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

SECNAVINST 5740.28
ASN(FM&C): FMO-31
09 FEB 1998

SECNAV INSTRUCTION 5740.28

From: Secretary of the Navy
To: All Ships and Stations

Subj: GAO AND DODIG AUDIT FOLLOW-UP REQUIREMENTS FOR THE DEPARTMENT OF THE NAVY

Ref: (a) DOD DIRECTIVE 7650.3 of 5 Sep 89 (NOTAL)
(b) SECNAVINST 5200.34D
(c) SECNAVINST 5740.26A
(d) SECNAVINST 5740.25C
(e) DOD DIRECTIVE 7640.2 of 12 Feb 88 (NOTAL)

Encl: (1) Glossary of Terms for Audit Follow-up
(2) Checklist for Preparing GAO and DODIG OAIG(A) Audit Follow-up Responses
(3) Department of the Navy Audit Follow-up Response Format

1. Purpose. To reissue policy, procedures and directions applicable to all Department of the Navy (DON) activities, following the provisions of references (a) and (b), for the management, implementation and completion of audit follow-up action on recommendations published in General Accounting Office (GAO) and Department of Defense Inspector General (DODIG) Office of the Assistant Inspector General for Auditing (OAIG(A)) audit reports.

2. Cancellation. NAVCOMPTINST 5740.4.

3. Scope. Audit follow-up is the process in which management action is taken to resolve problems documented in audit findings and to adequately complete open or agreed-upon, valid audit recommendations. Audit follow-up officially begins upon receipt of the published audit report. However, since audit follow-up requirements for completion of audit recommendations evolve during the draft report formulation and comment process, courses of action needed to complete proposed recommendations can and should begin prior to publication of the final report. If there is significant disagreement between the auditors and the DON on

the findings or recommendations, an audit resolution process may be required before the audit follow-up process continues. Specific definitions and audit follow-up terms are provided in enclosure (1).

4. Background. The Inspector General Act of 1978 establishes Offices of Inspector General within most federal departments, and authorizes inspectors general to conduct and supervise audits and investigations relating to departmental programs and operations. The Department of Defense Authorization Act of 1983 extends this authority to the DODIG. The DODIG is responsible for monitoring, coordinating, evaluating and overseeing audit follow-up systems within the Department of Defense (DOD). This includes resolving disagreements arising from GAO and OAIG(A) audits, maintaining audit followup records on GAO and OAIG(A) audits, evaluating corrective actions, and reporting to the Secretary of Defense (SECDEF) on the adequacy and effectiveness of the DOD audit follow-up systems. To manage audit follow-up on GAO and OAIG(A) audits, the DODIG maintains the Automated Report Tracking System (ARTS) which provides the status of both unresolved and agreed-upon audit findings and recommendations. After audit follow-up responses are received, DODIG updates the ARTS database to indicate progress toward completion, and when all outstanding recommendations are implemented or resolved, the audit is closed.

5. Policy. The DON policy is to cooperate fully with the DODIG, to complete audit follow-up actions and to respond to DODIG audit follow-up inquiries in a complete and timely manner. Audit follow-up is an integral part of good management and is a responsibility of DON managers. Valid audit recommendations to achieve reported monetary benefits and management improvements must be implemented to maximize efficient DON operations. The DON action office shall take prompt and constructive action to adjudicate unresolved issues and ensure implementation of agreed-upon audit recommendations. All management actions shall be consistent with existing statutes, directives and regulations. Guidance on relations with GAO and OAIG(A) auditors while surveys, reviews and audits are in progress, is provided in references (c) and (d), respectively.

6. Responsibilities. By reference (b), the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) is assigned responsibility to manage all DON audit follow-up actions on GAO and OAIG(A) audits and to assign audit follow-up actions to cognizant DON action offices. The assigned DON action office takes management action to implement GAO and OAIG(A) audit recommendations and prepares responses on audit follow-up progress for submission to the DODIG. The Naval Inspector

General (NAVINSGEN) oversees the DON audit follow-up program on GAO and OAIG(A) audits and conducts selected quality assurance inspections.

