



**DEPARTMENT OF THE NAVY**  
COMMANDER NAVY INSTALLATIONS COMMAND  
716 SICARD STREET SE SUITE 1000  
WASHINGTON NAVY YARD DC 20374-5140

CNICINST 7510.1  
N9  
10 Apr 2018

CNIC INSTRUCTION 7510.1

From: Commander, Navy Installations Command

Subj: LOCAL FISCAL OVERSIGHT AND REVIEWS OF NONAPPROPRIATED  
FUND INSTRUMENTALITIES

Ref: (a) DoD Instruction 7600.06 of 5 November 2012  
(b) DoD Manual 7600.07 of 3 August 2015  
(c) OPNAVINST 1700.7E  
(d) DON Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) Financial Management Policy Manual of June 2017  
(e) DoD 7000.14-R, Volume 13, DoD Financial Management Regulation: Nonappropriated Funds Policy of July 2013  
(f) 10 U.S.C. §2783  
(g) 10 U.S.C. §892  
(h) CNICINST 1710.3  
(i) CNICINST 7000.3  
(j) CNICINST 7043.1  
(k) SECNAVINST 7510.7G  
(l) SECNAVINST 5200.35F

1. Purpose. To provide Navy Regions with guidelines and procedures for fiscal oversight and review of nonappropriated fund instrumentalities (NAFI) for which Commander, Navy Installations Command (CNIC) is the Navy program manager. These programs include: Morale, Welfare and Recreation (MWR); Civilian Morale, Welfare and Recreation (CMWR); Navy Gateway Inns and Suites (NGIS) and Fisher House (FH). References (a) through (l) are applicable to these programs.

2. Scope and Applicability. This instruction applies to CNIC Headquarters and Regions.

3. Policy

a. References (a) and (b) establish policy for the adequate audit coverage of Department of Defense (DoD) NAFI organizations, programs, activities and functions. As designated by reference (c), CNIC Fleet and Family Readiness (N9) is responsible for establishing and issuing appropriate procedures and guidance for fiscal oversight and review of Navy NAFIs and organizations, programs, activities and functions under NAFIs purview.

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b. Fiscal oversight and reviews of NAFIs by local commands will be conducted per direction provided in this instruction.

4. Records Management. Records created as a result of this instruction, regardless of media or format, must be managed per Secretary of the Navy Manual 5210.1 of January 2012.

5. Review and Effective Date. Per OPNAVINST 5215.17A, CNIC (N9) will review this instruction annually on the anniversary of its effective date to ensure applicability, currency, and consistency with Federal, DoD, SECNAV, and Navy policy and statutory authority using OPNAV 5215/40 Review of Instruction. This instruction will automatically expire 5 years after effective date unless reissued or canceled prior to the 5-year anniversary date, or an extension has been granted.

6. Forms and Information Management Control

a. The following forms are available for download from the Internal Revenue Service (IRS) Web site at <https://www.irs.gov/forms-pubs>.

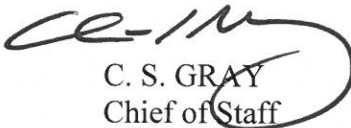
(1) IRS Form W-2G, Certain Gambling Winnings (2017).

(2) IRS Form W-8, Certificate of Foreign Status.

b. OGE Form 450s, Confidential Financial Disclosure Report, from the U.S. Office of Government Ethics (OGE) Web site at <https://oge.gov/Web/oge.nsf/Resources/OGE+Form+450:+Confidential+Financial+Disclosure+Report>.

c. CNIC N9G Fiscal Oversight Internal Control Questionnaire (ICQ) from Navy MWR Web site at [http://www.navymwr.org/resources/Fiscal\\_Oversight\\_Internal/](http://www.navymwr.org/resources/Fiscal_Oversight_Internal/).

d. Daily Activity Report (DAR) from Department of the Navy, Naval Forms Online at <https://navalforms.documentservices.dla.mil/formsDir/NAVCOMPT%202211.PDF>.

  
C. S. GRAY  
Chief of Staff

Releasability and distribution:

This instruction is cleared for public release and is available electronically only via CNIC G2, <https://g2.cnic.navy.mil/CC/Documents/Forms/Directives%20Only.aspx>

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## CHAPTER 1

### INTRODUCTION

1. Purpose. To provide guidance to local activities in the performance of fiscal oversight and related reviews (hereafter called “reviews”) of NAFI, to include MWR, CMWR, NGIS and FH.

2. Definition. Nonappropriated funds (NAF) are government monies and assets from sources other than monies appropriated by the Congress of the United States. While NAF are separate from funds recorded in the books of the Treasurer of the United States, they are government funds entitled to the same protection as United States Treasury funds.

#### 3. Administrative Control of Funds

a. NAF are to be used only for the general welfare and collective benefit of authorized patrons. The laws and regulations concerning the authorization, availability, obligation and expenditure of appropriated funds (APF) will be followed. Individuals, units, organizations or installations will have no proprietary interest in NAFI funds or other NAFI assets. NAFI funds or assets may not be transferred to private organizations as dividends or other distributions.

b. With respect to NAF fiduciary responsibilities and per references (d) and (e), there is an individual fiduciary responsibility for properly using NAF resources and preventing waste, loss or unauthorized use. This responsibility extends to all Department of Defense (DoD) personnel, including members of the military services and civilian employees paid with either APF or NAF. Per reference (f), personnel who violate NAF regulations applicable to the management of funds are subject to the same penalties under Federal laws that govern the misuse of APF. Violations by personnel subject to the United States Code of Military Justice are punishable under reference (g).

#### 4. Fiscal Oversight and Review of NAFIs

a. Local fiscal oversight of NAFIs is a Region Commander (REGCOM) and Commanding Officer (CO) responsibility. The frequency of fiscal oversight reviews will be per the requirements stated in Chapter 1, paragraph 9 of this instruction.

b. Commander, Navy Installations Command (CNIC) will be responsible for:

(1) Establishing procedures and instructions for the fiscal oversight and review of NAFIs and ensuring that REGCOMs and CO have up-to-date information regarding the management of NAFIs. CNIC specific policy guidance may be found in references (h) through (j).

(2) Performing fiscal oversight reviews of NAFI activities, including an evaluation of reports prepared by personnel conducting local fiscal oversight and review. CNIC is also responsible for follow up to ensure corrective actions and recommendations are implemented and completed, as recommended either by CNIC staff or the certified public accountant (CPA) firm under contract to CNIC.

