged airfare or lodging on a personal credit card, and was reimbursed for this expense prior to the completion of travel. The same airfare or lodging expense was then also included as a reimbursable expense on the voucher and was subsequently paid.
- b. A voucher that was previously submitted and approved but was later amended for additional expenses. The final voucher including the original expenses and the amended amount resulted in the traveler being compensated twice for the expenses incurred for the single trip.

We also found that 22 of 390 vouchers (5.6 percent) had overpayments due to an erroneous claim. For example, one traveler booked two airline tickets – one for TDY and one outside of the TDY dates and location – and was reimbursed for both. Another traveler procured a flight outside of DTS and then cancelled the flight, incurring a cancellation fee, and both the flight cost and the cancellation fee were reimbursed. If the ticket had been purchased in DTS and the flight subsequently cancelled, there would not have been a cancellation fee because tickets purchased in DTS are fully refundable. NPS must ensure that certifying officials sufficiently review all vouchers to prevent overpayments of travel expenses. NPS should also collect any overpayments, including those identified during the audit.

**Travelers exceeded per diem rates without providing documentation justifying the need to exceed per diem rates and without obtaining prior authorization.** We found 50 of 390 vouchers (12.8 percent) on which the traveler manually changed the per diem entitlement to an actual expense without justifying the additional expense,

and without obtaining advance approval. There were instances, for example, of travelers increasing the lodging expense to meet the actual expense incurred without obtaining prior approval. We also found an instance of a traveler changing the Meals and Incidental Expense expenses for a layover in Japan without providing documentation of actually being in Japan on the date of the claimed expense.

Authorizations of travel expenses are required prior to official Government travel. However, we found 104 of 390 travel vouchers (26.7 percent) were not authorized until after the travel expense had been incurred. NPS must ensure that each traveler adheres to the authorized Government per diem rates to prevent fraud, waste, and abuse in the travel program.

**Travelers did not pay their travel card bills and became delinquent while still being allowed to travel, although NPS reports delinquencies on a weekly basis during staff meetings.** We reviewed the travel card delinquency reports for the period of 8 October 2010 to 26 March 2012, and found that although reports are provided weekly, certifying officials did not have the authority to suspend travel for travelers with a travel card in delinquent status. As noted above, one traveler whose travel card was in a delinquent status used their personal credit card while on official Government travel rather than pay the outstanding Government credit card balance.

We reviewed 23 weekly delinquency reports and found that each report listed from 21 to 133 travelers who were delinquent on their travel card payments by 30 days or more, with amounts owed up to \$12,044. Due to the large number and amounts of delinquencies, it is apparent that NPS travelers were not properly designating their total outstanding charges for split disbursement to eliminate or minimize being billed for charges and delinquencies. NPS should take appropriate action with delinquent travelers, as required by regulations, including suspending their travel privileges.

NPS travelers on official business must exercise the same care regarding Government travel expenses as could be expected of a prudent person traveling on personal business. Without the proper implementation and execution of internal controls over travel, there is an increased risk of fraud, waste, and abuse of Government funding.

## Recommendations

We recommend that the President, Naval Postgraduate School:

**Recommendation 1.** Establish controls and provide oversight to ensure that proper supporting documentation for travel is submitted and maintained, as required by Naval Postgraduate School Instruction 4650.4H.

**Management response to Recommendation 1.** Concur. Naval Postgraduate School corrective actions include training of travelers and travel authorizing/certifying officials, institution of improved controls and management oversight, and establishment of administrative consequences for non-compliance. Improved controls and oversight will include weekly internal audits by the travel and reporting of results to supervisors and management. The estimated completion date is 31 August 2013.

**Naval Audit Service comment on response to Recommendation 1.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is open pending completion of the agreed-to actions.

**Recommendation 2.** Establish controls and provide oversight to ensure that travelers are using the mandated Commercial Travel Office to arrange and conduct official travel, as required by the Department of Defense Joint Travel Regulation.

**Management response to Recommendation 2.** Concur. Naval Postgraduate School travelers are required to provide a written explanation of reasons for not using the Commercial Travel Office (CTO). In cases where a CTO was available but was not used, travelers must explain why CTO was not used and how the alternative was advantageous to the government. The requirement that Initial Travel Authorization (ITA) travelers must use the CTO is a clarification of policy and has been implemented as of May 2013. Corrective action accomplished in May 2013 included training of Travel Office personnel and communication of the requirement to travel officials across NPS. NPS will institute weekly internal audits in the Travel Office, and the NPS Inspector General (IG) will include CTO use in its command evaluation program. Non-compliance will result in administrative action (letters of caution/reprimand) and loss of the travel privilege. The estimated completion date is 31 August 2013.

**Naval Audit Service comment on response to Recommendation 2.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is open pending completion of the agreed-to actions.

**Recommendation 3.** Establish controls and provide oversight to ensure that travelers use the Government Travel Card or the centrally billed account for all mandated travel card expenses, as required by Naval Postgraduate School Instruction 4650.4H.

**Management response to Recommendation 3.** Concur. Naval Postgraduate School travel Office will conduct training to reinforce the need to use the Government Charge Card (GOVCC). Invitational travelers, and their respective hosting departments, have been informed of the need to use the CTO for purchasing all airfares, which will ensure use of the Central Billed Account (CBA) for all invitational airfares. NPS will establish improved controls and oversight,

including periodic internal audits, reporting of non-compliance to supervisors and management, and institution of graduated administrative actions, including suspension of travel, for repeated non-compliance. The estimated completion date is 31 August 2013.

**Naval Audit Service comment on response to Recommendation 3.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is open pending completion of the agreed-to actions.

**Recommendation 4.** Establish controls and provide oversight to ensure that travelers file a travel voucher via the Defense Travel System within the mandated 5 working days after completing travel, as required by Naval Postgraduate School Instruction 4650.4H.

**Management response to Recommendation 4.** Concur. Naval Postgraduate School travel officials will reiterate the need to file within five days of the completion of travel. The Travel Office will send travelers a reminder email and increase the tracking of voucher submissions to allow timely involvement of supervisors and management. Controls will include internal audits and briefing of voucher submission information monthly to NPS senior leadership. NPS will adopt graduated administrative action for non-compliant travelers, including letters of caution and reprimand and suspension of travel. The estimated completion date is 31 August 2013.

**Naval Audit Service comment on response to Recommendation 4.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 5.** Establish controls and provide oversight to ensure that travel vouchers are reviewed for improper payments, including those identified during the audit; recoup any money owed to Naval Postgraduate School as required by Naval Postgraduate School Instruction 4650.4H; and report the amount of recovered funds to the Naval Audit Service.

**Management response to Recommendation 5.** Concur. Naval Postgraduate School reviewed all travel processes to assure that an accurate reporting of legitimate travel costs is a condition of voucher approval. Training, controls, and management actions will include informational emails to travelers and travel officials, internal audits to assess the quality of voucher reviews, and adoption of graduated consequences for non-compliance. NPS IG will conduct a sample of travel vouchers from the audit period and will report the results to the Naval Audit Service to determine if further action is needed. The sample will be equal in size to that examined during the audit but will exclude vouchers reviewed during the

audit. NPS will notify the Naval Audit Service of the amount of funds recouped. The estimated completion date is 31 August 2014.

**Naval Audit Service comment on response to Recommendation 5.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation. Those actions include NPS reporting the amount of funds recouped from the travel vouchers reviewed by the Naval Audit Service, as well as recoupment of funds from their sample review of travel vouchers. The recommendation is considered open pending completion of the agreed-to actions. Because completion of the planned corrective actions will take more than a year, Naval Postgraduate School established an interim target completion date of 31 March 2014.

**Recommendation 6.** Establish controls and provide oversight to ensure that travelers have proper authorization and justification for expenses incurred during travel, as required by Naval Postgraduate School Instruction 4650.4H.

**Management response to Recommendation 6.** Concur. Naval Postgraduate School Travel Office will send informational emails as well as hold campus-wide training events for travelers and travel officials. The Travel Office will return vouchers with unauthorized expenditures to the travel authorizing official. Controls will include internal audits by the Travel Office, command evaluation by the NPS IG, and inclusion of this subject in senior management meetings. NPS will also adopt a system of graduated administrative action, including suspension of travel, for non-compliant travelers. The estimated completion date is 31 August 2013.

**Naval Audit Service comment on response to Recommendation 6.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 7.** Establish controls and provide oversight to ensure that appropriate action is taken on delinquent travel card holders, including suspending travel privileges, as required by Naval Postgraduate School Instruction 4650.4H.

**Management response to Recommendation 7.** Concur. Naval Postgraduate School Travel Office tracks delinquent travelers and notifies them of the requirement to maintain their accounts in a current status. Additionally, the Travel Office activates and deactivates GOVCCs four days prior to travel and immediately after a traveler's return to avoid unwarranted card usage. Informational emails and training to travelers and travel officials will highlight the need to pay the GOVCC on time, and new controls will include increased tracking of delinquencies, reporting to supervisors, and monitoring at senior management

meetings. NPS will adopt a graduated system of administrative actions to deal with non-compliance, including letters of caution, reprimand, and suspension of travel. The estimated completion date is 31 August 2013.

**Naval Audit Service comment on response to Recommendation 7.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 8.** Establish controls and provide oversight to ensure that travelers properly designate their total outstanding charges for split disbursement to eliminate or minimize being billed for charges and to prevent delinquencies, as required by Department of Defense Financial Management Regulation.

**Management response to Recommendation 8.** Concur. Naval Postgraduate School Travel Office will conduct training to reinforce the requirement to use the GOVCC for official travel expenses. Invitational travelers, and the respective hosting departments, have also been informed of the requirement to use the CTO for purchasing all airfares. This will ensure the proper use of the central billing account for all invitational airfares. Internal audits and command evaluations by the NPS IG will provide feedback to senior leaders on the use of the GOVCC and split disbursement. NPS senior leadership will receive a monthly briefing on non-compliance, and will adopt a series of graduated consequences (caution, reprimand, suspension of travel) for travelers who fail to comply. The estimated completion date is 31 August 2013.

**Naval Audit Service comment on response to Recommendation 8.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

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## Finding 2: Pilferable Property

### Synopsis

NPS did not properly manage and execute their Property Management Program because they did not have sufficient internal controls in place as required by Secretary of the Navy (SECNAV) Instruction 7320.10A, “DON Personal Property Policies and Procedures,” and NAVPGSCOL Instruction 11016.4D, “Personal Property Management.” Specifically:

- Pilferable items inventories were not conducted;
- Request, procurement, and inventory documentation was insufficient;
- Some pilferable items were unaccounted for and/or unused; and
- The property tracking system, Defense Property Accountability System (DPAS), was not properly updated.

These conditions occurred because there was insufficient monitoring and oversight of the Property Management Program, and DON guidance was not being followed. When internal controls are not properly implemented and executed, there is an increased risk of loss, theft, waste, and abuse. Without internal controls, NPS limits its ability to be fiscally responsible and accountable for property purchased and maintained. This could result in mismanagement, misuse, or theft of Government property, which would have a negative impact on both NPS and DON missions.

### Discussion of Details

#### Background

Pilferable property is an asset that is easily portable, easily converted to personal use, critical to the activity’s mission, hard to repair, and has a ready resale value or application for personal use. DON personnel are responsible for the proper use, care, and physical protection of Government-owned property, including: (1) using Government-owned property for official business only; (2) complying with applicable regulations, policies, procedures, or contractual requirements; (3) advising the appropriate authority if Government-owned property is subject to undue risk; (4) reporting loss, theft, damage, or destruction of Government-owned property; and (5) reporting misuse of Government-owned property to the appropriate authority.

## **Pertinent Guidance**

**SECNAV Instruction 7320.10A, “DON Personal Property Policies and Procedures,” dated 1 April 2004.** This instruction establishes DON policies and procedures for General Fund and Working Capital Fund personal property management that meet financial accounting and accountability requirements.

**NAVPGSCOL Instruction 11016.4D, “Personal Property Management,” dated 22 January 2010.** This instruction applies to property purchased with appropriated funds and research funds; or acquired by donation, transfer, or local manufacture.

**Naval Education and Training Command Instruction 7320.1A, “Personal Property Policies and Procedures,” dated 22 February 2008.** This instruction outlines policy and procedures for personal property management. Personal Property includes items used but not consumed to produce goods or services in support of DON’s mission. Personal property does not include inventory items intended for sale and real property.

## **Audit Results**

We found that NPS did not properly manage and execute their Property Management Program because they did not have sufficient internal controls in place and insufficient monitoring and oversight to ensure compliance with DON guidance. Specifically:

**Pilferable items inventories were not conducted.** We found that NPS did not conduct inventories of pilferable items, as required by SECNAV Instruction 7320.10A. We conducted interviews with the Personal Property Manager and found that NPS initiated an inventory in June 2012 to identify all personal property issued by NPS and to determine the custodian and location of that property, but had not completed the inventory. We also found that NPS used Naval Education and Training Command Instruction 7320.1A that required annual inventories of personal property, which is more stringent than the every-3-year requirement in SECNAV Instruction 7320.10A. However, NPS had not completed any inventories, annually or every 3 years. NPS must conduct an initial inventory, and complete an additional inventory within 18 months of the first completed inventory to establish a baseline and history of conducting proper inventories. Once NPS completes two satisfactory inventories, they may transition to the 3-year inventory cycle as required by Secretary of the Navy Instruction 7320.10A. Inventories of pilferable items are needed to ensure that assets are accounted for, in the proper location, and in the possession of the assigned custodian.