a. The ASN(FM&C). The Office of Financial Operations (Management Control and Audit Liaison Branch (FMO-31)), is the DON audit follow-up focal point responsible for managing all DON audit follow-up actions on GAO and OAIG(A) audits. ASN(FM&C) (FMO-31) serves as the DON liaison office with the DODIG, assigns audit follow-up actions and due dates to cognizant DON action offices and resolves any problems that may arise regarding assignments or coordination. ASN(FM&C)(FMO-31) evaluates the proposed audit follow-up response to ensure all questions are answered, monetary benefits are addressed and coordination is complete. Audit follow-up responses prepared by an Assistant Secretary of the Navy (ASN) are submitted directly to DODIG by the respective ASN with a copy to ASN(FM&C)(FMO-31). All other audit follow-up responses are signed and submitted to DODIG by ASN(FM&C).

b. DON Action Office. The DON action office, for purposes of this instruction, is defined as the DON organization assigned cognizance for the DON over the subject matter being audited. The DON action office assigned audit follow-up action by ASN(FM&C)(FMO-31) normally had lead action during the audit phase. DON action offices include offices of the Secretariat; Chief of Naval Operations (CNO); Commandant of the Marine Corps (CMC); headquarters commands (Commander in Chief, U.S. Atlantic Fleet and Command in Chief, U.S. Pacific Fleet); and selected commands.

(1) Accountability. The commander or head of the DON action office is held accountable to ensure that adequate management action is taken to implement GAO and OAIG(A) audit report agreed-upon recommendations.

(2) Responsibility. While the commander or head of the DON action office is accountable for GAO and OAIG(A) audit follow-up, the individuals assigned as audit follow-up officials within the DON action office have the responsibility to maintain the complete DON action office GAO and OAIG(A) audit follow-up files and documentation at a central location. These files will be inspected periodically by the NAVINSGEN. Audit follow-up officials may be assigned to the office of internal review, inspector, comptroller or other headquarters office. Audit follow-up officials must ensure that organizational divisions and field activities keep them advised of progress to complete open audit follow-up actions and provide file copies of all relevant

documents, plans and studies. DON action offices have the responsibility to issue the DON audit follow-up policy and procedures contained in this instruction within their organization and to field activities.

c. Naval Inspector General. As the DON central point for follow-up oversight following reference (b), NAVINSGEN has responsibility for overseeing all DON audit follow-up systems and actions, including all DON audit follow-up on GAO and OAIG(A) audits. NAVINSGEN oversight is accomplished through periodic inspections of action offices. Inspections address the audit follow-up system, supporting database, subordinate command audit follow-up efforts and on-site verification. Additionally, NAVINSGEN has the discretion to direct selected on-site inspections of audit follow-up actions.

7. Procedures

a. General. When a GAO or OAIG(A) published report contains agreed-upon recommendations requiring audit follow-up action, this automatically becomes an audit follow-up responsibility of the cognizant DON action office. The DON action office should proceed to implement agreed-upon audit recommendations. The DODIG will periodically request the DON to provide a status report on the implementation of selected audit recommendations.

b. Tasking DODIG Audit Follow-up Inquiries. When a response to a DODIG audit follow-up inquiry on a GAO or OAIG(A) report is required from the DON, the ASN(FM&C)(FMO-31) shall task the commander or head of the appropriate DON action office to prepare a written reply. The DON action office is responsible for preparing a complete and timely response, accomplishing appropriate coordination and resolving any problems related to audit follow-up under its cognizance in order to complete audit follow-up action. Other DON organizations may be requested to assist the DON action office in resolving audit follow-up issues, or in preparing the DON response. Assistance shall be coordinated through activity or organization audit liaison offices. Coordination assistance and a current list of audit liaison offices is available from ASN(FM&C)(FMO-31).

c. Preparation of DON Audit Follow-up Responses

(1) Audit Background. Audit follow-up requirements evolve during the draft and final audit report comment phases discussed in references (c) and (d). The DON action office officials who prepare and approve the DON comments to draft and

final audit reports are responsible to ensure that: (1) the audit facts are correct; (2) the findings and recommendations are appropriate; (3) monetary benefits and savings are identified accurately and cite specific appropriations and budget accounts; and (4) agreed-upon implementation/follow-up action is achievable within the time frame specified. The DON comments on final GAO and OAIG(A) reports should concisely state the specific audit follow-up action agreed upon by the DON action office and provide an estimated completion date.

(2) Responding to DODIG Questions. After considering the audit background and previous responses to the DODIG, the DON action office should prepare a response in the prescribed DON audit follow-up response format, concisely citing accomplishments. A few sentences may be adequate to answer DODIG questions; however, it is recommended documentation of accomplishments such as published instructions, a plan of milestones or contract extracts be attached when germane to the response. If the course of action in the proposed audit follow-up response is contrary to the agreed-upon action outlined in the DON comments on the final audit report, the audit follow-up response which changes the DON's agreed-upon action must be signed by the Assistant Secretary of the Navy who signed the DON comments on the final report.