5. Objectives. To provide local NAF management and command leadership with an independent, unbiased review and constructive evaluation of the effectiveness and efficiency with which managerial fiscal responsibilities are being fulfilled. Specific objectives include:

- a. Determining management controls over NAF resources are adequate in concept and effective in application.
- b. Determining the degree of compliance with established policies, principles and procedures.
- c. Verifying existence of assets.
- d. Determining whether resources are managed and utilized economically and efficiently, desired results are being achieved and lower cost alternatives have been considered.
- e. Verifying and evaluating the reliability of the accounting and reporting system.
- f. Objectively reporting findings and recommendations to management and command.
- g. Following up on recommendations and evaluating results.

6. Responsibilities of REGCOMs and COs

a. Ensuring Navy MWR, FH, CMWR and NGIS activities are reviewed, audited and evaluated per this instruction. Ensure availability and use of this instruction by command personnel responsible for performing fiscal oversight and reviews of NAFIs covered under this instruction.

b. Ensuring the conduct and adequacy of and corrective actions resulting from, local reviews. Reviews may be performed using:

- (1) Region Internal Review Officers (IRO).
- (2) Local internal audit staff.
- (3) Command evaluation and review or other comparable staff.

(4) Contracts with CPAs using a separate audit board. Refer to reference (k) and Chapter 1, paragraph 8 of this instruction when contracting with CPAs for auditing services.

(5) Separate audit boards performing management control reviews as discussed in reference (l).

c. Ensuring appropriate action is taken to correct findings and implement recommendations as reported during CNIC's annual review. Recommendations made by review staff are subject to concurrence or non-concurrence by the CO. Management will give prompt consideration to approved recommendations and forward to the CO, a written response of corrective action taken or planned.

d. Providing monthly reports to CNIC of the status of open and completed actions in response to recommendations by CNIC or the auditor contracted by CNIC until all recommendations have been resolved to the satisfaction of CNIC. This is particularly important for high risk and materially significant areas. Records of action must be maintained on file and made available for follow-up review.

e. Requesting an assist visit from CNIC Fiscal Oversight (N9G), as appropriate, to supplement local efforts.

7. Responsibilities of Personnel Assigned to Conduct Reviews. Local activities are responsible for examination of operations, assets and liabilities from a management perspective. The purpose is to determine how well the manager is achieving the mission while fulfilling their fiduciary responsibility to control costs and protect assets from unauthorized use. If management controls and accounting systems are operating effectively, reliance can be placed on the financial information reported. Accordingly, local commands will conduct reviews per the procedures contained in this instruction and report the results to the command.

8. Contracting for Auditing Services. Before a command contracts for audit services, the command obtain approval from the Auditor General of the Navy (AUDGENAV). COs will send copies of all proposed and awarded contracts for auditing services to AUDGENAV and forward an informational copy to the Naval Audit Service (NAVAUDSVC).

a. NAVAUDSVC will:

(1) Review proposed contract statements of work, special provisions, general provisions and data requirements before solicitation.

(2) Periodically monitor the progress of non-Federal auditors under contract to do audits.

(3) Provide technical guidance, consistent with the terms and conditions set forth in the contract, to contracted non-Federal auditors, when requested.

(4) Conduct pre-acceptance reviews of work completed by contracted non-Federal auditors before final payment is made for contracted audit services.

b. REGCOMs and COs will ensure:

(1) Proposed contracts for audit services are coordinated with and approved by AUDGENAV before a solicitation package is prepared or, if no solicitation package, before a contract is issued. The complete contract solicitation package (or proposed contract) will be provided to AUDGENAV.

(2) All audit proposals from non-Federal auditors will include the dates and results of the latest peer review of their firm. REGCOMs and COs will not contract for audit services with any firm that has not successfully passed a peer review within the preceding 3 years, as required by the Generally Accepted Government Auditing Standards.

(3) Proper security clearances and installation access credentials are obtained for non-Federal auditors.

(4) Copies of awarded contracts and all modifications for audit services are sent to AUDGENAV upon execution.

(5) Copies of audit reports and, if requested by AUDGENAV, work papers (WP) generated under contract are sent to AUDGENAV for review and comment before final contract payment.

(6) Recommendations originating from audit work performed under contract are decided and followed up on by the Region Fleet and Family Readiness Director (N9).

c. All contracts for audit services involving non-Federal auditors, including contract renewals, must include specific provisions per reference (1), enclosure (10).

9. Annual Plan

a. The IRO will prepare a schedule of reviews planned for NAF activities in the Region. The Region (N9) is responsible for reviewing and approving the schedule within 30 days of the beginning of each fiscal year. The schedule will include a timetable for reviewing vulnerable functions of each installation. As a follow-up, additional reviews will be scheduled if unsatisfactory conditions exist.

b. CNIC (N9G) will send notification of upcoming reviews via an Annual Fiscal Oversight Announcement Letter (appendix A). Reviews will take place every 12 to 18 months. Additionally, Review Data Requirements (appendix B), specifically tailored for each Region, will be sent by separate correspondence. These required documents and records will be provided to the CNIC (N9G) Program Analyst upon arrival.

c. The local command will perform follow-up evaluations of findings and recommendations reported by N9G or the CNIC-contracted CPA firm to ensure recommendations have been properly implemented.

d. Personnel assigned to review NAF activities will be used to selectively observe and independently validate physical inventories of merchandise, consumable inventories and fixed assets annually. They will also test the computation of inventory adjustments and inventory records. Signatures and position titles of the inventory participants, including independent observers, will be documented in the inventory records to validate each inventory. Inventories will be tested and a complete verification performed upon relief of the fund custodian or treasurer.

#### 10. The Review Process

a. Staff assigned to review NAF activities will familiarize themselves with the NAF activity before starting by:

(1) Discussing, with local NAF activity management and key personnel, the goods and services provided to patrons, pricing policies, operating hours and internal controls.

(2) Reviewing non-financial records (e.g., audit and review reports, advisory group minutes, recreation council and committee minutes).