**Request, procurement, and inventory documentation was insufficient.** We conducted inventory verification (a test for existence) for a sample of 184 pilferable items. We found that 181 of 184, or 98.4 percent, of pilferable items did not have

complete documentation as required by NAVPGSCOL Instruction 11016.4D. Specifically, the sampled items were missing one or more of the following required documents:

- Purchase Request (NPS COMPT PR-1) form;
- Requisition and Invoice/Shipping Document (DD Form 1149);
- Packing Slip/Delivery Receipt;
- Hand Receipt (DD Form 1150);
- Receipt Authorization for Minor Personal Property and Pilferable Personal Property; and
- Property Transaction Record (if the item was transferred to a new custodian).

NPS must maintain procurement documents to account for expenditures, proper authorizations for purchase, custodial accountability, and to facilitate management oversight.

**Pilferable items were unaccounted for and unused.** We conducted a book-to-floor inventory<sup>1</sup> of 184 pilferable property items, and a floor-to-book inventory verification of 50 pilferable items to verify that the items were properly tracked and accounted for in DPAS as required by SECNAV Instruction 7320.10A and NAVPGSCOL Instruction 11016.4D. During the inventory, we found several boxes of iPods that were being stored and not used, as shown in Figure 1. The iPods were initially procured to use as learning tools to provide lectures and books to senior leadership participating in their executive education courses. The custodian of these iPods told us that they were not being used because they were no longer needed.

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<sup>1</sup> All physical inventories are required to include a comparison of all personal property records to physical assets (i.e., book-to-floor) and all physical assets back to the personal property records (i.e., floor-to-book) to ensure that all items are included in DPAS.



**Figure 1. Boxes of unused iPods.**

We also found that 28 of 184 (15 percent) of pilferable items could not be verified for the following reasons:

- 13 items – the custodian could not find the pilferable item; and
- 15 items – the items were denoted as being either checked out, excessed, with the Naval Criminal Investigative Service, out for repair, or returned to the vendor

During the floor-to-book inventory, we reviewed the DPAS data received from the Personal Property Manager and found that 8 of 50, or 16 percent, items had incorrect serial numbers recorded. During inventory verification, we also found that the custodians were unaware of their responsibilities, as required by SECNAV Instruction 7320.10A and NAVPGSCOL Instruction 11016.4D, to complete necessary paperwork and provide documentation to the property manager and staff when changes to the location or custodian occurred. To provide sufficient monitoring and oversight of pilferable items, NPS must ensure that custodians provide personal property management staff sufficient documentation in order to maintain accurate pilferable item records. Property oversight will also prevent waste and mismanagement of pilferable items procured by NPS.

**The property tracking system (DPAS) was not properly updated.** While conducting a book to floor inventory verification for 184 pilferable items, we used information from DPAS as a guide to verify the location, custodian, and asset tag number of each pilferable item in the sample. Our tests found that 85 of 184, or 46.2 percent, of pilferable items did not have the proper custodian annotated in DPAS. We also found that 92 of 184, or 50 percent, of pilferable items were not in the location that was annotated in DPAS. In addition, custodians were unaware of their responsibilities to provide the personal property management staff with a property transaction form to report changes in pilferable property custody or their status as excess. Personal property management must actively record, track, and update pilferable item profiles to ensure sufficient oversight and accountability.

## Recommendations

We recommend that the President, Naval Postgraduate School:

**Recommendation 9.** Establish controls and provide oversight to ensure that physical inventories (book-to-floor and floor-to-book) of pilferable items are performed and properly documented as required by Secretary of the Navy Instruction 7320.10A. In addition, conduct an initial inventory of all pilferable property items at all locations, reconcile with the Defense Property Accountability System (DPAS), and provide the results within 6 months to the Naval Audit Service. Conduct an additional inventory within 18 months of the first completed inventory to establish a baseline and history of conducting proper inventories. Once Naval Postgraduate School completes two satisfactory inventories, transition to the 3-year inventory cycle as required by Secretary of the Navy Instruction 7320.10A.

**Management response to Recommendation 9.** Concur. Naval Postgraduate School is updating NPS instruction 11016.4D to reflect inventory duties, responsibilities, and periodicities and commenced an inventory on 3 June 2013, with a completion date of 31 March 2014. A second 100 percent inventory will follow within 18 months, and on completion of an inventory with satisfactory results, NPS will adopt a three year inventory cycle. The estimated completion date is 31 March 2014.

**Naval Audit Service comment on response to Recommendation 9.** Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 10.** Establish controls and provide oversight to ensure that proper request and procurement documentation is maintained for pilferable items as required by Naval Postgraduate School Instruction 11016.4D.

**Management response to Recommendation 10.** Concur. Naval Postgraduate School revision to NPS instruction 11016.4D will address request and procurement documentation requirements and a copy will be provided to Naval Audit Service. Assets found on installation (FOI) or captured during 100 percent inventory efforts will have appropriate supporting documentation produced. This will include establishing records for items to be entered into inventory that had no initial documentation. The estimated completion date is 31 May 2014.

**Naval Audit Service comment on response to Recommendation 10.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 11.** Establish controls and provide oversight to ensure that personnel are aware of their roles and responsibilities as custodians of pilferable items, as required by Naval Postgraduate School Instruction 11016.4D.

**Management response to Recommendation 11.** Concur. Naval Postgraduate School is updating NPS instruction 11016.4D with inventory duties, roles, responsibilities, and inventory periodicities. Update will ensure property custodians responsibilities are defined in detail, which will assist NPS property management in receiving updates to be recorded within DPAS. Updated training will be provided to all custodians to address roles and responsibilities and will specifically address situations, which require property accountability actions. The estimated completion date is 13 September 2013.

**Naval Audit Service comment on response to Recommendation 11.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 12.** Establish controls and provide oversight to ensure that pilferable items are recorded, tracked, and properly updated in the Defense Property Accountability System, as required by Naval Postgraduate School Instruction 11016.4D.

**Management response to Recommendation 12.** Concur. Naval Postgraduate School is updating NPS instruction 11016.4D to include greater detail on the responsibility of property custodians to submit information and updates for DPAS,

to include those items considered pilferable. Revised training will address roles and responsibilities in greater detail for all NPS members, and will specifically address situations which require updates to DPAS. The estimated completion date is 13 September 2013.

**Naval Audit Service comment on response to Recommendation 12.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

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## Finding 3: Funds Management

### Synopsis

NPS did not properly manage their funds in the area of gifts because they did not have sufficient internal controls in place. Specifically, we identified instances in which:

- Gifts of travel were not approved timely by the Legal Department and accepted by the President;
- Reimbursement vouchers were not sufficiently supported by proper documentation; and
- Reporting of gift information was not always accurate.

DoD and DON regulations require proper accounting for and reporting of financial information, including gifts to Government personnel, because they have value. The conditions we found occurred due to lack of accountability and compliance with policies, procedures, and DON guidance. Without effective oversight and internal controls, NPS increases their risk of fraud and mismanagement within its operations. In addition, inaccurate gift reporting impedes NPS's ability to reduce the risk of fraud, waste, and abuse in funds management.

### Discussion of Details

#### Background

During Fiscal Year (FY) 2011 and the first 6 months of FY 2012, NPS received funding as follows:

Funding	FY 2011	FY 2012
Direct Mission	\$93.8 million	\$78.9 million
Reimbursable/Sponsor	\$358.4 million	\$305.2 million
Gift of Travel	\$151,000	\$88,400
General Gift Fund Checks	\$100,000	\$102,000
Tuition	\$5.1 million	\$3.7 million

DON "Gift Acceptance" policy allows the acceptance of any gift on the condition that it is used for the benefit of, or in connection with, institutions or organizations under the jurisdiction of SECNAV. The authority to accept or reject a gift offered to DON rests with SECNAV and designees. The President of NPS is a designated authority to accept

or reject gifts to NPS. NPS receives numerous offers of gifts throughout the year; the primary donor of these gifts is the NPS Foundation.

### **Pertinent Guidance**

**DoD Financial Management Regulation, Volume 12, Chapter 30 – “Operation and Use of General Gift Funds,” dated June 2009**, states that acceptance authorities shall keep accurate, auditable, and timely records of all gifts and provide this information for periodic audits.

**SECNAV Instruction 4001.2J – “Acceptance of Gifts,” dated 12 August 2009**, states that prospective donors should be advised to submit gift offers in writing explicitly specifying any conditions associated with gift acceptance. Upon receipt, activities must promptly forward offers through the chain of command via the appropriate acceptance authority’s legal counsel or judge advocate.

**Chief of Naval Operations Instruction 4001.1F, “Acceptance of Gifts,” dated 2 July 2010**, provides that information on gifts from non-Federal sources for travel expenses accepted will be collected and forwarded to the Office of the Chief of Naval Operations (CNO) (N09D), in a semi-annual reports on gifts of travel and related expenses.

**NAVPGSCOL Instruction 4001.1E, “Policies and Procedures for Gift Administration, Gift Acceptance and Event Sponsorship for the Naval Postgraduate School,” dated 6 December 2006**, establishes policies, procedures, and responsibilities governing the acceptance and administration of gifts to NPS.

**NAVPGSCOL Instruction 4001.2B, “Policy on the President’s Gift Fund,” dated 5 August 2009**, establishes policies and procedures for administration of the President’s Gift Fund and applies to all NPS staff and faculty who are involved in the expenditures of the President's Gift Fund. The instruction further states that the President’s Gift Fund is composed of donations of funds that are available for any purpose within the mission of the NPS, and may be expended at the discretion of the President.

**NAVPGSCOL Instruction 4650.4H, “Policy for Official Travel Performed by NPS Personnel,” dated 16 July 2008** states that employees receiving offers to have travel expenses for official travel paid from sources other than the Federal Government must submit, as required in the Gift of Travel Standard Operating Procedures (SOP), a completed copy of the Gift of Travel Form, including cost estimates, to the Staff Judge Advocate (SJA) or Office of Counsel for approval and forwarding to the Comptroller for processing prior to commencement of travel. The instruction further state that gifts of travel normally cannot be approved after travel has taken place. In unusual circumstances when a gift of travel is offered after the travel has commenced, the special

provisions of 41 Code of Federal Regulations apply, and the written request must be submitted to the Ethics Counselor within 7 working days of the completion of travel.

## Audit Results

We identified a universe of 104 gifts of travel to NPS during FY 2011 and the first 6 months of FY 2012, valued at \$239,765, as well as 21 General Gift Fund checks valued at \$202,046. We judgmentally selected for review 28 gifts of travel valued at \$49,031 and all 21 General Gift Fund checks. The judgmental sampling was based on high-dollar gift of travel amounts. We reviewed Gift Fund transactions and found that NPS did not properly manage their funds because they did not have sufficient internal controls in place. Specifically, we identified:

**Gifts of Travel: travel completed before approval by Legal Counsel and President of NPS.** We found that:

- 8 of 28, or 28.6 percent, of gifts of travel were completed prior to being approved by the NPS Legal Department and accepted by the President.
- 7 of 28, or 25 percent, of Gift of Travel Forms were not signed by the Legal Department prior to the initiation of travel.

NPS must ensure that procedures for gifts of travel are followed and that gifts are properly accepted prior to commencement of travel. By doing this, NPS can reduce the risk of unauthorized gift acceptance.

**Reimbursement vouchers not sufficiently supported for Gift Fund expenditures.**

NPS allows some senior management officials to make expenditures from the Gift Fund to purchase supplies, attend events, and make various purchases for the benefit of the school. The official makes the purchase and then requests reimbursement for the expenditure. Reimbursements, which are made from the Gift Fund, are granted based on there being (1) a clear benefit to NPS, and (2) the intended purposes of the gift funds donor is met. NPS certifying officials approved reimbursement vouchers containing vague descriptions of the expenditure, and did not have reasonable assurance of the validity of claimed expenses. For example:

- Reimbursement vouchers were approved by the authorized Certifying Officer without a clear detailed description of the events held, the benefits to NPS, or whether the donor's intended purposes for the funds was met. In FY 2011, this occurred for 57 of 209 vouchers (27.3 percent) with a total value of \$20,787, and again in the first 6 months of FY 2012 it occurred for 19 of 188 vouchers (10.1 percent) with a total value of \$7,346.

NPS should provide sufficient oversight of the voucher reimbursement process to ensure that clear, detailed, and descriptive information is provided on vouchers to determine whether expenditures meet the intended purpose of donors.

Vouchers for reimbursement were submitted to and approved by a staff member with a grade lower than the travelers in FYs 2011 and the first 6 months of FY 2012, contrary to NAVPGSCOL Instruction 4001.2B. In FY 2011, we found that 61 of 209, or 29.2 percent, of vouchers with a total value of \$11,128 were approved by a staff member at a lower grade than the traveler seeking reimbursement. In the first 6 months of FY 2012, 65 of 188 vouchers (34.6 percent) with a total value of \$13,187 were approved in this manner. NPS should establish controls to ensure that reimbursement reviews are conducted by individuals with higher grade levels than the travelers in order to preclude undue influence in the reimbursement process.

**Checks made payable to NPS staff members.** As a part of our review of gifts, we reviewed copies of the NPS Foundation check register to ensure that checks were payable to DON, and to determine whether any checks were not included in the gift information provided by the Comptroller to CNO (N09D). We found that 28 checks were made payable from the NPS Foundation to NPS staff members as Gift Fund reimbursements between FYs 2011 and the first 6 months of FY 2012. However, we interviewed three staff members and found that they were reimbursed for expenses associated with events such as dinners. NPS guidance requires that Gift Fund reimbursements must come from the NPS General Gift Fund account and should not be directly reimbursed from the Foundation to staff members.