(3) Additional Information. Additional information for preparing DON audit follow-up responses is provided in enclosure (2). The prescribed DON audit follow-up response format is provided as enclosure (3). The proposed response and supporting data should be forwarded by transmittal letter to reach ASN(FM&C)(FMO-31), Building 36, Washington Navy Yard, 901 M Street, SE, Washington, DC 20374-5025 not later than the ASN(FM&C)(FMO-31) assigned due date.

d. Coordination. The DON action office official reviewing the proposed response must ensure the DON planned action makes sense, the estimated completion date is reasonable, and all DON organizations impacted have been consulted. Additionally, if monetary benefits or savings are cited, the DON action office comptroller or program manager, as appropriate, must verify the dollar amounts, fiscal years, appropriations and budget accounts cited.

e. Approval. The DON action office official approving the proposed response is certifying DON progress made on implementing the audit recommendations or completing action. The DON action office forwards the proposed audit follow-up response by transmittal letter with necessary attachments and documentation

to ASN(FM&C)(FMO-31). ASN(FM&C)(FMO-31) evaluates the proposed audit follow-up response to ensure all questions are answered, monetary benefits are addressed and coordination is complete. After this review is completed, the proposed response is submitted to the DODIG.

f. Overdue Responses. When it appears that a response to an audit follow-up action will be late, the DON action office will advise ASN(FM&C)(FMO-31) prior to the assigned due date and provide an estimated completion date. ASN(FM&C)(FMO-31) will notify the DODIG of the delay.

g. Interim Responses. When an audit follow-up response will be delayed more than 30 days beyond the assigned date due, the DON action office will submit an interim DON response to ASN(FM&C)(FMO-31) by the assigned due date. This interim response will provide as much relevant information as possible to the DODIG, and estimate when the DODIG requested audit follow-up information will be provided.

8. Audit Follow-up Tracking System

a. GAO and DODIG Audit Follow-up System (AFS). ASN(FM&C)(FMO-31), as the DON audit follow-up focal point for GAO and OAIG(A) audits, manages and operates the GAO and DODIG AFS to track audit follow-up actions assigned to Navy and Marine Corps organizations and activities and to ensure actions are completed on time. ASN(FM&C)(FMO-31) shall provide monthly to each DON action office a listing of all assigned open audit follow-up actions by audit number and recommendation number. ASN(FM&C)(FMO-31) shall update the AFS database upon receipt or completion of GAO and OAIG(A) audit follow-up actions and shall validate all open actions periodically with the DODIG. DON action offices should notify ASN(FM&C)(FMO-31) concerning errors or questions on monthly listings.

b. DON Action Office Tracking. Audit follow-up officials in each DON action office shall maintain an audit follow-up tracking system of assigned open GAO and OAIG(A) audit follow-up actions by individual audit number and recommendation number. This tracking system may be either automated or a simple index card file system. However, it must indicate the organizational code or managers responsible for implementing each assigned recommendation and indicate the latest estimated completion date. This system should be reconciled monthly to show the status of audit follow-up actions assigned to the DON action office. DON action office audit follow-up officials have the responsibility to ensure that managers of organizational divisions and field

activities are aware of assigned audit follow-up case workload and have adequate time to resolve complex issues.

9. On-Site Verification of Monetary Benefits. The threshold for significant monetary benefits subject to on-site verification is $250,000 per recommendation for systems commands and CMC. Lower thresholds apply to other organizations. This threshold amount may be adjusted annually by the NAVINSGEN. ASN(FM&C)(FMO-31) will periodically notify each DON action office of audit follow-up actions containing significant monetary benefits which should be considered for on-site verification.

10. Exceptions. The following types of audits are not subject to this instruction:

a. Defense Contract Audit Agency (DCAA) Audits. Audit follow-up on DCAA contract audit reports is governed by reference (e). Action on these contract audits should be referred to the Office of the Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN(RD&A)).

b. GAO and OAIG(A) Defective Pricing Reports. Audit follow-up on GAO and OAIG(A) defective pricing reports are addressed directly to the contracting activities involved. Upon receipt of a GAO or OAIG(A) defective pricing audit report (draft or final), the report addressee will, within 60 days, provide the GAO or DODIG written notification of the action to be taken and an estimated completion date. Forward copies of this notification to ASN(RD&A), ASN(FM&C)(FMO-31), and the NAVINSGEN. For GAO cases, forward additional copies to the DODIG (Deputy Director for GAO Affairs) and to GAO Headquarters. When action is complete, provide copies of the disposition memoranda to the GAO (GAO reports only), DODIG (Assistant Inspector General for Analysis and Followup), ASN(RD&A), ASN(FM&C)(FMO-31), and the NAVINSGEN. The audit report number should be included on all correspondence.