(3) Obtaining and reviewing copies of authorizations, operating policies, organization charts and financial plans. Also, securing a list of all employees (military and civilian), filled positions and pay rates. This information will be filed with the “permanent” WPs as explained in Chapter 1, paragraph 10e of this instruction.

b. Since much of this instruction is written for general use in reviewing NAF activities, some portions may not be applicable in every situation. Staff assigned to review NAF activities will modify or add sections as warranted with the reason explained in the WPs. Any modification or addition will be consistent with the responsibility to perform the work in a manner that achieves the objectives stated in Chapter 1, paragraph 5 of this instruction.

c. To help the local command review staff, internal audit offices and audit boards allocate their time effectively, priorities are indicated in parenthesis (e.g., Priority (1), Priority (2), Priority (3)) in the procedures sections for each function. A Priority (1) section would normally



be more important to review than a Priority (2) section. These priorities are indicated adjacent to each procedure heading in Chapters 2 through 5.

d. Internal Control Questionnaires (ICQ) are designed to assist staff conducting reviews and serve as a form of quality control for the command evaluation function, addressing any oversight review weaknesses. ICQs are located on the Navy MWR web site at [http://www.navymwr.org/resources/Fiscal\\_Oversight\\_Internal/](http://www.navymwr.org/resources/Fiscal_Oversight_Internal/).

(1) Responses to ICQs will be supported by explanations and evidence of verification. If there is no evidence to support a response, the question will remain unanswered. This does not preclude having management prepare a response to the ICQ; however, if this is done, management's completed questionnaire will be considered a record. Managers will be requested to sign the questionnaire section that applies to their responsibility.

(2) ICQs are used to satisfy the objective stated in each section of this instruction by providing a systematic review of a NAF activity segment for the purpose of identifying a weakness in management control (e.g., cashiers having access to cash register totals).

(3) Testing the overall system of internal controls requires that documents and accounts showing the execution of transactions be reviewed. The person conducting the review will determine if transactions are executed and recorded in a manner consistent with prescribed policies. An evaluation will be made as to the adequacy of safeguards in place to protect assets. A comparison will be made between recorded balances in asset accounts and physical existence of assets. Delegation and segregation of duties and responsibilities will be evaluated to determine if material weaknesses exist.

(4) Each section contains a series of steps that describe the work to be done and is provided to assist in successfully conducting the review. A "yes" answer indicates the internal control is intact. "No" answers generally indicate inadequate controls and require further examination to determine the seriousness of losses or misstatements that could result from this weakness.

e. WPs are the evidence of the review work. A separate set of WPs will be established for each NAF command. "Permanent" WPs are those required for future reviews, such as policies, organization charts, mission and function statements, staffing and authorization letters. The "current" file contains the WPs and supporting documents for each year's review. These will be retained at least 3 years following each review and available for subsequent review by CNIC (N9G), command inspectors and NAVAUDSVC, as appropriate and authorized by DoD and Navy regulations.

f. If completed WPs contain any information requiring security measures under the Privacy Act, they will be stored in a locked cabinet or room when not in use and labeled to show if

security measures are required. Examples of such information include social security numbers and personnel listings showing home addresses or telephone numbers.

11. Reports. Review reports will contain a summary of review briefly describing objectives, scope of activities and functional areas being reviewed. Reports will contain findings, recommendations corresponding to each finding and policy or other accepted reference sources to support recommendations. Significant positive control strengths and monetary benefits will also be reported for fund management and command information. Reference sources are provided in the ICQs as guidance for local command staff assigned to the review.

12. Materiality. Although the term “materiality” is difficult to define, staff assigned to conduct reviews will recognize its importance if the review is to be efficient, effective and helpful to the CO and NAF manager. While materiality is discussed most frequently in terms of dollars, it is not to be considered in those terms alone. Hard rules cannot be prescribed to tell which dollar amounts or levels of activity are material or immaterial. Each situation will be judged in the context of the activity’s total operation and the impact the dollar and operational disclosures will have on the activity’s performance.

a. Affirmative “yes” answers to the following questions will help the reviewer judge the materiality of the findings:

(1) Are the findings important in terms of cost, performance or other effect?

(2) Does the finding identify fraud, waste or significant improprieties and is the condition widespread?

(3) Are people in a managerial capacity directly responsible for the deficiency?

(4) Can a recommendation be made for corrective or preventive action?

(5) Will the finding and recommendation provide constructive guidance for future operations?

b. Matters judged to be immaterial (i.e., does not significantly affect the operation) can be omitted from the report. However, immaterial items should be discussed with appropriate levels of NAF command management to promote performance improvement. If immaterial items are included in the report, annotate item as an “analyst comment.” Review analyst comments during the next review to ensure they have not become material.

13. Directives. Personnel assigned to conduct reviews will establish and maintain a current, ready reference library for use by personnel assigned to review NAF activities. See appendix D for list of recommended reference material.

## CHAPTER 2

### REVENUE

#### 1. Cash and Cash Receipts

##### a. Objectives

(1) Determine whether internal controls within an activity are adequate and functioning.

(2) Verify whether all funds (change and petty cash funds and un-deposited receipts) are accounted for properly.

(3) Ascertain whether all receipts are deposited to the appropriate bank account intact and on a timely basis. This objective is achieved by making periodic surprise cash counts and completing the CNIC (N9G) Fiscal Oversight ICQ; Finances. The frequency of surprise cash counts is based on the significance of previously found cash variances and indicated control weaknesses but will be conducted at least quarterly by an individual independent of the cash function. Cash sales review procedures are described in Chapter 3 of this instruction.

b. Procedures (Priority (1)). It is essential the review start with establishing physical control over all cash and cash items on hand (un-deposited receipts, change funds, petty cash funds and charge sales). Cash counts must be made in the presence of the individual accountable for the funds and recorded on a locally designed or procured cash count sheet. Immediately upon completion, obtain the signature of the custodian acknowledging the return of all cash and cash items on the cash count sheet.

(1) All checks found in any fund will either be immediately deposited in the bank under the supervision of the person conducting the review or listed for later verification that they were not returned. These steps are necessary to establish the validity of checks in the cashiers' possession.