In addition, we found that 2 of 28 travelers (7.1 percent) had gifts of travel checks made payable to them instead of to the United States (U.S.) Treasury, as required by NPS Gift of Travel SOPs and SECNAVINST 4001.2J. Gift checks to cover travel expenses by NPS personnel should be made payable to the U.S. Treasury; once acceptance of the gift is approved by the Legal Office, the check to the U.S. Treasury should be submitted to the Budget Department Head in the Comptrollers' Office. The Budget Department staff will set up a line of accounting (a reimbursable account) and issue a Funding Authorization Memorandum for approval by the Comptroller. Once approved by the Comptroller, the Budget staff will enter a budget page or job order into DON's Standard Accounting and Reporting System (STARS), and then create a line of accounting in the Defense Travel System (DTS). The Comptroller deposits the actual check into the U. S. Treasury on behalf of NPS, and the traveler is reimbursed appropriate expenses incurred after completing a travel voucher.

NPS should ensure internal controls are implemented to prevent employees from receiving reimbursement directly from the NPS Foundation.

**Approvals of Gift Checks.** We found that 3 of 21 gift checks (14.3 percent) for FY 2011 with a total value of approximately \$19,000 were accepted without approval

documentation from the Legal Department. NPS guidance requires that all gifts be approved by the Legal Department prior to being accepted by the President. The President of NPS is designated by the SECNAV to accept or reject gifts within NPS. If these controls are not followed, gift funds are subject to increased risk of fraud and mismanagement.

**Inaccurate reporting of gift information.** We found that:

- For the period of 1 October 2010 to 31 March 2011, 44 gifts were reported to CNO (N09D) instead of 40 as determined by our audit to be the correct number. We also found that direct payments from private donors to NPS personnel were understated by \$609 and in-kind gifts, which are travel expenses paid directly by the donor, were overstated by \$1,819.
- For the period of 1 April 2011 to 30 September 2011, the correct number of gifts was reported; however, the dollar amounts were incorrect. We found overstatements of \$809 for direct payments and \$16,315 for in-kind gifts.
- For the period of 1 October 2011 to 31 March 2012, 37 gifts were reported instead of 36 as determined by our audit. We also found that direct payments were understated by \$9,010, and in-kind gifts were overstated by \$1,501.

NPS must establish controls to ensure that gift information is accurately reported and reviewed prior to submission to the office of the Chief of Naval Operations.

**Other Issues.** In addition to our review of gifts, we also reviewed reimbursable/sponsor funds, direct mission funds, and tuition funds. We found no discrepancies with direct mission and tuition funds. However, in the audit followup of a prior Naval Audit Service report addressed in Finding 5 of this report, we did find issues related to insufficient day-to-day funds management related to reimbursable/sponsor funds. For example, we found that 382 of 491 sponsored accounts (77.8 percent) were over-expended by a total of approximately \$15.2 million; this finding represents a repeat issue from the prior Naval Audit Service report.

## Recommendations

We recommend that the President, Naval Postgraduate School:

**Recommendation 13.** Establish controls and provide oversight to ensure that gifts of travel are properly accepted prior to the commencement of travel, as required by Naval Postgraduate School Instruction 4650.4H.

**Management response to Recommendation 13.** Concur. Naval Postgraduate School deconflicted its Gift of Travel instruction and SOP and now both align with DOD FMR Vol 12, Chap 30, SECNAVINST 4001.2J, and OPNAVINST 4001.1F. The Gift of Travel SOP was revised significantly in November 2012, January 2013, and April 2013 and is now under review by General Counsel of the Navy and the Judge Advocate of the Navy. NPS will provide training to ODTAs, AOs, and all travelers and will institute controls that include internal audits, reports to management, and a series of consequences for those who fail to comply with the instruction. Completing action on this recommendation is contingent on receiving the OGC/JAG review NPS gift acceptance instruction. The estimated completion date is 13 December 2013.

**Naval Audit Service comment on response to Recommendation 13.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 14.** Establish controls and provide oversight to ensure that gifts of travel checks are payable to U.S. Treasury instead of traveler, as required by Naval Postgraduate School Instruction 4650.4H.

**Management response to Recommendation 14.** Concur. Naval Postgraduate School states that the issue is specifically addressed in the current version (January 2013) of the NPS gifts of travel SOP, and current version of NPS Instruction 4650.4J. In cases where the sponsor insists on issuing a check directly to the traveler, in spite of NPS's best efforts to have sponsor issue the check to the U.S. Treasury, NPS has a process to have the recipient endorse the check to the U.S. Treasury. This allows processing the check as if it had been properly payable to the U.S. Treasury. Controls and oversight will include generation of a monthly report on gifts of travel for review by NPS senior leadership. The estimated completion date is 13 December 2013.

**Naval Audit Service comment on response to Recommendation 14.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 15.** Establish controls and provide oversight to ensure that reimbursement vouchers for gift expenditures are sufficiently supported and provide clear, detailed and descriptive information to enable approvers to determine if expenditures met the intended purposes of the donor, as required by Naval Postgraduate School Instruction 4001.2B.

**Management response to Recommendation 15.** Concur. Naval Postgraduate School canceled the cited instruction in November 2012. The draft NPS gift acceptance instruction is under review by General Counsel of the Navy and the Judge Advocate of the Navy. NPS will provide training and institute improved controls, including review of the program by senior leaders and administrative actions for repeated non-compliance. Completing action is dependent upon review of the NPS gift instruction by OGC and JAG. The estimated completion date is 13 December 2013.

**Naval Audit Service comment on response to Recommendation 15.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 16.** Establish controls and provide oversight to ensure that reimbursement reviews are conducted by individuals with higher grade levels than the claimant, as required by Naval Postgraduate School Instruction 4001.2B.

**Management response to Recommendation 16.** Concur. Naval Postgraduate School canceled the cited instruction in November 2012. The draft gift acceptance instruction (4001.2C) is being reviewed by General Counsel of the Navy (OGC) and the Judge Advocate General of the Navy (JAG). We will ensure an official of a higher grade than the recipient reviews the reimbursement voucher. NPS will provide training and institute improved controls, including review of the program by senior leaders and administrative actions for repeated non-compliance. Completing action is dependent upon review of the NPS gift instruction by OGC and JAG. The estimated completion date is 13 December 2013.

**Naval Audit Service comment on response to Recommendation 16.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 17.** Establish controls and provide oversight to ensure compliance with Naval Postgraduate School Instruction 4001.1E that employees do not receive reimbursement directly from the Foundation.

**Management response to Recommendation 17.** Concur. Naval Postgraduate School redrafted its gift acceptance instruction and it is under review by the DON Office of General Counsel (OGC) and by the Office of the Judge Advocate General (JAG). A Department of Defense (DoD) liaison has been appointed to be the sole source of contact with the foundation to prevent NPS employees from receiving direct reimbursement from the Foundation. NPS will incorporate foundation relationship guidelines into ethics currently under development and

will commence training in first quarter FY14. Controls will include notification of noncompliance to NPS senior leaders. NPS will address non-compliance by a graduated series of administrative actions, including warnings, re-training, letters of caution, and appropriate disciplinary action. Completion is contingent on receipt of the draft gift acceptance instruction from OGC/JAG. The estimated completion date is 15 December 2013.

**Naval Audit Service comment on response to Recommendation 17.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 18.** Establish controls and provide oversight to ensure that gift information is accurately reported and reviewed at a higher level prior to submission to the Office of the Chief of Naval Operation as required by Office of the Chief of Naval Operations Instruction 4001.1F.

**Management response to Recommendation 18.** Concur. Naval Postgraduate School canceled the cited instruction in November 2012. NPS redrafted its gift acceptance instruction and it is under review by DoN OGC and JAG. Future reports will require a review by the NPS Comptroller and Chief of Staff before they are submitted. Completion is contingent on receipt of the draft gift acceptance instruction from OGC/JAG. The estimated completion date is 13 December 2013.

**Naval Audit Service comment on response to Recommendation 18.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

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## Finding 4: Wireless Communication Devices

### Synopsis

NPS did not properly manage their wireless communication devices, as required by DON Chief Information Officer (CIO) policy. Specifically, we found that:

- An accurate, comprehensive and up-to-date inventory of Government-provided wireless communication devices was not maintained nor included in DPAS;
- There was no periodic assessment of wireless communication devices to identify unauthorized usage patterns and abuse.
- There was no check-out process to ensure that personnel leaving NPS employment were returning all issued wireless communication devices;
- NPS did not follow DON policy and procedures for handling lost or stolen wireless communication devices; and

These conditions occurred due to insufficient monitoring and oversight, to ensure compliance with DON policy for the issuance, use, and management of Government-provided wireless communication devices. The lack of internal controls over the accountability for and usage of wireless communication devices creates an increased risk of misuse, abuse, and loss. This could also result in expending funds for wireless communication devices that are lost, being used for personal benefit, or that are no longer deemed necessary.

### Discussion of Details

#### Background

NPS uses a variety of wireless communication devices in carrying out their mission, such as smart phones (iPhones and Android phones), hot spots (MiFis) and personal digital assistants (PDAs). MiFi devices are wireless routers that act as a mobile Wi-Fi and offer Internet access.

#### Pertinent Guidance

**DON CIO Memo on DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards, dated 2 September 2005.** This policy provides guidance governing the issuance, use, and management of Government-provided mobile cellular phones, data

equipment and services, and calling cards. It complements the Department's strategic enterprise approach to the acquisition of cellular phone services, which has been developed to ensure cost-effective acquisition and use of these services enterprise-wide. As technology convergence continues, wireless devices such as PDAs frequently now incorporate cellular phone service.

**NAVPGSCOL Instruction 11016.4D, "Personal Property Management," dated 22 January 2010**, requires that all capital, minor, sensitive, classified, and pilferable property which meets the definition for personal property will be recorded and tracked in DPAS.

## Audit Results

NPS did not properly manage their wireless communication devices because they did not have sufficient internal controls in place, as required by DON Chief Information Officer (CIO) policy. Specifically, we found:

**An accurate, comprehensive and up-to-date inventory of Government-provided wireless communication devices was not maintained nor included in DPAS.** We found that NPS did not conduct inventories of wireless communication devices, as required by the DONCIO Memo. We also found that these devices, although pilferable in nature, were not included in DPAS, contrary to NAVPGSCOL Instruction 11016.4D (see Finding 5).

Furthermore, through our review of the 50 wireless communication devices in our judgmental sample, we found:

- 1 device was lost or missing;
- 1 device was an unauthorized purchase;<sup>2</sup>
- 2 of the devices physically verified were missing from the inventory listings; and
- 17 devices were incorrectly identified (wrong phone number, make/model, and/or international mobile equipment identity (IMEI) number) on the inventory listings.

Annual inventories of wireless communication devices are needed to ensure that assets are accounted for and in the possession of the assigned personnel, as required by DON CIO guidance.

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<sup>2</sup> We obtained documentation showing that this was a potentially unauthorized cellular phone purchase; it was rectified and the charge for this wireless device was reversed.

**There was no check-out process to ensure that personnel leaving NPS employment were returning all issued wireless communication devices.** For example, a former employee did not return his cellular phone prior to ending employment at NPS and also received a new device after his contract for employment ended. Furthermore, a review of the official NPS Check-Out sheets found that wireless communication devices were not included as items to be returned before employee departures. NPS should ensure that all wireless devices are properly returned to NPS when personnel transfer, leave, retire, or their employment is terminated to ensure sufficient oversight of wireless communication devices. In addition, NPS must include the return of wireless communications devices as an item to be addressed on Check-Out sheets.

**NPS did not follow DON policies and procedures for handling lost or stolen wireless communication devices.** There were also no local policies and procedures in place for handling lost or stolen wireless communication devices. During our on-site audit work, we noted that a MiFi device had been lost or misplaced and the custodian was unaware of any policy for reporting the loss. NPS must establish procedures for reporting lost or stolen wireless communication devices to ensure sufficient oversight and accountability, as required by DON CIO guidance.

**There was no periodic assessment of wireless communication device usage to identify unauthorized calling patterns and abuse.** We reviewed the billings for 50 wireless communication devices for the first 6 months of FY 2012 and found that the average billing was \$83.36, with 34 instances falling between \$300 and \$1,297.

NPS must establish controls that require the systematic review of wireless communication device usage to prevent abuse, and ensure authorized use is occurring as required by DON CIO guidance.

## Recommendations

We recommend that the President, Naval Postgraduate School:

**Recommendation 19.** Establish controls and provide oversight to ensure that inventories of wireless communication devices are properly conducted, documented, and included in a government approved accountability system that meets the inventory documentation standards, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards, and Secretary of the Navy Instruction 7320.10A.

**Management response to Recommendation 19** Concur. Naval Postgraduate School stated that all mobile devices are delivered to the ITACS mobile phone technician. Upon delivery, the device will be entered in the mobile device inventory database. Data elements including all DPAS-required data elements will be captured in the database. Wireless devices will be inventoried annually, at which time the owning department will identify whether each device is still required and users will confirm they still possess the device. iPads, laptops, and similar devices will also be entered into DPAS by the NPS Property Manager. The estimated completion date is 29 November 2013.

**Naval Audit Service comment on response to Recommendation 19.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to action.

**Recommendation 20.** Establish controls and provide oversight to ensure that wireless communication devices are properly issued and returned when personnel leave NPS employment, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards. In addition, NPS should include the return of wireless communications devices as an item on Check-Out sheets.

**Management response to Recommendation 20.** Concur. Naval Postgraduate School check-out sheets have been revised to require that employees obtain a signature from the ITACS mobile phone technician as part of out-processing. Employees with mobile devices must return them to receive a check-out signature. ITACS will update the mobile device inventory database with the employee's departure date. The estimated completion date is 30 September 2013.