11. Reports. The reports required by this instruction are exempt from reports control by SECNAVINST 5214.2B.

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GLOSSARY OF TERMS FOR AUDIT FOLLOW-UP

AGREED-UPON RECOMMENDATION. A recommendation for management action set forth in the audit report and approved explicitly by DON management.

AUDIT. An official examination or verification by an audit organization of an activity's financial records, programs and operations. The examination is performed or supervised by professionally qualified auditors in full conformance with GAO audit standards. Note: For internal reviews to be classified as audits, the commanding officer must have requested an audit as opposed to another type of review.

AUDIT FOLLOW-UP. A process by which responsible management action is taken to resolve problems documented in audit findings and to adequately complete open audit recommendations. Audit follow-up officially begins when the audit is published and officially ends on the date upon completion of required management action and, if appropriate, when all on-site verification is completed.

AUDIT ORGANIZATION. An auditing organization is the agency conducting the audit. External organizations are: the GAO, the DODIG and the DCAA. The Naval Audit Service (NAVAUDSVC) is the DON internal audit organization.

AUDIT REPORT. The results of an audit published by an audit organization containing findings and recommendations. Some reports may be informational and contain no recommendations.

AUTOMATED REPORT TRACKING SYSTEM (ARTS). The DODIG computerized audit database and tracking system used to monitor implementation of audit recommendations made by GAO and OAIG(A).

AUDIT RESOLUTION. The process by which management and auditors compromise, to agree on disputed audit findings and recommendations.

CLOSED AUDIT. Audit report for which necessary management action on findings, recommendations and claimed monetary benefits is resolved, and corrective action has been completed and documented.

COLLATERAL ACTION OFFICE (CAO). The subordinate office tasked by the primary action office (PAO) or DODIG to provide information

or a response to GAO findings and recommendations. For GAO and DODIG audit follow-up, the DON CAO is ASN(FM&C)(FMO-31).

CONTRACT AUDIT REPORT. A contract auditor's written advice to a contracting officer advocating specific action on the part of the contracting officer or contractor and/or including highly qualified or adverse opinion information.

DON ACTION OFFICE. The organization assigned DON cognizance over the subject matter being audited. This includes all SECNAV Secretariat offices, CNO, CMC, headquarters commands or selected commands assigned by ASN(FM&C)(FMO-31) to assume lead action in responding to an audit report or audit follow-up tasking. The DON action office is normally a first or second echelon organization.

DRAFT AUDIT REPORT. The initial written report containing GAO or DODIG findings and recommendations. The draft usually requests management comments on the findings and recommendations to be considered for incorporation into the final audit report. A draft audit report is not subject to follow-up. However, the management response or concurrence to draft recommendations may lead to audit follow-up requirements.

FINAL AUDIT REPORT. A report published by an audit organization which contains final findings and recommendations. This report should contain management comments on the draft audit report. Audit follow-up requirements will be established by the final report recommendations subject to management's comments.

FINDING. A statement made on the basis of the information developed about an organization, program, activity, function, condition or other matter which was analyzed or evaluated.

GENERAL ACCOUNTING OFFICE (GAO). The Budget and Accounting Act of 1921 established GAO for the purpose of performing independent audits of government agencies. GAO responds to congressional committees and individual members of Congress in carrying out their legislative oversight responsibilities.

MONETARY BENEFITS. Collections, monetary savings and potential cost avoidances projected upon management's commitment to implement recommendations for improvements in operations and systems.

MONETARY SAVINGS. Actual dollar savings from deobligations and budget reductions resulting from audit findings and

recommendations, which can legally be reused to fund current requirements.

OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR AUDITING (OAIG(A)). The OAIG(A) is the auditing organization within the Office of the DODIG. OAIG(A) has the responsibility to conduct, supervise, monitor and follow-up on audits and investigations relating to programs and operations of the DOD.

ON-SITE VERIFICATION. A visual review to determine if agreed upon audit follow-up action was taken and potential monetary savings, if any, were realized.

OPEN RECOMMENDATION. A recommendation with which management has concurred, but on which action has not been completed.