(2) At least quarterly, a surprise cash count of all funds and receipts will be conducted, reconciling funds and receipts with the book values and amount authorized. All differences will be investigated to the satisfaction of the person responsible for performing the review.

c. Un-deposited Receipts (Priority (1)). All cash and cash items will be recorded as they are being counted. List all checks recording the drawer, check date, amount and check number. Review all checks for date drawn, payee, drawer and amount. Investigate all checks representing large amounts or unusual drawers and all checks payable to cash. Reconcile checks, currency, credit card and charge sales to the Daily Activity Record (DAR), cash register tapes and cash receipt vouchers. Record the details and investigate all discrepancies.

d. Change Funds (Priority (1)). Change funds will always be for a fixed amount and authorized in writing by the Region Fleet and Family Readiness Director (N9) or designated representative. The person performing the review will verify whether the authorization conforms to these requirements. All change funds, which have not been issued to cashiers, will be counted to verify whether the money on hand and signed receipts agree with the amount authorized. The amount and reason for any differences will be recorded. In some instances, portions of the change fund may have been issued (or sub-custodied) to cashiers for use in conducting business. When this occurs, the person conducting the review will perform a physical cash count. Cash register readings need to be taken. The total amount of cash counted will be equal to the amount of the change fund issued to the cashier, plus the total value of transactions recorded by the cash register. This count will be accomplished during duty hours while the fund is in operation and the cash counted reconciled to the applicable general ledger accounts and DARs. All credit card transactions, coupons, refunds, etc., must be counted and individually annotated on the cash count sheet. Cash counts will be conducted in a manner that causes minimal disruption to business and customer service.

e. Petty Cash (Priority (1)). Each petty cash fund must be verified whether the authorization conforms to these requirements. The total of all cash on hand plus the total of paid vouchers will equal the amount authorized. Should the total of all petty cash funds counted not agree with the amount authorized and recorded in the Detail General Ledger, the amount and reason will be recorded. Where improper or irregular items are disclosed at the time of the first count, a later count and reconciliation will be made to determine that subsequent reimbursements have not been used to cover deficiencies.

f. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Finances.

## 2. Sales

a. Objectives. Civilian and military personnel performing this review will have a thorough knowledge of the controls and the procedures contained in references (i) and (j). Sales are reviewed to determine:

(1) Adequacy of internal controls related to the collection and safeguarding of receipts.

(2) Accuracy of the related accounting data.

b. Procedures (Priority (1)). The local command's staff will review the established procedures for collecting and safeguarding cash receipts and recording sales and other income for all departments operated by the command. Also, staff will determine the adequacy of these procedures and document all deficiencies in the work papers.

(1) Review Point of Sale electronic DARs for errors.

(2) If applicable, for manually printed DARs, examine a sample of DARs and related supporting documents to verify whether:

(a) DARs are properly used and the internal control system is effective to protect the the command's cash assets against fraud or error.

(b) DARs are prepared in ink, complete and mathematically correct.

(c) Corrections are made properly and verified.

(d) Cashiers, persons designated to verify cash and charges and persons designated to read and verify register tapes are properly completing and certifying their assigned DAR sections.

(e) Opening and closing cash register readings are correctly entered on the DAR and the opening reading for the day under review is in agreement with the closing reading for the previous shift.

(f) Source documents (e.g., sales slips, guest checks, bowling score sheets, cash receipt vouchers and private party contracts) are adequate to substantiate the data entered on the DARs.

(g) Cash overages and shortages are recorded properly on the DARs and credited to the proper cash overage or cash shortage account.

(h) Accounting data recorded on each of the individual DARs is correct and complete.

(i) Receipts are deposited daily.

(j) Reference (i), paragraph 506e(3), discusses proper procedures for making deposits. All cash receipts will be deposited daily in the bank. DARs will be prepared to substantiate any deposit. Where authorized, cash refunds may be made from change funds or cash receipts only if cash was used as the original payment method by the customer. Weekend and holiday receipts will be deposited daily when there is access to a night depository or, if there is no night depository, on the next business day.

(3) Subsidiary Records. Where applicable, verify the posting of the accounting data from the summaries to the subsidiary records or files (e.g., cash in bank, accounts receivable, accounts payable and customer deposits).

c. Specialty Sales

(1) Private Party Contracts (Priority (1))

(a) All private catered parties and group functions require a properly executed, pre-numbered, private party contract. Controls will exist to ensure all transactions, including private party and event contracts, have been properly processed.

(b) Navy MWR food and beverage activities may provide catering services (e.g., food, alcohol and non-alcoholic beverages) for patrons at locations on base (e.g., golf courses, beaches and parks), nearby Navy property or government housing areas. Controls will exist to ensure all transactions, including private party and event contracts, have been properly processed. A catering software package will be used to properly account for all contracts. Only a limited number of catering software packages are approved for use in MWR activities. Contact CNIC Fleet and Family Support Services NAF Information Technology Branch (N946) for further information and directions.

(c) For patrons off the installation, MWR food and beverage activities are limited to preparing food items, kegged beer, non-alcoholic beverages, supplies and rental of various items for pick-up at the MWR food and beverage activity by the patron or their representative. This pick-up may be complete meals, reception items, etc. and not limited to party trays.

(d) No group functions or private parties may be held in the club unless a contract has been signed by the host or party sponsor. Utilize the following procedures:

1. Obtain the master listing used for booking group functions and private parties. Verify whether a private party contract has been signed for each function booked. The final estimate of number of patrons to be served will be required 24 hours in advance, with an allowed variation of not more than 5 percent. All changes to the contract will be annotated on the contract by the host or party sponsor.

2. Review the special function form or contract in use by the club and determine if pertinent information is included as stated in reference (h), Chapter 21.

3. Examine private party contracts (and applicable mess requisitions) for each scheduled private party and group function for the period under review.

4. Ensure all party charges are recorded on a pre-numbered party contract and income from all private party sources is input by DAR Summary into the food and bar accounts on the day the function is actually held.

5. Ordinarily, charges for group functions or private parties will be collected at the time of the function. Cash payment will be made only to an authorized cashier and the transaction must be recorded on that day's DAR. If, however, credit is extended, the party

patron will be billed within five business days of its conclusion (holidays and weekends excepted) and payroll will be billed within 15 days.

6. A notation will be written on canceled or voided contracts explaining the reason. The accounting department's copies of completed, canceled or voided private party contracts will be filed in numerical sequence.

(e) ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Food and Beverage.

(2) Bingo – Introduction (Priority (2)). Reference (h), Chapter 22, authorizes playing of both paper and electronic bingo in MWR activities on Navy installations within the U.S., its territories and possessions that are fully ceded. Bingo programs will be designed to promote participation. Participation in bingo playing is limited to authorized patrons, their family members and authorized guests. At a minimum, bingo operations are expected to be cost neutral (break even after off-setting all operating and prize expenses against revenues on an annual (fiscal year) basis).

(a) Prize Controls. Bingo prizes may consist of cash or merchandise. Region Commanders and Commanding Officers (CO) may establish appropriate prize amount limits and standard prize amounts for all bingo games.

1. MWR must maintain detailed financial records of the bingo revenues and all prizes paid. Bingo winners will sign their names and provide personal identification data on the bingo activity sheet before receiving prizes. If the winner is an authorized patron's sponsored guest, the sponsor's name will also be recorded.