**Naval Audit Service comment on response to Recommendation 20.**

Actions planned by President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 21.** Establish controls and provide oversight to ensure that policies and procedures for handling lost or stolen wireless communication devices are developed and implemented, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards.

**Management response to Recommendation 21.** Concur. Naval Postgraduate School will require employees to report lost or theft of mobile devices to their supervisor and ITACS within one business day. ITACS will update the mobile

device inventory database, and will remotely "wipe" the mobile device to remove all data from the device. Employees must complete DD Form 200, Financial Liability Investigation of Property Loss and submit it to their supervisor, who will route it to the NPS Chief of Staff. The Chief of Staff will determine whether to recoup the cost of the device from the employee. The estimated completion date is 30 September 2013.

**Naval Audit Service comment on response to Recommendation 21.**

Actions planned President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 22.** Establish controls and provide oversight to ensure that systematic reviews are conducted to identify patterns of unauthorized usage and abuse of wireless communication devices, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards.

**Management response to Recommendation 22.** Concur. Naval Postgraduate School new policy will require monthly review of usage by each department or organizational unit to identify over- and underutilization. If abuse is identified, the department will take appropriate administrative action. If an employee has not used the mobile device for 60 consecutive days, ITACS will terminate service and the department will require the employee to return the device. The estimated completion date is 31 May 2014.

**Naval Audit Service comment on response to Recommendation 22.**

Actions planned by President of Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

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## Finding 5: Audit Followup

### Synopsis

NPS management did not sufficiently implement agreed-to corrective actions for 15 of 33 recommendations made in the prior Naval Audit Service report, “Followup of Managing Sponsored Programs at Naval Postgraduate School” (N2009-0039) dated 28 July 2009. We found the following repeat conditions:

- Insufficient day-to-day funds management;;
- Property not accounted for in DPAS (also addressed in Finding 2 on Pilferable Property in this report);
- Defense Acquisition Workforce Improvement Act (DAWIA) requirements were not monitored or included in the current NPS instruction, NAVPGSCOL Instruction 4410.1C, dated 27 February 2012; and
- Untimely review of purchase card transactions.

These conditions occurred due to the lack of internal controls and management oversight, in addition to NPS noncompliance with DON and NPS instructions. SECNAV and NPS instructions provide guidance for proper management of funds, property, and the purchase card program. By not sufficiently taking corrective actions on the prior audit recommendations, NPS increases the risk of operating ineffectively and inefficiently, thereby increasing the risk of fraud, waste, and abuse.

### Discussion of Details

#### Background

The prior audit report identified opportunities for NPS to improve efficiency and effectiveness regarding internal controls and fund control oversight. The report contained 3 findings and 34 recommendations; all recommendations were closed as of 13 July 2011. Of the 34 recommendations, 33 were directly related to the current audit. Recommendation 16, Hazardous Material Control, was outside the scope of this audit; therefore, we did not follow up on it. The three findings identified during the prior audit were:

1. **Sponsored Programs Fund Control.** NPS personnel did not follow the required statutory and regulatory procedures for preventing over-expenditures. We made 11 recommendations for corrective actions. NPS took satisfactory corrective action on these recommendations prior to our audit and they were closed. However, we found that the conditions still exist.

2. **Personal Property Management.** Opportunities exist for NPS to improve personal property management, including the Hazardous Material and Purchase Card programs. We made 14 recommendations for corrective actions. NPS took satisfactory corrective action prior to our audit on these recommendations and they were closed. However, we found that the conditions still exist.
3. **NPS Administrative Procedures.** NPS personnel did not have sufficient controls and provide enough oversight to ensure that contract labor costs were properly allocated. We made 9 recommendations for corrective actions. NPS took satisfactory corrective action on these recommendations and they were closed.

These conditions occurred because NPS management did not place a high priority on oversight and accountability. NPS management did not establish sufficient controls and provide enough oversight over sponsored programs, personal property management, and NPS administrative procedures.

### **Pertinent Guidance**

**SECNAV Instruction 7000.27A, “Comptroller Organizations,” dated 7 July 2006,** states that “all proposed obligations of funds are to be reviewed to ensure that sufficient funds are available to cover the obligations.”

**NAVPGSCOL Instruction 3900.1C, “Administration and Management of Academic Sponsored Programs at NPS,” dated 26 April 2001,** requires that “funds are to be used to support the work statement of the proposal and will not be utilized for other purposes. Funds cannot be loaned or exchanged between projects.”

**NAVPGSCOL Instruction 4235.2B, “Financial Management and Accounting Procedures,” dated 7 February 2006,** states that “the comptroller’s office is responsible for the financial integrity of transactions and for the reporting of financial events at NPS which include reconciliation of accounts and accounting systems.” This instruction also states that it is “the Principal Investigator’s responsibility to negotiate a resolution with a sponsor as soon as a funding deficiency is anticipated.”

**NAVPGSCOL Instruction 11016.4D, “Personal Property Management,” dated 22 January 2010,** requires that all capital, minor, sensitive, classified, and pilferable property which meets the definition for personal property will be recorded and tracked in the Defense Property Accountability System (DPAS). The NPS property transaction form will be used to annotate all property transferred within departments and schools as well as to update DPAS with location. All physical inventories are required to include a comparison of all personal property records to physical assets (i.e., book-to-floor) and all physical assets back to the personal property records (i.e., floor-to-book) to ensure all items are included in DPAS. The Personal Property Manager will work with the Agency

Program Coordinator and Approving Officials to ensure property accountability is performed.

**NAVPGSCOL Instruction 4410.1C, “Policies and Procedures for the Operation and Management of the Government Commercial Purchase Card Program,” dated 27 February 2012,** states that “the APC shall conduct monthly transactional reviews. The review shall include all of the Purchase Card transactions within the previous month for all card accounts under the APC’s cognizance.”

**NPS Sponsored Program Policy/Guidance Memo (SPPGM) Number 09-05, “Attestation Process for Principal Investigators/Program Managers of Sponsored Program Accounts,”** requires that “Expenditures in support of a sponsored project (research, education, or other sponsored activity) must be certified by the Principal Investigator/Project Manager (PI/PM) at least quarterly during the life of the sponsored project account.”

## Audit Results

NPS management did not address some of recommendations made in the prior Naval Audit Service report. For 15 of the 33 recommendations reviewed and associated with the 3 findings in the prior report (45 percent), NPS did not implement some of the corrective actions detailed in their management responses. This resulted in repeat findings. The repeat findings are discussed below. These conditions occurred due to the lack of internal controls and management oversight, in addition to NPS noncompliance with DON and NPS instructions.

**Insufficient day-to-day funds management.** NPS personnel did not follow the required statutory and regulatory procedures for preventing over-obligations and over-expenditures. We reviewed an over-expenditure report, dated 12 December 2012, and found that 382 of 491, or 77.8 percent, of sponsored accounts were over-expended by a total of \$15.2 million. We also found that NPS had obligated \$5.5 million and expended \$3.9 million for 85 of 491 sponsored accounts (17.3 percent). These authorizations and expenditures were not authorized. NPS guidance for “sponsored accounts” requires authorization for the obligation and expenditure of funds.

- *Sponsored Accounts.* Additionally, NPS personnel did not comply with NAVPGSCOL Instruction 3900.1C to prevent over-obligations/expenditures on all sponsored accounts. For example, when sufficient funds were not available within a given sponsored account for a transaction, the NPS comptroller personnel would move the transaction(s) to another sponsor’s account as a means of alleviating the need to request additional funding from the sponsor. NAVPGSCOL Instruction 3900.1C states that funds cannot be loaned or exchanged between projects.

- *Attestations by Principal Investigator/Project Manager.* Attestations were not being performed on all sponsored accounts, as required by the SPPGM 09-05. Attestations by a principal investigator authenticate that all expenses charged to a project are allowable, allocable to the project, and reasonable. The attestations of faculty and staff labor expenditures assure that labor charged to the account are supported by a corresponding level of effort during the time period being certified. The prior accounting system used by NPS had the attestation capability. However, in FY 2011, NPS transitioned to a new financial (accounting) reporting system that does not have the attestation tool to certify sponsored project accounts quarterly. NPS must establish controls and provide oversight to ensure that the attestation process is incorporated into the current financial accounting system.

Without an attestation tool within the current financial accounting system, principal investigators cannot ensure that the expenditures on their account are valid, and the risk of incurring an Anti-Deficiency Act violation due to over-obligating/expending increases.

**Property not accounted for in DPAS.** Actions to address recommendations issued in the prior report related to personal property were not fully completed. This is evident by the issues identified in Finding 2 of this report regarding pilferable property. Although some improvements have been made since the prior audit, such as the hiring of additional property management personnel and the creation of the property management training slides, weaknesses remain in accountability of personal property.

**Defense Acquisition Workforce Improvement Act (DAWIA) requirements are neither monitored nor included in the current NPS instruction.** We found that NPS did not complete actions to address the recommendation in the prior report for the Agency Program Coordinator (APC) to periodically monitor all Purchasing Agents' (PAs) compliance with DAWIA and to update the guidance as needed.

- The APC was unable to provide documentation to support whether the DAWIA certification requirements were met by PAs. This condition occurred because the APC was not monitoring the PA's progress and completion of the DAWIA certification requirements, and because the current instruction did not require compliance with DAWIA requirements.
- A change transmittal to NAVPGSCOL Instruction 4410.1A was provided to the Naval Audit Service as an update for NAVPGSCOL Instruction 4410.1B. This information was used as evidence to close Recommendations 23 and 24 from the prior audit. However, the change was not included in any of the updated instructions. As a result, NPS still cannot be assured that required personnel received the DAWIA certifications. NPS must revise the current NAVPGSCOL (N2009-0039) 4410.1C to comply with the recommendation in the prior report for the APC to periodically monitor all PAs' DAWIA requirements.

**Untimely review of purchase card transactions.** We found that the APC did not perform timely reviews of purchase card transactions. At the time of this audit, the APC was 2 months behind in conducting reviews. The APC stated that cardholders did not provide required documentation (purchase logs, purchase orders, invoices, and receipts) to facilitate performance of cardholder reviews in a timely manner. Therefore, NPS has no assurance that all purchases were supported, reasonable, cost effective, and were received by the end-user in a timely manner.

**Conclusion.** Because NPS did not sufficiently implement actions to address all of the recommendations in the prior report, the issues related to funds management, property management, DAWIA requirements, and the untimely review of purchase card transactions in this report are considered repeat findings. NPS must ensure that actions to address the recommendations issued in this report, especially the repeat findings, are sufficiently implemented and fully satisfied. We recommend that the Chief of Naval Operations provide higher-level oversight to ensure that all NPS agreed-to actions are properly implemented.

## Recommendations

We recommend that the President, Naval Postgraduate School:

**Recommendation 23.** Establish controls and provide oversight to ensure that comptroller personnel prevent over-obligations and expenditures on all sponsored accounts, as required by Naval Postgraduate School Instruction 3900.1C.

**Management response to Recommendation 23.** Concur. Naval Postgraduate School is working on tools for pre-encumbrance of funds to commit funds to planned expenses and prevent overcharging. NPS is evaluating staffing requirements to accommodate the demand for account reconciliation. In addition, adoption of new reconciliation tools will make the reconciliation process more efficient. Beginning in FY14, NPS will initiate a procedure to suspend over-obligated accounts until resolution is achieved. The estimate completion date is 31 January 2014.

**Naval Audit Service comment on response to Recommendation 23.** Actions planned by President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 24.** Establish controls and provide oversight to ensure that the attestation process is incorporated into the current financial system in accordance with SPPGM-09-05 requirements.

**Management response to Recommendation 24.** Concur. Naval Postgraduate School stated that the capability to review all sponsor funded expenses, labor, travel, equipment/supplies, indirect and other direct costs exists within the internal NPS financial/business system, the Kuali Financial System. KFS records all procurements and miscellaneous costs, calculates indirect costs, and compiles data from the systems of record; STARS (for travel) and the Defense Civilian Pay System (for labor). Reports detailing these costs for each sponsored project exist within KFS and provide adequate data for PI review and attestation of expenses against sponsor accounts. A mechanism within the KFS reports will be developed that documents the required account review and certification. NPS will test and validate this as a way to support the attestation process, will draft a new instruction to replace SPPGM 09-05, and will notify PIs that attestation will restart by 30 Sep 2013, with the first attestation taking place during second quarter FY14. Failure to comply will result in suspension of affected accounts until attestations are completed. The estimated completion date is 30 March 2014.

**Naval Audit Service comment on response to Recommendation 24.**

Actions planned by President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 25.** Establish controls and provide oversight to ensure the revision of Naval Postgraduate School Instruction 4410.1C to require the Agency Program Coordinator to periodically review all Purchasing Agents' compliance with the Defense Acquisition Workforce Improvement Act requirements, and ensure that the revised guidance is implemented.

**Management response to Recommendation 25.** Concur. Naval Postgraduate School will issue policy to move the responsibility for monitoring DAWIA training from the APC to the Director of Contracting and Logistics. As the supervisor of the GS-1105 series personnel, the Director will develop Individual Development Plans (IDP) that addresses DAWIA requirements for the GS-1105s. The estimated completion date is 15 Nov 2013.

**Naval Audit Service comment on response to Recommendation 25.**

Actions planned by President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 26.** Establish controls and provide oversight to ensure that purchase card holders provide all purchase transaction documentation from the prior billing cycle to the Agency Program Coordinator office in a timely manner for review and audit, as required by Naval Postgraduate School Instruction 4410.1C.