OSD CASE NUMBER. The four-digit identification number assigned by DODIG for every GAO report issued to the DOD.

POTENTIAL COST AVOIDANCE. Potential cost avoidances represent estimated dollar costs that may be avoided as a result of management's commitment to implement audit recommendations. These result from reductions in the amount of resources (funds, personnel or real property) needed to accomplish an assigned mission or function.

PRIMARY ACTION OFFICE (PAO). The organization tasked by the DODIG to respond to the GAO on behalf of the OSD. For OAIG(A) reports, the organization to which an OAIG(A) recommendation is addressed.

RECOMMENDATION. The GAO or OAIG(A) suggestion to remedy discrepancies or shortcomings, as specified in the audit report findings.

RECORDED EXECUTIVE ACTION CONTROL TRACKING (REACT). A DON Secretariat level electronic mail and correspondence control system used to task and distribute audit actions and correspondence.

REPEAT FINDING. The same condition and cause which were noted in a previous audit.

RESOLUTION. An agreement reached between management and auditors or a decision made by a resolution official settling the disagreement. In the case of GAO reports, disputed findings, recommendations, or monetary benefits are considered resolved

once an official DOD response has been made to the final report, whether the DOD concurs or not with GAO findings and recommendations.

REVIEW. A GAO and OAIG(A) effort to gather detailed information. Often a review is conducted based on preliminary findings identified in the GAO and OAIG(A) survey.

SURVEY. A GAO and OAIG(A) research effort to determine if issues warrant a full review.

UNRESOLVED. A finding, recommendation or estimated potential monetary benefit upon which management and the audit organization do not agree. OMB Circular A-50 (NOTAL) requires that unresolved issues be resolved within 6 months.

CHECKLIST FOR PREPARING GAO AND DODIG OAIG(A) AUDIT FOLLOW-UP RESPONSES

1. DON action offices are to provide concise, clear and complete answers to each question in a DODIG request for follow-up information.

2. If it is determined that a tasking has been improperly assigned to the indicated activity, that activity should immediately notify ASN(FM&C)(FMO-31) to ensure the tasking is reassigned.

3. ASN(FM&C)(FMO-31) will review each follow-up response submitted to ensure the following is accomplished by the DON action office.

a. Forward the response by transmittal letter in the DON response format as shown in enclosure (3).

b. Prepare a DON response, in lieu of a CNO, CMC, or command response (see enclosure (3)).

c. Restate each DODIG question followed by the DON response (see enclosure (3)).

d. Answer the questions concisely, clearly and completely.

e. Spell out acronyms the first time.

f. Use correct grammar, sentence structure and syntax.

g. Coordinate the response with all other appropriate DON offices having responsibility for the subject matter. State in the transmittal letter the activities or offices with which the response was coordinated (see enclosure (3)).

h. If a determination has been made to change the previously agreed-upon course of action, or the recommended action cannot be implemented, the response should be prepared in the DON response format for the appropriate Assistant Secretary of the Navy (ASN) signature. Responses prepared for ASN signature should be accompanied by the appropriate briefing documents, with the action officer's name, organization, and telephone number. Contact ASN(FM&C)(FMO-31) for assistance, if required.

i. Attach a copy of any correspondence or instruction

discussed in the response. Generally, the response should be self explanatory and not introduce references.

j. Address agreed-upon monetary benefits and state if they are incorporated into the activity budget.

k. Ensure classified material is properly classified, marked for downgrading and labeled.

DEPARTMENT OF THE NAVY AUDIT FOLLOW-UP RESPONSE FORMAT

From:
To: Assistant Secretry of the Navy (Financial Management and Comptroller)(FMO-31)

Subj: FOLLOWUP ON DODIG AUDIT REPORT NO. ___, "TITLE OF AUDIT," DATE ISSUED

Ref: (a) ASN(FM&C)(FMO) memo of _____

Encl: (1) DON follow-up response

1. The subject Office of the Assistant Inspector General-Auditing follow-up request forwarded by reference (a) has been reviewed. The requested Department of the Navy follow-up response is provided as enclosure (1). The attached comments have been coordinated with _____.

Signature

Copy to:

FOLLOW-UP ON DODIG AUDIT REPORT NO. _____

Recommendation A-1:

_____
_____
_____

DON Planned Action:

_____
_____
_____

DODIG Requested Follow-up Information:

_____
_____
_____

DON Response:

_____
_____
_____

Enclosure (3)