2. One-game bingo winnings of \$1,200 or more will be reported on Internal Revenue Service (IRS) Form W-2G, Certain Gambling Winnings. Form W-2G need not be completed when a foreign national wins \$1,200 or more from bingo conducted in a foreign area and the foreign national completes an IRS Form W-8, Certificate of Foreign Status, to be retained at the installation where the bingo was conducted.

(b) Bingo Merchandise Prize Controls

1. A perpetual inventory of merchandise prizes will be kept current at all times and a proper identification number will be affixed to each merchandise prize. Prizes will be kept in a controlled, locked storeroom. Small expensive prizes require additional safeguards. When a prize display table is set up for the game, the manager or designated responsible person will personally checkout and retrieve the prizes from the storage area using the inventory records as a checklist

2. The retail sale of bingo prizes is prohibited. Surplus or slow-moving bingo prizes will be returned to vendors for credit or disposed of as a special or consolation prize.

(c) ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Bingo.

3. Accounts Receivable

a. Objectives

(1) Accounts receivable represent money owed to the command as a consequence of:

- (a) Credit extended to patrons.
- (b) Personal checks not honored by the bank.
- (c) Patrons' liability for damaged equipment.
- (d) Credit extended to other activities.

(2) These transactions will be recorded in individual accounts identified by the name of the patron or activity. The sum of the individual accounts must equal the balances in the applicable general ledger controlling accounts. The person assigned examines accounts receivable to:

- (a) Evaluate the adequacy of internal controls for recording charges and payments.
- (b) Evaluate the adequacy of collection procedures.
- (c) Establish the existence and validity of accounts.
- (d) Determine the collectability of outstanding accounts.
- (e) Determine the accuracy of the controlling accounts.

b. Procedures

(1) Aging and Reconciling Accounts (Priority (2)). Obtain a list of the open accounts receivable for each general ledger controlling account. Classify outstanding individual accounts into three categories:

- (a) Less than 30 days.
- (b) 30 to 60 days.
- (c) Over 60 days.



(2) The number of outstanding days is computed from the date of the original invoice to the cutoff date used. Procedures will include the following:

(a) Indicate any collections received subsequent to the cutoff period on the aging schedule.

(b) Examine, in detail, the delinquent accounts, which have not been paid subsequent to the cutoff period and ascertain steps being taken to collect these accounts.

(c) Determine the collectability of outstanding accounts and recommend disposition for those deemed uncollectible.

(d) Compare the total of all individual accounts receivable with the controlling account in the detail general ledger. Determine and record the reason for any differences.

(e) Trace charges and payments to the source documents.

(f) Verify accounts with credit balances are carried on the books as liabilities.

(g) Investigate any personal accounts of employees included as accounts receivable.

(h) Verify whether all accounts written off as uncollectible during the cutoff period were approved by the CO, Region (N9) or fund custodian.

(3) Accounts Confirmation (Priority (2))

(a) To establish the existence and validity of accounts, the person assigned will correspond directly with debtors. If deemed desirable, send a confirmation request to selected debtors. The name and address of the debtors whose accounts are to be confirmed will be listed on a locally developed confirmation control sheet. It is essential that the assigned person controls the mailing of these letters. The letters will include a return envelope addressed to the command evaluation team, internal audit staff or senior audit board member. Disagreements between debtors and the command concerning the amount owed will be investigated. If the sample confirmation indicates significant errors, the entire file of accounts receivable will be confirmed and the procedures will be extended to determine the cause and necessary corrective action.

(b) Some debtors will not return the confirmation letter. The person assigned must decide whether additional written or verbal effort will be made to confirm these accounts.

(c) Some debtors will include a payment with their response. These funds will be recorded and turned over to the nonappropriated fund command central cashier for deposit.

(4) ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Finance.

## CHAPTER 3

### EXPENDITURES

#### 1. Procurement, Receiving and Accounts Payable

##### a. Objectives

(1) The review of procurement and accounts payable is performed simultaneously because the two activities form a continuous cycle. The only exceptions to the cycle are purchases through the use of petty cash for small non-recurring purchases only. The person assigned will keep in mind the necessity for adherence to internal controls by command management and employees. A breakdown in controls may provide an opportunity for someone to receive an unauthorized benefit.

(2) The procurement and receiving functions are reviewed to ascertain how well policies are followed with respect to purchase requests, purchase orders, contracts and Blanket Purchase Agreements, along with receiving merchandise and services. The accounts payable function is examined to determine that amounts due to be paid by the command arising from purchase of goods and services are documented, vendor invoices are examined and approved and payments are timely so as not to lose discounts. Accounts payable also encompasses a wide variety of other amounts owed, such as accrued expenses, accrued liabilities, credit balances in patrons' accounts and refundable deposits received from customers.

(3) See CNIC (N9G) Fiscal Oversight ICQ, Procurement.

b. Purchasing and Receiving Procedures (Priority (1)). To adequately review the purchasing and receiving functions, it is necessary to sample paid invoices from the vendor's file with supporting data. No fewer than 10 separate vendors will be selected with at least one payment from each vendor. Each payment will be verified to the supporting purchase order (or contract), receiving certification and delivery ticket. The command will have paid only for those items received and at the price contracted for on the original purchase order unless the purchaser (or manager) approves the price and quantity change. The purchase will comply with the purchase order terms. The accounting technician is authorized to pay per the purchase order or authorized change amounts. The person assigned will use the electronic fund transfer and check printout listing from System Application and Product (SAP), along with related supporting documents, to perform the following steps on the purchases selected to be examined:

(1) Verify whether a purchase order or contract covers all purchases made from commercial sources.

(2) Review and determine the completeness of the purchase orders and contracts.