**Management response to Recommendation 26.** Concur. Naval Postgraduate School will reiterate, via informational email, meetings between the APC and cardholders, and dissemination of Addendum #1 to the APC's internal operating procedures (IOP), the following requirements: The approving official certifies the bank statement once the cardholder has provided the files and purchase log for the current month for verification of transactions. The APC's IOP includes consequences of non-compliance in providing the required supporting documentation to facilitate timely reviews by the certifying official and the APC. The IOP also requires that the APC send monthly notification to cardholders and approving officials for deadlines of bank certification and submission of files to the APC office for review. In addition, addendum #1 to NPS Instruction 4410.1C also serves as notification to cardholders and approving officials. The estimated completion date is 16 August 2013.

**Naval Audit Service comment on response to Recommendation 26.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

**Recommendation 27.** Designate the areas identified in this report as repeat findings as assessable units within NPS Managers' Internal Control Program.

**Management response to Recommendation 27.** Concur. Naval Postgraduate School Managers' Internal Control Program (MICP) Coordinator will assign the recommendations (identified as repeat findings) to the appropriate organizational assessable. The estimated completion date is 31 July 2013.

**Naval Audit Service comment on response to Recommendation 27.**

Actions planned by the President, Naval Postgraduate School meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions.

We recommend that the Chief of Naval Operations (N1):

**Recommendation 28.** Provide oversight to ensure that all recommendations addressed in this report are implemented and fully satisfied, with special emphasis on the recommendations (Recommendations 9 through 12 and 23 through 26) that are designated as repeat conditions.

**Management response to Recommendation 28.** Concur. Chief of Naval Operations . In this oversight role, Chief of Naval Operations (N1) is responsible for ensuring all recommendations addressed in NAVAUDSVC Draft Audit Report (2012-156) are implemented and fully satisfied. Special emphasis will be placed on those recommendations that are designated as repeat conditions. A POA&M will be developed by the NPS to track progress in completing action

on all recommendations. We will utilize a combination of long distance communication (i.e., VTC, E- mail, teleconference, etc.) and on-site visits to track the implementation of corrective actions and conduct followup testing to confirm the completion of actions and the effectiveness of newly implemented internal controls. The estimated completion date is 30 September 2014.

**Naval Audit Service comment on response to Recommendation 28.**

Actions planned by the Chief of Naval Operations meet the intent of the recommendation, which is considered open pending completion of the agreed-to actions. Because the planned corrective actions will take more than a year to complete, the Chief of Naval Operations established an interim target completion date of 31 March 2014.

**Section B:**

# Status of Recommendations

Recommendations							
Finding <sup>3</sup>	Rec. No.	Page No.	Subject	Status <sup>4</sup>	Action Command	Target or Actual Completion Date	Interim Target Completion Date <sup>5</sup>
1	1	9	Establish controls and provide oversight to ensure that proper supporting documentation for travel is submitted and maintained, as required by Naval Postgraduate School Instruction 4650.4H.	O	President, Naval Postgraduate School	8/31/13	
1	2	10	Establish controls and provide oversight to ensure that travelers are using the mandated Commercial Travel Office to arrange and conduct official travel, as required by the Department of Defense Joint Travel Regulation.	O	President, Naval Postgraduate School	8/31/13	
1	3	10	Establish controls and provide oversight to ensure that travelers use the Government Travel Card or the centrally billed account for all mandated travel card expenses, as required by Naval Postgraduate School Instruction 4650.4H.	O	President, Naval Postgraduate School	8/31/13	
1	4	11	Establish controls and provide oversight to ensure that travelers file a travel voucher via the Defense Travel System within the mandated 5 working days after completing travel, as required by Naval Postgraduate School Instruction 4650.4H.	O	President, Naval Postgraduate School	8/31/13	
1	5	11	Establish controls and provide oversight to ensure that travel vouchers are reviewed for improper payments, including those identified during the audit; recoup any money owed to Naval Postgraduate School as required by Naval Postgraduate School Instruction 4650.4H; and report the amount of recovered funds to the Naval Audit Service.	O	President, Naval Postgraduate School	8/31/14	3/31/2014

<sup>3</sup> / + = Indicates repeat finding.

<sup>4</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.

<sup>5</sup> If applicable.

Recommendations							
Finding <sup>3</sup>	Rec. No.	Page No.	Subject	Status <sup>4</sup>	Action Command	Target or Actual Completion Date	Interim Target Completion Date <sup>5</sup>
1	6	12	Establish controls and provide oversight to ensure that travelers have proper authorization and justification for expenses incurred during travel, as required by Naval Postgraduate School Instruction 4650.4H.	O	President, Naval Postgraduate School	8/31/13	
1	7	12	Establish controls and provide oversight to ensure that appropriate action is taken on delinquent travel card holders, including suspending travel privileges, as required by Naval Postgraduate School Instruction 4650.4H.	O	President, Naval Postgraduate School	8/31/13	
1	8	13	Establish controls and provide oversight to ensure that travelers properly designate their total outstanding charges for split disbursement to eliminate or minimize being billed for charges and to prevent delinquencies, as required by Department of Defense Financial Management Regulation.	O	President, Naval Postgraduate School	8/31/13	
2	9	18	Establish controls and provide oversight to ensure that physical inventories (book-to-floor and floor-to-book) of pilferable items are performed and properly documented as required by Secretary of the Navy Instruction 7320.10A. In addition, conduct an initial inventory of all pilferable property items at all locations, reconcile with the Defense Property Accountability System (DPAS), and provide the results within 6 months to the Naval Audit Service. Conduct an additional inventory within 18 months of the first completed inventory to establish a baseline and history of conducting proper inventories. Once Naval Postgraduate School completes two satisfactory inventories, transition to the 3-year inventory cycle as required by Secretary of the Navy Instruction 7320.10A.	O	President, Naval Postgraduate School	3/31/14	

Recommendations							
Finding <sup>3</sup>	Rec. No.	Page No.	Subject	Status <sup>4</sup>	Action Command	Target or Actual Completion Date	Interim Target Completion Date <sup>5</sup>
2	10	19	Establish controls and provide oversight to ensure that proper request and procurement documentation is maintained for pilferable items as required by Naval Postgraduate School Instruction 11016.4D.	O	President, Naval Postgraduate School	5/31/14	
2	11	19	Establish controls and provide oversight to ensure that personnel are aware of their roles and responsibilities as custodians of pilferable items, as required by Naval Postgraduate School Instruction 11016.4D.	O	President, Naval Postgraduate School	9/13/13	
2	12	19	Establish controls and provide oversight to ensure that pilferable items are recorded, tracked, and properly updated in the Defense Property Accountability System, as required by Naval Postgraduate School Instruction 11016.4D.	O	President, Naval Postgraduate School	9/13/13	
3	13	25	Establish controls and provide oversight to ensure that gifts of travel are properly accepted prior to the commencement of travel, as required by Naval Postgraduate School Instruction 4650.4H.	O	President, Naval Postgraduate School	12/13/13	
3	14	26	Establish controls and provide oversight to ensure that gifts of travel checks are payable to U.S. Treasury instead of traveler, as required by Naval Postgraduate School Instruction 4650.4H.	O	President, Naval Postgraduate School	12/13/13	
3	15	26	Establish controls and provide oversight to ensure that reimbursement vouchers for gift expenditures are sufficiently supported and provide clear, detailed and descriptive information to enable approvers to determine if expenditures met the intended purposes of the donor, as required by Naval Postgraduate School Instruction 4001.2B.	O	President, Naval Postgraduate School	12/13/13	

Recommendations							
Finding <sup>3</sup>	Rec. No.	Page No.	Subject	Status <sup>4</sup>	Action Command	Target or Actual Completion Date	Interim Target Completion Date <sup>5</sup>
3	16	27	Establish controls and provide oversight to ensure that reimbursement reviews are conducted by individuals with higher grade levels than the claimant, as required by Naval Postgraduate School Instruction 4001.2B.	O	President, Naval Postgraduate School	12/13/13	
3	17	27	Establish controls and provide oversight to ensure compliance with Naval Postgraduate School Instruction 4001.1E that employees do not receive reimbursement directly from the Foundation.	O	President, Naval Postgraduate School	12/15/13	
3	18	28	Establish controls and provide oversight to ensure that gift information is accurately reported and reviewed at a higher level prior to submission to the Office of the Chief of Naval Operation as required by Office of the Chief of Naval Operations Instruction 4001.1F.	O	President, Naval Postgraduate School	12/13/13	
4	19	31	Establish controls and provide oversight to ensure that inventories of wireless communication devices are properly conducted, documented, and included in a government approved accountability system that meets the inventory documentation standards, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards, and Secretary of the Navy Instruction 7320.10A.	O	President, Naval Postgraduate School	11/29/13	

Recommendations							
Finding <sup>3</sup>	Rec. No.	Page No.	Subject	Status <sup>4</sup>	Action Command	Target or Actual Completion Date	Interim Target Completion Date <sup>5</sup>
4	20	32	Establish controls and provide oversight to ensure that wireless communication devices are properly issued and returned when personnel leave NPS employment, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards. In addition, NPS should include the return of wireless communications devices as an item on Check-Out sheets.	O	President, Naval Postgraduate School	9/30/13	
4	21	32	Establish controls and provide oversight to ensure that policies and procedures for handling lost or stolen wireless communication devices are developed and implemented, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards.	O	President, Naval Postgraduate School	9/30/13	
4	22	33	Establish controls and provide oversight to ensure that systematic reviews are conducted to identify patterns of unauthorized usage and abuse of wireless communication devices, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards.	O	President, Naval Postgraduate School	5/31/14	
5	23	38	Establish controls and provide oversight to ensure that comptroller personnel prevent over-obligations and expenditures on all sponsored accounts, as required by Naval Postgraduate School Instruction 3900.1C.	O	President, Naval Postgraduate School	1/31/14	

Recommendations							
Finding <sup>3</sup>	Rec. No.	Page No.	Subject	Status <sup>4</sup>	Action Command	Target or Actual Completion Date	Interim Target Completion Date <sup>5</sup>
5	24	38	Establish controls and provide oversight to ensure that the attestation process is incorporated into the current financial system in accordance with SPPGM-09-05 requirements.	O	President, Naval Postgraduate School	3/30/14	
5	25	39	Establish controls and provide oversight to ensure the revision of Naval Postgraduate School Instruction 4410.1C to require the Agency Program Coordinator to periodically review all Purchasing Agents' compliance with the Defense Acquisition Workforce Improvement Act requirements, and ensure that the revised guidance is implemented.	O	President, Naval Postgraduate School	11/15/13	
5	26	39	Establish controls and provide oversight to ensure that purchase card holders provide all purchase transaction documentation from the prior billing cycle to the Agency Program Coordinator office in a timely manner for review and audit, as required by Naval Postgraduate School Instruction 4410.1C.	O	President, Naval Postgraduate School	8/16/13	
5	27	40	Designate the areas identified in this report as repeat findings as assessable units within NPS Managers' Internal Control Program.	O	President, Naval Postgraduate School	7/31/13	
5	28	40	Provide oversight to ensure that all recommendations addressed in this report are implemented and fully satisfied, with special emphasis on the recommendations (Recommendations 9 through 12 and 23 through 26) that are designated as repeat conditions.	O	Chief of Naval Operations (N1)	9/30/14	3/31/2014

## Exhibit A:

# Background

The mission of the Naval Post Graduate School (NPS) is to provide high quality, relevant and unique advanced education and research programs that increase the combat effectiveness of the Naval services, other Armed Forces of the United States, and partners to enhance national security. NPS is committed to operational excellence, which encompasses the people, tools, systems, resources, decision making and shared governance structures of the School. NPS aggressively seeks to strengthen and increase its financial base, pursue the resources necessary to achieve its vision and develop business models that enhance its stakeholders' return on investment.

The budget at NPS is divided by funds controlled by the Comptroller and Research and Sponsored Program Office. The funds controlled by the Comptroller include the direct budget, the indirect budget, a portion of the reimbursable funds, the Foreign Military Training funds, and the Directed Funded Research funds. The reimbursable funds administered by the Comptroller are transferred to other commands and agencies, and then the funds are used for various purposes such as services or commodities, or both. Foreign Military Training funds are used in support of the international students. Directed Funded Research are funds allocated to NPS and used for various research programs.

The NPS Board of Advisors consists of a 15-member Federal advisory subcommittee providing guidance on matters pertaining to NPS and its graduate education and research programs. According to the NPS Web site, the Board will include not more than 10 members, who are eminent authorities in the field of academia, business, national defense and the defense industry, management, leadership, research and analysis. All Board members are appointed by the Secretary of Defense, and are appointed to provide advice on behalf of the Government on the basis of their best judgment without representing any particular point of view, and in a manner that is free from conflict of interest. Those members who are not full-time or permanent part-time Federal employees shall be appointed as experts and consultants under the authority of 5 U.S.C. §3109, and these individuals shall serve as special Government employees.

The NPS Foundation, founded in 1970, is a non-profit 501(c)3 organization with a primary mission to support the students, faculty and staff of NPS. Like traditional higher educational institutions, private support is vital to achieve the highest standards in academia. Private donations help the Foundation support NPS.

## Exhibit B:

# Scope and Methodology

## Scope

The audit of fiscal and resource management at the Naval Postgraduate School, Monterey, CA, covered transactions for 1 October 2010 to 31 March 2012). The audit included a review of travel, pilferable property, funds management (reimbursable orders/sponsor funds, gift funds, tuition, and direct mission funds), and wireless communication devices. The audit also included a follow up on 33 of 34 recommendations in a prior Naval Audit Service Report, N2009-0039; “Followup of Managing Sponsored Programs at NPS” dated 28 July 2009, that directly relate to this audit.

## Methodology

We conducted the audit at the Naval Postgraduate School (NPS) in Monterey, CA from 12 June 2012 through 4 June 2013. Exhibit C contains a list of activities visited.

We obtained data from NPS for each of the audit areas: travel, pilferable property, funds management (reimbursable orders, gift funds, tuition, and direct mission funds), and wireless communication devices. We worked with the Naval Audit Service statistician and randomly selected transactions for review. Each audit area had a separate methodology that consisted of judgmental sampling, probability sampling<sup>6</sup>, or a combination of both. Each methodology is addressed by audit area and the transactions audited are noted below:

### Probability Sampling

	Universe	\$ Amount	Sample	\$ Amount
Pilferable Property Items	16,741	\$26.3M	134	\$596.8K
Official Travel	9,116	\$20.3M	136	\$507.4K
Reimbursable Order Funding Documents	3,728	\$589.8M	97	\$212.2M

<sup>6</sup>Probability sampling involves the use of a random or pseudorandom process to select a sample where each item in the universe has a known, non-zero chance of being selected

### Judgmental Sampling

	Universe	\$ Amt.	Sample	\$ Amt.
Pilferable Property Items	16,741	\$26.3M	80	\$106.8K
Travel	9,116	\$20.3 M	254	\$690K
Gift Funds (check, travel, personal property)*	126	\$467.8K	50	\$305.4K
Tuition	124	\$8.8M	32	\$7.4M
Wireless Communication Devices	403	n/a	50	n/a**

\*Universe: 21 checks (approximately \$202K); 1 property (approximately \$26K), 104 travel gifts (\$239.8K)  
 Sample: 21 checks; 1 property; 28 travel gifts; \*\*Value could not be determined due to missing documentation.

### Pilferable Property

We obtained data from the Property Manager at NPS that identified a universe of 16,741 pilferable items recorded in the Defense Property Accountability System (DPAS) as of 13 July 2012. We separated the universe into two strata categories: (1) pilferable items that had the capability of storing information (e.g. desktop computers, laptops) and (2) pilferable items that did not store information (e.g. oscilloscopes, televisions, servers,). The statistician selected a sample of 134 unique inventory records (pilferable items), which was compromised of a simple random sample of 75 information based and a dollar weighted sample of 59 non-information based pilferable items.

During the onsite inventory, we also judgmentally selected 30 items considered to be highly pilferable, which included primarily iPods and iPads, and 50 random items for a floor-to-book inventory.

To verify accuracy and the reliability of the data retrieved from DPAS, we evaluated procedures, monitoring practices, and documentation of pilferable items through physical reviews. Additionally, we analyzed the documentation within DPAS for each item sampled.

## **Travel**

We obtained data from the Travel Officer at NPS that identified a universe of 9,116 travel vouchers for FY 2011 and the first six months of FY 2012. We stratified the sample into two categories. The universe was divided into: (1) Invitational Travel Orders and (2) Standard Travel Orders. The statistician provided a dollar weighted sample of 136 travel vouchers which was comprised of 66 Invitational Travel Orders and 70 Standard Travel Orders. The statistician used the universe of travel vouchers to determine the top 10 travelers with the highest travel expenses. We judgmentally sampled 5 of the 10 travelers with the highest expenditures. During the onsite interview process, we selected two additional travelers as a result of concerns identified by the NPS Command Evaluation Staff. The judgmental sample for all 7 travelers resulted in a total of 254 travel orders reviewed by the audit team.

To verify accuracy and the reliability of the data retrieved from the travel system, Defense Travel System (DTS), we evaluated procedures, monitoring practices, supporting documentation and obtained read-only access to NPS DTS data. Additionally, we analyzed the documentation within DTS for FY 2011 and first 6 months of FY 2012 for each voucher sampled.

## **Funds Management**

We obtained data from the NPS Comptroller's office that identified a universe of 3,278 unique reimbursable documents valued at approximately \$590 million for FY 2011 and the first six months of FY 2012. The statistician stratified the sample by dollar value with the goal of focusing on higher dollar transactions without ignoring the lower dollar items. A sample of 97 reimbursable transactions valued at approximately \$212 million was selected for review.

In addition, we obtained data from the NPS Comptroller's Office that identified a universe of 104 gifts of travel valued at \$239,765; 21 general gift funds (checks) valued at \$202,046; and 124 tuition transactions valued at \$9 million. We judgmentally selected 28 gifts of travel valued at \$49,031; all 21 general gift fund checks, and 32 tuition transactions valued at approximately \$7 million. The judgmental sampling was based on high dollar values.

We obtained and reviewed documentation, which included various funding documents and supporting documentation in relation to sponsored funds, for compliance with laws and regulations.

## **Wireless Communication Devices**

We obtained wireless communication device data from NPS's purchasing agent and technology specialist that identified a universe of 403 wireless communication devices issued by NPS. The Naval Audit Service data analysis team reviewed the data received from NPS to identify any errors and to determine reliability. We judgmentally selected 48 wireless communication devices based on the highest expenditures for each carrier in the three categories provided by our data analysis team: 1) No usage, 2) Active phones for employees not on the active employee roster, and 3) Usage by active employees. During a site visit, the NPS Command Evaluation Team had concerns about a former employee that received a new wireless communication device in addition to one that was previously issued after their employment at NPS terminated. Therefore, we selected 2 additional wireless communication devices for a total sample of 50.

We conducted interviews with the NPS Purchasing Agent for wireless communication devices and Technology Specialist to gain an understanding of the processes and procedures for managing and maintaining accountability of the wireless communication devices.

## **Internal Controls**

To accomplish our audit objectives and evaluate internal controls, we identified and tested internal controls to ensure compliance with applicable laws and regulations on the travel program, pilferable property, management of funds, and wireless communication devices. Further, we reviewed policies and procedures related to property management, funds management, official travel, pilferable property, and wireless communication devices. Specifically, we reviewed matters related to the roles and responsibilities of key personnel and accountability requirements for the travel program, pilferable property, management of funds, and wireless communication devices.

In our opinion, the areas that we identified as repeat findings should be designated as assessable units within the NPS Manager's Internal Control Program. This would support DON's goals of practicing sound internal controls to achieve results and safeguard the integrity of programs.

## **Compliance with Laws and Regulations**

We assessed compliance with applicable laws and regulations, including Department of Defense and Department of the Navy regulations applicable to official Government travel, pilferable property, fund management, and wireless communication devices.

### **Reliability of Computer Processed Data**

Computer processed data used to conduct the audit was deemed sufficient to accomplish our audit objective. We did find that pilferable items were not recorded, tracked, and properly updated in the Defense Property Accountability System. We did not examine the accuracy of computer processed data in other systems discussed in this report.

### **Generally Accepted Government Auditing Standards**

We conducted this performance 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Audit Followup**

We reviewed prior Naval Audit Service, Department of Defense Inspector General, and Government Accountability Office audit reports. We identified one prior Naval Audit Service audit that addressed issues that directly relates to the current audit. The audit, "Followup of Managing Sponsored Programs at NPS," (N2009-0039) dated 28 July 2009, identified opportunities for NPS to improve efficiency and effectiveness regarding internal controls and fund control oversight, in addition to improved property management internal controls and oversight.

We conducted tests of oversight procedures and internal controls to verify whether actions taken to correct the issues identified in the closed recommendations were fully implemented. We identified and interviewed NPS personnel responsible for the various recommendations and obtained documentation to support actions taken to satisfy the recommendations.

**Exhibit C:**

# Activities Visited

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Under Secretary of the Navy, Washington, DC

Vice Chief of Naval Operations, Washington, DC

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

Assistant Secretary of the Navy (Manpower and Reserve Affairs), Washington, DC

Office of General Counsel, Washington, DC

**Exhibit D:****Funding Profile**

<b>Funding</b>	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2012<sup>7</sup></b>
Direct Funds	\$ 97.5M	\$98.7M	\$93.8M	\$78.9M
Reimbursable	\$113.9M	\$280.4M	\$358.4M	\$305.2M
Totals	\$ 211.4M	\$379.1M	\$452.2M	\$384.1M
*Ratio %	46 / 54	26 / 74	21 / 79	21 / 79

\*Ratio of direct to reimbursable/sponsored funds

<sup>7</sup> First 6 months of Fiscal Year 2012

**Exhibit E:****Status of Recommendations: Prior Naval Audit Service Report, N2009-0039, “Follow up of Managing Sponsored Programs at the Naval Postgraduate School”**

Finding	Rec. No.	Subject	Satisfied Yes/No
1	1	Establish controls and provide oversight to ensure NPS comptroller personnel prevent over obligations/expenditures on all sponsored accounts in accordance with NAVPGSCOLINST 3900.1C.	No
1	2	Direct NPS president to establish controls, to include periodic reviews, and provide oversight to ensure the PI coordinates with the sponsor(s) to obtain additional funding or reduce the scope of the project when a funding deficiency is anticipated, in accordance with NAVPGSCOLINST 4235.2B.	No
1	3	Direct NPS comptroller personnel to resolve the 20 unresolved accounts for which sufficient sponsor funds were not available to cover the costs.	Yes
1	4	Direct NPS comptroller personnel to report to the Naval Audit Service the resolution methodology and whether funds were recouped from the sponsor for each of the 43 accounts.	Yes
1	5	Direct NPS comptroller personnel to report to CNO whether funds were recouped from the sponsors for the six accounts identified in Exhibit D.	Yes
1	6	After reviewing the response from NPS regarding the six overexpended accounts identified in Exhibit D, coordinate with the Assistant Secretary of the Navy (Financial Management and Comptroller) (FMB) to determine whether a potential ADA investigation is warranted (the six overexpended accounts referenced are non-O&M,N DON funded accounts).	Yes
1	7	Strengthen procedures and internal controls for the PI, Sponsored Programs Financial Analyst (SPFA), RSPO, and comptroller’s office responsibilities, regarding fund control, to ensure coordination throughout the fund control process and that funds are returned to sponsors as soon as they are determined to be no longer needed.	No
1	8	Establish controls and provide oversight to ensure the PI conducts a quarterly review of all sponsored accounts for proper fund use and funding needs, and informs the NPS comptroller personnel to return unneeded funds to the sponsor(s). Report the results to the RSPO and the NPS comptroller 5 days after completion.	No

Finding	Rec. No.	Subject	Satisfied Yes/No
1	9	Establish procedures and internal controls to ensure NPS comptroller personnel maintain an audit trail for all sponsored accounts to include supporting documentation for the annual STARS authorizations.	No
1	10	Reconcile account R26K to determine the available funding. Establish controls and provide oversight to ensure comptroller personnel periodically monitor all sponsored accounts to determine the available funding.	No
1	11	Provide the Naval Audit Service the Department of Justice's acceptance of the approximately \$5 million of funds no longer needed.	Yes
2	12	Establish controls and provide oversight to ensure personal property is recorded and tracked in DPAS in accordance with NAVPGSCOLINST 11016.4C.	No
2	13	Establish controls and provide oversight to ensure all personnel accountable for personal property, in the personal property management chain, comply with NAVPGSCOLINST 11016.4C.	No
2	14	Establish controls and provide oversight to ensure physical inventories, including floor-to-book inventories, are performed in accordance with SECNAVINST 7320.10A.	No
2	15	Establish controls to ensure sufficient accountability over all desktop computers, regardless of value or classification.	No
2	16	Establish controls for monitoring the HMC&M coordinator and NPS personnel responsible for hazardous materials to ensure HMC&M is aware of and the DHMPMs comply with, the Hazardous Material Control and Management Program Process.	Out of Scope
2	17	Establish controls and provide oversight to ensure AOs initial buyer's worksheets is in accordance with NAVPGSCOLINST 4410.1A.	Yes
2	18	Revise NAVPGSCOLINST 4410.1A to require PAs to obtain written approvals from the AOs prior to making a purchase, and establish controls and provide oversight to ensure the revised guidance is implemented.	Yes
2	19	Establish controls and provide oversight to ensure PAs maintain documentation to support sole source justification, or quotes from three vendors in accordance with NAVSUPINST 4200.85D and NAVPGSCOLINST 4410.1A respectively.	Yes
2	20	Establish controls and provide oversight to ensure PAs verify receipt of all purchases and maintain documentation to support an audit trail in accordance with NAVPGSCOLINST 4410.1A.	Yes
2	21	Establish controls and provide oversight to ensure the APC performs quarterly and semiannual reviews of purchase card spending limits in accordance with NAVSUPINST 4200.99 and NAVPGSCOLINST 4410.1A.	Yes
2	22	Establish controls and provide oversight to ensure procedures for lost or stolen purchase cards are followed in accordance with NAVSUPINST 4200.99 and NAVPGSCOLINST 4410.1A.	Yes