- (3) Verify whether authorized personnel approved all purchase orders and contracts.
- (4) Determine adequacy of receiving procedures and verify whether authorized personnel received goods and services.
- (5) Verify whether purchase orders, contracts and all related supporting documents were stamped "PAID" with check date or annotated in a way to prevent reuse.
- (6) Verify whether purchase orders or contracts were properly recorded in SAP.
- (7) Ascertain the validity of payments by comparing the data on the purchase orders, receiving reports, vendors' invoices and other related supporting documents with the accounting entries shown in SAP.
- (8) Trace the posting of the accounting data from the invoice to the detail general ledger, subsidiary ledgers and stock record cards, where applicable and determine their accuracy.

c. Accounts Payable Procedures (Priority (1))

- (1) Reference (e) requires Federal agencies to make payments in a timely manner. The person assigned will obtain or prepare a listing of outstanding accounts payable and contracts. This listing will classify (age) the account balances into one of three categories as those outstanding:
  - (a) Less than 30 days.
  - (b) 30 to 60 days.
  - (c) Over 60 days.
- (2) The number of days outstanding is computed from the date of the first unpaid invoice. The balance sheet accounts 201000 "Trade Payable" and 202000 "Other Payable" will be verified to this listing.
- (3) The total of unpaid invoices or subsidiary ledger amounts will equal the general ledger balance. Ascertain the reason for any differences.
- (4) The person assigned will randomly select accounts less than 30 days old, including accounts closed within the past 29 days and all accounts 30 or more days old. Trace the purchases (credits) for each individual account to the source documentation.
- (5) Trace payments (debits) for each individual account to the source documentation. Determine whether the total amounts on the source documentation equal the amounts entered to

the accounts and vendors' invoices. Investigate all third party checks to determine whether an activity employee may have received the check proceeds.

(6) Extend the review work to include the development of information concerning each internal control question answered "no." When feasible, use the selected individual accounts to develop this information.

(7) Any discrepancies arising from the confirmation of accounts payable will be examined to determine the reason.

d. ICQ. See CNIC (N9G) Fiscal Oversight ICQs, Procurement and Finance.

## 2. Accruals

a. Objectives. To determine whether the procedures being used by accounting are adequate to ensure the actual expenses incurred or goods received, but not paid, are assigned to the proper accounting period. Failure to do so could lead to incorrectly matching the revenue collected to the expenses incurred in obtaining that revenue.

b. Accrual Procedure (Priority (2)). Accrued expenses are recorded in SAP on an Accrual Journal Voucher or a General Journal Voucher. The contra entry is to be made to the appropriate current liability account.

(1) Each accrual at month-end will be supported by unpaid invoices. The subsidiary documents for payroll accounts will come from copies of payroll journals and payroll summaries for each payroll period.

(2) For wages payable, the accrual will be for the amount owed to employees from the last payday through the end of the month.

(3) Accrued annual leave payable will be the balance of all leave payable as of the last payday. Annual leave is to be reconciled with the automatic data processing annual leave report.

c. All taxes payable are the taxes owed the Internal Revenue Service and the State since the last payment. Back-up documents are payroll summaries, payroll journals and individual earnings records. Payroll deductions payable (GL Accounts 204000 through 230000) will be that amount owed to the agency(s) since the last payment. It will never exceed one pay period's deductions. Backup documents, such as payroll summaries, payroll journals, individual earnings, records, payments, letters, messages and instructions document employee portability from Civil Service to nonappropriated fund and benefits transfer conditions. For the Bonus Account, include a record with the name, date, amount due each employee, payments made and any applicable employment agreement with a foreign government.

d. Documentation. It is imperative that supporting documents be prepared. Documents will include a description of efforts taken to examine each account's balance with attached computations.

e. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Finance.

CHAPTER 4  
INVENTORY

1. Merchandise and Consumable Inventory

a. Objectives. Inventories constitute a large part of all current assets and are more susceptible to major errors and manipulation than any other current asset, except cash. Therefore, it is essential that all persons assigned understand inventory procedures.

(1) Any indications of theft, fraud or mismanagement will be brought to the attention of the local “hotline” office, Region business office or CO immediately.

(2) Clubs have resale merchandise located in departments (point of sale) and central storerooms and warehouses. These inventories will be entered on the official records of the activities at cost.

(3) Resale merchandise will be charged to the appropriate department(s) and entered on the official records by using both cost and retail value.

(4) Local management will determine the frequency of physical inventories during the year. Inventory records will be reconciled with the general ledger account at least monthly.

(5) Merchandise and consumable inventories will be reviewed to ascertain:

- (a) Effectiveness of internal controls over inventories.
- (b) Accuracy of physical counts of inventories.
- (c) Quality or condition of inventories.
- (d) Accuracy of pricing, extensions and total value of inventories.
- (e) Correctness of the inventory amounts depicted on the balance sheet.
- (f) Timeliness with which adjustments are made to correct the account balances.

b. Procedures

(1) Observation of Physical Inventory. The physical inventory verification will be performed by command personnel. Independent, impartial people will be assigned to observe the scheduled physical inventories. Scheduling and timing will be a coordinated effort of management and persons assigned to conduct the review to achieve maximum coverage with

the available staff. The names and position titles of those taking inventory will be recorded on the official inventory records to validate each inventory.

(a) Assigned personnel will determine whether inventory procedures are being followed. Any discrepancies which might result in incorrect counts or valuation will be discussed with management, documented in the work papers and included in the report.

(b) Prior to commencing the review, the people assigned will obtain a complete listing of all items to be inventoried by type, department, storeroom and location. The total number of items to be test counted will meet the percentages for each category in Table 1 below:

PERCENTAGE OF TOTAL	
Category	Percentage
Meats and Liquor	20
Recreation Funds (all departments)	20
Food (exclusive of meats)	10
Supplies and Replacements	10
Other Resale	10
Sundries	5

(c) Immediately after command personnel have completed their earliest counts the person assigned will count the selected items. If there is a difference, the person assigned will recount to determine which count is correct. Count results will be recorded in the work papers. The counter's tally is not corrected in the work papers since the purpose of this part of the review is to test the accuracy of the counters' work.

(d) Errors made by the counters will be discussed with management, not with the counters. This will be done during the physical inventory so that counters' errors can be corrected early in the inventorying process. After the bookkeeper has adjusted the stock record cards or other authorized automated inventory control records to the physical inventory, the person assigned will enter the quantity balances from the stock records or automated inventory control records onto the work papers. Compare the work papers' balance to the stock or automated inventory record balance. Determine the reasons for and explain any differences in the work papers.

(e) If the person assigned concludes the physical inventory is unacceptable, that person will either:

1. Arrange with management for another inventory to be conducted.

2. Qualify the evaluation's materiality as prescribed in Chapter 1, paragraph 12.

Any re-inventory will be preceded by training and planning to correct the physical inventory process.

c. Valuation of Inventories. The person assigned will obtain a copy of the completed inventory sheets from management. Check a sample of invoices and stock record cards or automated inventory control records for latest prices.

d. Other Inventory Considerations. During the course of completing the above steps, the people assigned will make determinations in the following areas:

(1) Safeguarding Inventories. Check the physical locations where inventories are kept to determine whether they are adequate to protect against breakage, spoilage, damage from the elements and unauthorized withdrawals.