Finding	Rec. No.	Subject	Satisfied Yes/No
2	23	Establish controls and provide oversight to ensure purchase card training and DAWIA requirements for applicable purchasing personnel are met in accordance with the NAVSUPINST 4200.99 and DON DAWIA Operating Guide.	No
2	24	Revise the NAVPGSCOLINST 4410.1A to require the APC to periodically review all PAs' DAWIA requirements, and prepare waivers in accordance with the DON DAWIA Operating Guide, if necessary. Also, establish controls and provide oversight to ensure the revised guidance is implemented.	No
3	25	Establish controls to ensure the APC complies with the NAVPGSCOLINST 4410.1A and provides sufficient oversight over PAs.	No
3	26	Direct the President, NPS to establish controls and provide oversight to ensure the RSPO personnel enforce the NPS attestation policy and implement the penalties for PIs that do not perform the attestations in accordance with SPPGM-06-05.	No
3	27	Direct the President, NPS to establish controls and provide oversight to verify PIs complete training requirements prior to the release of sponsored program accounts as required by SPPGM-05-04.	Yes
3	28	Direct the President, NPS to revise the SPFA Standard Operating Procedures to incorporate the SPFA training requirements and establish controls and provide oversight to ensure the revised guidance is implemented.	Yes
3	29	Establish controls and provide oversight to ensure NPS faculty complete and attest to the correctness and accuracy of the data for their current pay period as required by DoD FMR and NAVPGSCOLINST 7410.3S.	Yes
3	30	Establish controls and provide oversight to ensure travel personnel obtain supporting documentation for individual travel expenses more than \$75, in accordance with the Joint Travel Regulation, FMR, and NPS guidance, prior to approving the travel vouchers.	Yes
3	31	Establish controls and provide oversight to ensure the APC maintains historical Delinquency Reports.	Yes
3	32	Establish controls and provide oversight to ensure the APC maintains supporting documentation of the notifications and results when travelers and their supervisors are questioned regarding the appearance of the traveler on the Exceptions Reports - Non-travel Activity report.	Yes
3	33	Establish controls and provide oversight to ensure NPS personnel comply with the requirements of the contract/grant, as well as comply with the requirements of the FAR.	No
3	34	Establish guidance to ensure NPS personnel perform quality assurance for grants.	Yes

**Appendix A:**

# Management Response from President, Naval Postgraduate School



DEPARTMENT OF THE NAVY  
NAVAL POSTGRADUATE SCHOOL  
1 UNIVERSITY CIR  
MONTEREY, CA 93943-5000

IN REPLY REFER TO:  
5040  
Ser 00/459  
3 Jul 13

From: Interim President, Naval Postgraduate School  
To: Assistant Auditor General for Financial Management and  
Comptroller Audits

Subj: NAVAL POSTGRADUATE SCHOOL MANAGEMENT RESPONSES  
FOR FISCAL AND RESOURCE MANAGEMENT DRAFT AUDIT REPORT  
#2012-156

Ref: (a) NAVAUDSVC Report N2012-156 of 4 Jun 13

Encl: (1) NPS Management Responses

1. Per reference (a), responses to the Naval Audit Service report on "Fiscal and Resource Management at the Naval Postgraduate School" recommendations 1-27 are submitted as enclosure (1).

2. The NPS Counsel reviewed the draft audit report and the enclosed management responses and had no substantive legal comment.

3. Point of contact is [REDACTED], Office of the Inspector General, [REDACTED].

[REDACTED]

[REDACTED]

FOIA (b)(6)

FOIA (b)(6)

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“Fiscal and Resource Management at the Naval Postgraduate School”**

**FINDING 1: TRAVEL**

**Recommendation 1:** Establish controls and provide oversight to ensure that proper supporting documentation for travel is submitted and maintained, as required by Naval Postgraduate School Instruction 4650.4H.

**NPS Management Response:** **Concur.** Corrective actions include training of travelers and travel authorizing/certifying officials, institution of improved controls and management oversight, and establishment of administrative consequences for non-compliance. Improved controls and oversight will include weekly internal audits by the travel office and reporting of results to supervisors and management. Action to be complete 31 Aug 2013.

**Recommendation 2:** Establish controls and provide oversight to ensure that travelers are using the mandated Commercial Travel Office to arrange and conduct official travel, as required by the Department of Defense Joint travel Regulation.

**NPS Management Response:** **Concur.** Travelers are required to provide a written explanation of reasons for not using the CTO. In cases where a CTO was available but was not used, travelers must explain why CTO was not used and how the alternative was advantageous to the government. The requirement that ITA travelers must use the CTO is a clarification of policy and has been implemented as of May 2013. Corrective action accomplished in May 2013 included training of Travel Office personnel and communication of the requirement to travel officials across NPS. NPS will institute weekly internal audits in the Travel Office, and the NPS IG will include CTO use in its command evaluation program. Non-compliance will result in administrative action (letters of caution/reprimand) and loss of the travel privilege. Action to be complete 31 Aug 2013.

**Recommendation 3:** Establish controls and provide oversight to ensure that travelers use the government travel card (GOVCC) or the centrally billed account (CBA) for all mandated GOVCC expenses, as required by Naval Postgraduate School instruction 4650.4H.

**NPS Management Response:** **Concur.** Travel Office will conduct training to reinforce the requirement to use the GOVCC. Invitational travelers, and their respective hosting departments, have been informed of the need to use the CTO for purchasing all airfares, which will ensure use of the CBA for all invitational airfares. NPS will establish improved controls and oversight, including periodic internal audits, reporting of non-compliance to supervisors and management, and institution of graduated administrative actions, including suspension of travel, for repeated non-compliance. Action will be complete 31 Aug 2013

**Recommendation 4:** Establish controls and provide oversight to ensure that travelers file a travel voucher via the Defense Travel System within the mandated 5 working days after completing travel, as required by Naval Postgraduate School Instruction 4650.4H.

**NPS Management Response:** **Concur.** Training with travel officials will reiterate the need to file within five days of the completion of travel. The Travel Office will send travelers a

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reminder email and increase the tracking of voucher submissions to allow timely involvement of supervisors and management. Controls will include internal audits and briefing of voucher submission information monthly to NPS senior leadership. NPS will adopt graduated administrative action for non-compliant travelers, including letters of caution and reprimand and suspension of travel. Action will be complete 31 Aug 2013.

**Recommendation 5:** Establish controls and provide oversight to ensure that travel vouchers are reviewed for improper payments, including those identified during the audit; recoup any money owed to Naval Postgraduate School as required by Naval Postgraduate School Instruction 4650.4H; and report the amount of recovered funds to the Naval Audit Service.

**NPS Management Response:** **Concur.** NPS reviewed all travel processes to assure that an accurate reporting of legitimate travel costs is a condition of voucher approval. Training, controls, and management actions will include informational emails to travelers and travel officials, internal audits to assess the quality of voucher reviews, and adoption of graduated consequences for non-compliance. NPS IG will audit a sample of travel vouchers from the audit period and will report the results to the Naval Audit Service to determine if further action is needed. The sample will be equal in size to that examined during the audit but will exclude vouchers reviewed during the audit. NPS will notify the Naval Audit Service of the amount of funds recouped from vouchers examined during the audit. Action will be complete 31 Aug 2014

**Recommendation 6:** Establish controls and provide oversight to ensure that travelers have proper authorization and justification for expenses incurred during travel, as required by Naval Postgraduate School Instruction 4650.4H

**NPS Management Response:** **Concur.** The NPS Travel Office will send informational emails as well as hold campus-wide training events for travelers and travel officials. The Travel Office will return vouchers with unauthorized expenditures to the travel authorizing official. Controls will include internal audits by the Travel Office, command evaluation by the NPS IG, and inclusion of this subject in senior management meetings. NPS will also adopt a system of graduated administrative action, including suspension of travel, for non-compliant travelers. Action will be complete 31 Aug 2013.

**Recommendation 7:** Establish controls and provide oversight to ensure that appropriate action is taken on delinquent GOVCC holders, including suspending travel privileges, as required by Naval Postgraduate School Instruction 4650.4H

**NPS Management Response:** **Concur.** The Travel Office tracks delinquent travelers and notifies them of the requirement to maintain their accounts in a current status. Additionally, the Travel Office activates and deactivates GOVCCs four days prior to travel and immediately after a traveler's return to avoid unwarranted card usage. Informational emails and training to travelers and travel officials will highlight the need to pay the GOVCC on time, and new controls will include increased tracking of delinquencies, reporting to supervisors, and monitoring at senior management meetings. NPS will adopt a graduated system of

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administrative actions to deal with non-compliance, including letters of caution, reprimand, and suspension of travel. Action will be complete 31 Aug 2013.

**Recommendation 8:** Establish controls and provide oversight to ensure that travelers properly designate their total outstanding charges for split disbursement to eliminate or minimize being billed for charges and to prevent delinquencies, as required by Department of Defense Financial Management Regulation.

**NPS Management Response:** **Concur.** The Travel Office will conduct training to reinforce the requirement to use the GOVCC for official travel expenses. Invitational travelers, and the respective hosting departments, have also been informed of the requirement to use the CTO for purchasing all airfares. This will ensure the proper use of the central billing account for all invitational airfares. Internal audits and command evaluations by the NPS IG will provide feedback to senior leaders on the use of the GOVCC and split disbursement. NPS senior leadership will receive a monthly briefing on non-compliance, and will adopt a series of graduated consequences (caution, reprimand, suspension of travel) for travelers who fail to comply. Action will be completed 31 Aug 2013.

**FINDING 2: PILFERABLE PROPERTY**

**Recommendation 9:** Establish controls and provide oversight to ensure that physical inventories (book-to-floor and floor-to-book) of pilferable items are performed and properly documented as required by Secretary of the Navy Instruction 7320.10A. In addition, conduct an initial inventory of all pilferable property items at all locations, reconcile with the Defense Property Accountability System, and provide the results within 6 months to the Naval Audit Service. Conduct an additional inventory within 18 months of the first completed inventory to establish a baseline and history of conducting proper inventories. Once Naval Postgraduate School completes two satisfactory inventories, transition to the 3-year inventory cycle as required by Secretary of the Navy Instruction 7320.10A.

**NPS Management Response:** **Concur.** Updating NPS instruction 11016.4D to reflect inventory duties, responsibilities, and periodicities. Commenced an inventory on 3 June 2013, with a completion date of 31 March 2014. A second 100 percent inventory will follow within 18 months, and on completion of an inventory with satisfactory results, NPS will adopt a three year inventory cycle. Action will be completed 31 March 2014.

**Recommendation 10:** Establish controls and provide oversight to ensure that proper request and procurement documentation is maintained for pilferable items as required by Naval Postgraduate School Instruction 11016.4D.

**NPS Management Response:** **Concur.** A revision to NPS instruction 11016.4D will address request and procurement documentation requirements and a copy will be provided to Naval Audit Service. Assets found on installation (FOI) or captured during 100 percent inventory efforts will have appropriate supporting documentation produced. This will include establishing records for items to be entered into inventory that had no initial documentation. Estimated completion date is 31 May 2014.

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**Recommendation 11:** Establish controls and provide oversight to ensure that personnel are aware of their roles and responsibilities as custodians of pilferable items, as required by Naval Postgraduate School Instruction 11016.4D.

**NPS Management Response:** **Concur.** Updating NPS instruction 11016.4D with inventory duties, roles, responsibilities, and inventory periodicities. Update will ensure property custodians responsibilities are defined in detail, which will assist NPS property management in receiving updates to be recorded within DPAS. Updated training will be provided to all custodians to address roles and responsibilities and will specifically address situations that require property accountability actions. Action will be completed 13 Sep 2013.

**Recommendation 12:** Establish controls and provide oversight to ensure that pilferable items are recorded, tracked, and properly updated in the Defense Property Accountability System, as required by Naval Postgraduate School Instruction 11016.4D.

**NPS Management Response:** **Concur.** Updating NPS instruction 11016.4D to include greater detail on the responsibility of property custodians to submit information and updates for DPAS, to include those items considered pilferable. Revised training will address roles and responsibilities in greater detail for all NPS members, and will specifically address situations which require updates to DPAS. Action will be completed 13 Sep 2013.

**FINDING 3: FUNDS MANAGEMENT**

**Recommendation 13:** Establish controls and provide oversight to ensure that gifts of travel are properly accepted prior to the commencement of travel, as required by Naval Postgraduate School Instruction 4650.4H.

**NPS Management Response:** **Concur.** NPS deconflicted its Gift of Travel instruction and SOP and now both align with DOD FMR Vol 12, Chap 30, SECNAVINST 4001.2J, and OPNAVINST 4001.1F. The Gift of Travel SOP was revised significantly in November 2012, January 2013, and April 2013 and is now under review by General Counsel of the Navy and the Judge Advocate of the Navy. NPS will provide training to ODTAs, AOs, and all travelers and will institute controls that include internal audits, reports to management, and a series of consequences for those who fail to comply with the instruction. Completing action on this recommendation is contingent on receiving the OGC/JAG review NPS gift acceptance instruction. Estimated completion date is 13 Dec 2013.

**Recommendation 14:** Establish controls and provide oversight to ensure that gifts of travel checks are payable to U.S. Treasury instead of traveler, as required by Naval Postgraduate School Instruction 4650.4H.

**NPS Management Response:** **Concur.** This issue is specifically addressed in the current version (January 2013) of the NPS gifts of travel SOP, and current version of NPS Instruction 4650.4J. In cases where the sponsor insists on issuing a check directly to the traveler, in spite of NPS's best efforts to have sponsor issue the check to the US Treasury, NPS has a process to have

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the recipient endorse the check to the US Treasury. This allows processing the check as if it had been properly payable to the US Treasury. Controls and oversight will include generation of a monthly report on gifts of travel for review by NPS senior leadership. Action complete 13 Dec 2013.

**Recommendation 15:** Establish controls and provide oversight to ensure that reimbursement vouchers for gift expenditures are sufficiently supported and provide clear, detailed, and descriptive information to enable approvers to determine if expenditures met the intended purposes of the donor, as required by Naval Postgraduate School Instruction 4001.2B

**NPS Management Response: Concur.** NPS canceled the cited instruction in November 2012. The draft NPS gift acceptance instruction is under review by General Counsel of the Navy and the Judge Advocate of the Navy. NPS will provide training and institute improved controls, including review of the program by senior leaders and administrative actions for repeated non-compliance. Completing action is dependent upon review of the NPS gift instruction by OGC and JAG. Estimated completion date is 13 Dec 2013.

**Recommendation 16:** Establish controls and provide oversight to ensure that reimbursement reviews are conducted by individuals with higher grade levels than the claimant, as required by Naval Postgraduate School Instruction 4001.2B.