(2) Quality or Condition of Inventory Items. Check individual items to determine whether they are of satisfactory quality or condition to be used. Unusable items will be surveyed for write-off evaluation and disposition.

(3) Overstocked or Slow Moving Items. Review stock records or automated inventory control records to identify slow moving items (sales are infrequent) and overstocked items (quantities on hand greatly exceed sales requirements between inventory replenishment dates).

(4) Inventory Overages and Shortages. After the inventory has been posted to the stock records or automated control records, the person assigned will list all overages and shortages by item on a worksheet. Overages and shortages will be investigated to determine the cause. Any deficiencies will be entered in the work papers.

e. Retail Accountability

(1) Retail accountability is a system of control over sales of resale merchandise from inventory that utilizes inventory usage figures to compute sales independently from money, tickets or cash register tapes. To compute expected sales to determine if all sales were recorded, the value of both the beginning and ending inventories and any merchandise delivered during the accounting period, are figured at their selling prices to the patron. The formula for this computation is:



BI + MR – EI = Sales	
BI	Beginning Inventory (at retail selling price)
MR	Merchandise Received (at retail selling price)
EI	Ending Inventory (at retail selling price)

Example: If the total of the price tags on merchandise in a department is \$1,500 (BI) and goods are received that will sell at retail for \$3,000 (MR), an inventory taken at any time will show (to the penny) what the sales will have been. In this example, if the ending inventory (EI) was \$2,800, the sales amount will have been \$1,700.

$$\$1,500 + \$3,000 - \$2,800 = \$1,700$$

(2) This system works best when a predetermined selling price can be established for each unit sold.

(3) Any bar retail accountability forms reflecting a shortage, as well as those reflecting an overage in excess of 5 percent will show evidence of investigation by management and any necessary follow-up action or accounting adjustments.

(4) Procedures (Priority (1)). The following procedures are used to review controls over bar and food retail accountability systems:

(a) Bar Retail Accountability. The person assigned to test bar retail accountability will obtain completed bar retail accountability sheets and corresponding register tapes for all bars to be tested and have performed the following steps during the latest three month period:

1. Review forms used to control inventory and computer sales for accuracy of computations, completeness, evidence of management review and evidence of investigation of any reflecting an overage in excess of 5 percent or any shortage.

2. Trace the bar sales figure computed based on inventory usage to the DAR and corresponding register tape or, if a register is not used, the locally maintained records of bar sales.

3. Provide evidence of investigation by management and any necessary follow-up action or accounting adjustments for any bar retail accountability forms reflecting a shortage, as well as those reflecting an overage in excess of 5 percent.

(b) Food Retail Accountability

1. There are several different ways to control food inventory. In a snack bar, the most efficient way is to use a weekly cost to sales percentage. A weekly inventory is conducted to compute inventory depletion at cost. This figure will be divided into sales to compute the weekly cost as a percentage of sales figures. This figure will be monitored and investigated when a shortage or overage deviation occurs in excess of 3 percent. The person assigned will review these documents and ensure the computations are correct and there is evidence of management review. All deviations in excess of 3 percent will show evidence of investigation and resolution.

2. For other dining room or kitchen operations one of two methods are suggested.

(a) Sensitive Item Inventory. An inventory of high cost food items will be completed, at minimum, weekly. The inventory usage figure will be compared to the record of items sold figure per the cash register and scatter sheet to ensure all high cost inventory used per kitchen records was properly recorded as a sale.

(b) Daily Inventory. A record of items prepared and served per kitchen records, extended at retail by the chef and turned in to management. The cashier's record of sales, also turned in to management, will be compared to the expected sales per the kitchen records to ensure no discrepancies exist. This will be combined with a weekly inventory to verify the chef's inventory figures.

3. The person assigned will review these documents for the latest three month test period to ensure computations are correct and separation of function is in place. The cashier and chef will not have access to each other's computations or amounts.

4. Any food retail accountability forms reflecting excessive overages or shortages will show evidence of management investigation and resolution.

f. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Food and Beverage.

## 2. Fixed Assets

a. Objectives. For an item to be classified as a "fixed asset" it must have an acquisition value of \$2,500 or more and a life expectancy of 2 to 30 years.

(1) The physical inventory verification will be performed for the inventory being conducted. Names and positions of the personnel participating in the inventories will be documented as part of the official inventory records to validate each inventory conducted. Property at specific locations or in the custody of a particular activity may be reviewed separately from property at other locations or in the custody of other activities. Three important factors are:

(a) All property will be physically inventoried by the command during each fiscal year.

(b) People assigned will be independent of the inventory custody and will observe and test count the inventory.

(c) Physical inventory plan must assure complete control to preclude the possibility of property being substituted.

(2) Fixed assets are reviewed to ascertain:

(a) Effectiveness of internal controls over fixed assets.

(b) Accuracy of the physical counts of the fixed assets.

(c) Adequacy and accuracy of property records.

(d) Propriety of depreciation charges.

(e) Correctness of the amounts reported on the balance sheet.

(f) Timeliness of adjustments to correct the account balances.

b. Procedures (Priority (1))

(1) Prior to commencing the inventory, the person assigned will obtain a complete listing of all NAF property items by name, location and property number. Using this listing, select items to be test counted and enter the information on a worksheet. Immediately after the inventory board or command personnel have completed their count of the selected items, enter their count on the worksheet. The person assigned will then count the selected items and record the count on the worksheet. Determine that APF assets are not counted as NAF assets. Should there be a difference, recount to determine which count is correct and enter the correct count. The count made by command personnel or inventory board is not corrected in the work papers since the purpose of this part of the review is to test the accuracy of the work they perform. Errors will be described on the worksheet and discussed with management, not with inventory personnel. Should the person assigned conclude the physical inventory is unacceptable, the person assigned will arrange with management for another physical inventory to be conducted. Any re-inventory will be preceded by training and planning to correct the physical inventory process.

(2) During observation of the inventory, the people assigned will also:

(a) Determine whether inventory numbers of a permanent nature have been assigned and affixed to all non-expendable property.

(b) Verify that property inventoried does not include unserviceable or excess items (these items will be disposed of per references (h) and (i)).

c. Property Overages and Shortages. After the inventory has been posted to the property and depreciation records, the person assigned will list material overages and shortages by item on a worksheet. These will be investigated to determine the cause using the methods outlined in references (h) and (i). Any deficiencies will be entered in the work papers.

d. Verification of Depreciation and Book Value

(1) Verify whether adequate property and depreciation records have been established for all nonexpendable NAF property.