**NPS Management Response: Concur.** NPS canceled the cited instruction in November 2012. The draft gift acceptance instruction (4001.2C) is being reviewed by General Counsel of the Navy and the Judge Advocate of the Navy. We will ensure an official of a higher grade than the recipient reviews the reimbursement voucher. NPS will provide training and institute improved controls, including review of the program by senior leaders and administrative actions for repeated non-compliance. Completing action is dependent upon review of the NPS gift instruction by OGC and JAG. Estimated completion date is 13 Dec 2013.

**Recommendation 17:** Establish controls and provide oversight to ensure compliance with Naval Postgraduate School Instruction 4001.1E that employees do not receive reimbursement directly from the Foundation.

**NPS Management Response: Concur.** NPS redrafted its gift acceptance instruction and it is under review by DoN OGC and JAG. A DOD liaison has been appointed to be the sole source of contact with the foundation to prevent NPS employees from receiving direct reimbursement from the Foundation. NPS will incorporate foundation relationship guidelines into ethics currently under development and will commence training in first quarter FY14. Controls will include notification of noncompliance to NPS senior leaders. NPS will address non-compliance by a graduated series of administrative actions, including warnings, re-training, letters of caution, and appropriate disciplinary action. Completion is contingent on receipt of the draft gift acceptance instruction from OGC/JAG. Estimated completion date is 15 Dec 2013.

**Recommendation 18:** Establish controls and provide oversight to ensure that gift information is accurately reported and reviewed at a higher level prior to submission to the Office of the Chief of Naval Operation as required by Office of the Chief of Naval Operations Instruction 4001.1F.

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**NPS Management Response:** **Concur.** NPS canceled the cited instruction in November 2012. NPS redrafted its gift acceptance instruction and it is under review by DoN OGC and JAG. Future reports will require a review by the NPS Comptroller and Chief of Staff before they are submitted. Completion is contingent on receipt of the draft gift acceptance instruction from OGC/JAG. Estimated completion date is 13 Dec 2013.

**FINDING 4: WIRELESS COMMUNICATION DEVICES**

**Recommendation 19:** Establish controls and provide oversight to ensure that inventories of wireless communication devices are properly conducted, documented, and included in a government approved accountability system that meets the inventory documentation standards, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards and Secretary of Navy Instruction 7320.10A.

**NPS Management Response:** **Concur.** All mobile devices are delivered to the ITACS mobile phone technician. Upon delivery, the device will be entered in the mobile device inventory database. Data elements that will be captured in the database include:

- Property Control Tag
- Device Serial Number
- Device Make
- Device Model
- Mobile phone number (from the service contract)
- First Name
- Last Name
- Email
- Office Phone
- Supervisors Name
- Issue date
- Inventory Confirmation Date
- Turn-in date

In addition, we will ensure that all DPAS required data elements are captured. Wireless devices will be inventoried annually, at which time the owning department will identify whether each device is still required and users will confirm they still possess the device. iPads, laptops, and similar devices will also be entered into DPAS by the NPS Property Manager. Action complete 29 Nov 2013.

**Recommendation 20:** Establish controls and provide oversight to ensure that wireless communication devices are properly issued and returned when personnel leave NPS employment, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling

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Cards. In addition, NPS should include the return of wireless communications devices as an item on Check-Out sheets.

**NPS Management Response:** **Concur.** Check-out sheets have been revised to require that employees obtain a signature from the ITACS mobile phone technician as part of out-processing. Employees with mobile devices must return them to receive a check-out signature. ITACS will update the mobile device inventory database with the employee’s departure date. Action will be completed 30 Sep 2013.

**Recommendation 21:** Establish controls and provide oversight to ensure that policies and procedures for handling lost or stolen wireless communication devices are implemented, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards.

**NPS Management Response:** **Concur.** NPS will require employees to report lost or theft of mobile devices to their supervisor and ITACS within one business day. ITACS will update the mobile device inventory database, and will remotely "wipe" the mobile device to remove all data from the device. Employees must complete DD Form 200, Financial Liability Investigation of Property Loss and submit it to their supervisor, who will route it to the NPS Chief of Staff. The CoS will determine whether to recoup the cost of the device from the employee. Action will be completed 30 Sep 2013.

**Recommendation 22:** Establish controls and provide oversight to ensure that systematic reviews are conducted to identify patterns of unauthorized usage and abuse of wireless communication devices, as required by DON CIO Memo: DON Policy for Issuance, Use and Management of Government-Provided Mobile (Cellular) Phone, Data Equipment and Services, and Calling Cards.

**NPS Management Response:** **Concur.** A new NPS policy will require monthly review of usage by each department or organizational unit to identify over- and underutilization. If abuse is identified, the department will take appropriate administrative action. If an employee has not used the mobile device for 60 consecutive days, ITACS will terminate service and the department will require the employee to return the device. Action will be completed 31 May 2014.

**FINDING 5: AUDIT FOLLOWUP**

**Recommendation 23:** Establish controls and provide oversight to ensure that comptroller personnel prevent over-obligations and expenditures on all sponsored accounts, as required by NAVPGSCOL Instruction 3900.1C.

**NPS Management Response:** **Concur.** NPS is working on tools for pre-encumbrance of funds to commit funds to planned expenses and prevent overcharging. NPS is evaluating staffing requirements to accommodate the demand for account reconciliation. In addition, adoption of new reconciliation tools will make the reconciliation process more efficient. Beginning in FY14,

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NPS will initiate a procedure to suspend over-obligated accounts until resolution is achieved. Action will be completed 31 Jan 2014.

**Recommendation 24:** Establish controls and provide oversight to ensure that the attestation process is incorporated into the current financial system in accordance with SPPGM-09-05 requirements.

**NPS Management Response:** **Concur.** The capability to review all sponsor funded expenses, labor, travel, equipment/supplies, indirect and other direct costs exists within the internal NPS financial/business system, the Quali Financial System. KFS records all procurements and miscellaneous costs, calculates indirect costs, and compiles data from the systems of record; STARS (for travel) and the Defense Civilian Pay System (for labor). Reports detailing these costs for each sponsored project exist within KFS and provide adequate data for PI review and attestation of expenses against sponsor accounts. A mechanism within the KFS reports will be developed that documents the required account review and certification. NPS will test and validate this as a way to support the attestation process, will draft a new instruction to replace SPPGM 09-05, and will notify PIs that attestation will restart by 30 Sep 2013, with the first attestation taking place during second quarter FY14. Failure to comply will result in suspension of affected accounts until attestations are completed. Action will be completed by 30 Mar 2014.

**Recommendation 25:** Establish controls and provide oversight to ensure that revision of NAVPGSCOL Instruction 4410.1C to require the Agency Program Coordinator to periodically review all Purchasing Agents’ compliance with the Defense Acquisition Workforce Improvement Act requirements, and ensure that the revised guidance is implemented.

**NPS Management Response:** **Concur.** NPS will issue policy to move the responsibility for monitoring DAWIA training from the APC to the Director of Contracting and Logistics. As the supervisor of the GS-1105 series personnel, the Director will develop Individual Development Plans (IDP) that address DAWIA requirements for the GS-1105s. Action will be completed by 15 Nov 2013.

**Recommendation 26:** Establish controls and provide oversight to ensure that purchase cardholders provide all purchase transaction documentation from the prior billing cycle to the Agency Program Coordinator office in a timely manner for review and audit, as required by NAVPGSCOL Instruction 4410.1C.

**NPS Management Response:** **Concur.** NPS will reiterate, via informational email, meetings between the APC and cardholders, and dissemination of Addendum #1 to the APC’s internal operating procedures (IOP), the following requirements: The approving official certifies the bank statement once the cardholder has provided the files and purchase log for the current month for verification of transactions. The APC’s IOP includes consequences of non-compliance in providing the required supporting documentation to facilitate timely reviews by the certifying official and the APC. The IOP also requires that the APC send monthly notification to cardholders and approving officials for deadlines of bank certification and submission of files to the APC office for review. In addition, addendum #1 to NPS Instruction 4410.1C also serves as

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notification to cardholders and approving officials. Action will be completed by 16 August 2013.

**Recommendation 27:** Designate the areas identified in this report as repeat findings as assessable units within NPS Managers’ Internal Control Program.

**NPS Management Response:** **Concur.** The NPS Managers’ Internal Control Program (MICP) Coordinator will assign the following recommendations (identified as repeat findings) to the appropriate organizational assessable unit as follows:

Rec No.	Subject	Assessable Unit
9	Establish controls and provide oversight to ensure that physical inventories (book-to-floor and floor-to-book) of pilferable items are performed and properly documented as required by Secretary of the Navy Instruction 7320.10A. In addition, conduct an initial inventory of all pilferable property items at all locations, reconcile with the Defense Property Accountability System, and provide the results within 6 months to the Naval Audit Service. Conduct an additional inventory within 18 months of the first completed inventory to establish a baseline and history of conducting proper inventories. Once Naval Postgraduate School completes two satisfactory inventories, transition to the 3-year inventory cycle as required by Secretary of the Navy Instruction 7320.10A.	Contracting and Logistics
10	Establish controls and provide oversight to ensure that proper request and procurement documentation is maintained for pilferable items as required by Naval Postgraduate School Instruction 11016.4D.	Contracting and Logistics
11	Establish controls and provide oversight to ensure that personnel are aware of their roles and responsibilities as custodians of pilferable items, as required by Naval Postgraduate School Instruction 11016.4D.	Contracting and Logistics
12	Establish controls and provide oversight to ensure that pilferable items are recorded, tracked, and properly updated in the Defense Property Accountability System, as required by Naval Postgraduate School Instruction 11016.4D.	Contracting and Logistics
23	Establish controls and provide oversight to ensure that comptroller personnel prevent over-obligations and expenditures on all sponsored accounts, as required by Naval Postgraduate School Instruction 3900.1C.	Financial Management Directorate
24	Establish controls and provide oversight to ensure that the attestation process is incorporated into the current financial system in accordance with SPPGM-09-05 requirements.	Financial Management Directorate
25	Establish controls and provide oversight to ensure the revision of Naval Postgraduate School Instruction 4410.1C to require the Agency Program Coordinator to periodically review all Purchasing Agents’ compliance with the Defense Acquisition Workforce Improvement Act requirements, and ensure that the revised guidance is implemented.	Contracting and Logistics
26	Establish controls and provide oversight to ensure that purchase card holders provide all purchase transaction documentation from the prior billing cycle to the Agency Program Coordinator office in a timely manner for review and audit, as required by Naval Postgraduate School Instruction 4410.1C.	Contracting and Logistics

Assigned assessable units will submit corrective plans of action and milestones (POA&M) to resolve the identified discrepancies to the MICP Coordinator by 31 July 2013. Assessable units will assess risk in January - February 2014 with report to the NPS President. Action will be completed by 31 July 2013.

**Appendix B:**

# Management Response from Deputy Chief of Naval Operations (N1)



DEPARTMENT OF THE NAVY  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
4300 NAVY PENTAGON  
WASHINGTON, DC 20350-2000

5200  
Ser N1/121033  
15 Jul 13

From: Deputy Chief of Naval Operations (Manpower, Personnel, Training and Education) (N1)  
To: Assistant Auditor General for Financial Management and Comptroller Audits  
Subj: MANAGEMENT RESPONSE TO DRAFT AUDIT REPORT N2012-156, FISCAL AND RESOURCE MANAGEMENT AT THE NAVAL POSTGRADUATE SCHOOL  
Ref: (a) NAVAUSVC memo 7510/N2012-156 of 4 Jun 2013  
Encl: (1) Management Response on Subject Draft Report

1. Per reference (a), enclosure (1) provides management response to recommendation 28 of subject report.

2. My point of contact is [REDACTED], E-mail: [REDACTED]

Copy to:  
CNAVPERS (BUPERS-001G) [REDACTED]

FOIA (b)(6)

FOIA (b)(6)

**NAVAUDSYC DRAFT AUDIT REPORT (2012-156)  
"FISCAL AND RESOURCE MANAGEMENT AT THE NAVAL POSTGRADUATE  
SCHOOL." DATED 4 JUNE 2013**

**FINDING 5:** Audit Follow Up

**RECOMMENDATION 28.** That CNO (N1) provide oversight to ensure that all recommendations addressed in this report are implemented and fully satisfied, with special emphasis on the recommendations (Recommendations 9 through 12 and 23 through 26) that are designated as repeat conditions.

**CNO(N1) MANAGEMENT RESPONSE:** Concur. Paragraph 3(f) of OPNAV Instruction 1520.42 (Advanced Education Governance) dated 18 May 2009 established and defined the following relationship that exists between CNO(N1) and the Naval Postgraduate School (NPS), and fostered through the Advanced Education Review Board (AERB) process: "The Presidents of the Naval War College, Naval Postgraduate School, and the Superintendent, United States Naval Academy (USNA), report to the CNO. However, they will conduct routine education and education-related base support and facilities business through either CNO(N1) or CNO(N4), as appropriate." In this oversight role, CNO(N1) is responsible for ensuring all recommendations addressed in NAVAUDSYC Draft Audit Report (2012-156) are implemented and fully satisfied. Special emphasis will be placed on those recommendations that are designated as repeat conditions.

A POA&M will be developed by the NPS to track progress in completing action on all recommendations. We will utilize a combination of long distance communication (i.e., VTC, E-mail, teleconference, etc.) and on-site visits to track the implementation of corrective actions and conduct follow-up testing to confirm the completion of actions and the effectiveness of newly implemented internal controls.

Estimated completion date is 30 September 2014.

Enclosure (1)

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