(2) Verify whether all NAF acquisitions, dispositions and property adjustments made during the review period have been properly approved.

(3) The persons assigned will run a System Application and Product (SAP) report on all property record files. This report will be subdivided by category, acquisition year and location (if necessary) to determine the accuracy of the data recorded on the depreciation schedules. At the beginning of each fiscal year, the people assigned will reconcile the total value and the accumulated depreciation for all fixed asset accounts to the balances on the detail general ledger. Any differences will be investigated and documented to support the recommendations.

e. Rental or Issue Property. This property may be a fixed asset or expendable (charged to prepaid supplies or supplies). The person assigned will review procedures and controls over property that is rented or issued to patrons or employees to ascertain whether:

(1) Property rented or issued to patrons or employees is evidenced by signed receipt documents.

(2) Controls are in effect to encourage the return of rental or issue items.

(3) Procedures exist to check property for damage when returned and users are required to reimburse the command for damages.

(4) Rental charges are collected and properly recorded.

(5) Deposits are recorded in the records and are refunded to the patrons.

(6) Rental or issue property is inventoried at least once a year.

f. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Finance.

## CHAPTER 5

### BUSINESS ACTIVITIES, FINANCIAL STANDARDS AND CONTROLS

#### 1. Gaming Machines

a. Objectives. The administration and management of gaming machine programs are the responsibility of the local MWR command. Standards established for MWR entertainment programs and events contained in reference (h), Chapter 23 will apply to gaming machines.

(1) Procurement of gaming machines with APF is prohibited. Procurement of gaming machines with NAF is authorized and will be conducted on a competitive basis. Contracting among area MWR activities to affect efficiencies is encouraged.

(2) A contractual agreement under which a contractor installs, maintains and services machines for a percentage of the income generated is the easiest way of obtaining gaming machines. Such arrangements are normally preferable to outright purchase and permits rotation of games to maintain patron interest. All lease arrangements will be treated as contracts.

(3) All contracts awarded on behalf of an MWR fund will provide for payment of income generated by each machine directly to the MWR command where the machine is located. Many local activities find it more profitable to negotiate contracts with concessionaires or Navy Exchange Command, rather than owning machines, which require frequent maintenance and updating. Any concessionaire arrangements must be evidenced by contract.

#### b. Procedures (Priority 2)

(1) Review contracts for command approval and the following provisions:

(a) Identification of the type, number and location of machines or description of service.

(b) Frequency of machine harvests and the right of the command to collect the harvest jointly with the concessionaire.

(c) Right of the command to read cash register tapes or reports and perform other audit steps to determine the accuracy of reported sales when income is based on sales.

(d) Method of computing the income earned by the command.

(e) Frequency of payment of concessionaire.

(2) Person assigned to the review will conduct a count of the number of machines to verify conformance with the contract and determine if there are any machines other than those contracted or owned.

(3) The person performing the review will review the command's records of harvests, meter readings and collected income.

(4) Selected harvests will be observed to determine the effectiveness of the command's participation and verification.

(5) If possible, the number of plays, harvested amounts and income will be compared with the results of other MWR NAF activities on the base and similar MWR NAF activities at nearby bases.

(6) The MWR NAF command's management of concessionaires other than those operating gaming machines will also be examined to ascertain its effectiveness in collecting income as specified in the contract.

(7) The Army's Recreational Machine Program (ARMP) accounting system is authorized for installations contracting with the Army to provide gaming devices. Bally's MCC accounting system is authorized to be used in record keeping for installations operating gaming devices in-house. All other accounting systems must be approved in advance by CNIC (N9).

(a) Regardless of which service owns or operates the gaming device, when the amount of winnings caused by one play of the gaming device (including bonus rounds) is greater than \$1,199, the following procedures must be followed:

1. If the player is a U.S. citizen or resident alien, no withholding is required, but taxes will be withheld if requested by the player and a W-2G is issued.

2. If the player is a foreign national, a 1042-S is issued and 30 percent is withheld. However, no tax withholding is required if the player is a citizen of a tax treaty country (including Japan, Germany and others), the player has a U.S. taxpayer ID and the player fills out a W-8 BEN form. This occurs infrequently, as most foreign players do not have U.S. taxpayer IDs.

3. If the player is unwilling to provide a name, address, etc., the player is considered by default to be a foreign player, a 1042-S is prepared and 30 percent is withheld. In these cases, the name on the 1042-S is "unidentified player."

4. All funds withheld must be submitted to the IRS at least quarterly for both the W-2Gs and the 1042-S.

c. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Gaming.

## 2. Food/Beverage and Entertainment

a. Objectives. Standards established for MWR food and beverage and entertainment are contained in reference (h), Chapters 21 and 24. The review of food and beverage and entertainment is performed simultaneously because the two activities are an extension of the other.

(1) The person assigned will keep in mind the necessity for adherence to internal controls by command management and employees. A breakdown in controls may provide an opportunity for reduction in operations performance.

(2) Financial and operating standards and guidelines detailed below establish minimum levels of performance to ensure Navy MWR food and beverage and entertainment activities are fiscally and operationally sound. Financial standards and guidelines govern major cost centers and command profitability. Operating guidelines recommend levels of performance, facility maintenance, marketing procedures and customer satisfaction as indicators of a well-managed MWR food and beverage activity operation.

b. Procedures. (Priority 1) The guidelines for food and beverage operations are established by CNIC program management staff and used for monitoring the standards for each activity. CNIC operating and financial standards and guidelines are detailed in reference (h), Chapter 25. The areas that will be monitored are:

- (1) Activity net profit.
- (2) Food Department Cost of Goods Sold (COGS).
- (3) Bar Department COGS.
- (4) Food Department labor cost.
- (5) Bar Department labor cost.
- (6) Net income for the departments.

c. Once the COGS, labor cost and net income has been verified, persons conducting reviews will verify that the SAP Accounting Information Management System (AIMS) financial statements breakdown of Food and Beverage Standards for activities meet the monthly retail accountability standards.

d. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Food and Beverage.

### 3. Snack Bar

a. Objectives. Financial and operating standards and guidelines, detailed below, establish minimum levels of performance to ensure Navy MWR snack bar activities are fiscally and operationally sound. Financial standards and guidelines govern major cost centers and activity profitability. Levels of performance, facility maintenance, marketing procedures and customer satisfaction surveys are used as indicators of a well-managed MWR snack bar operation. The person assigned to review snack bar activities will monitor adherence to internal controls by command management and employees. A breakdown in controls may provide an opportunity for reduction in operating performance.

b. Procedures (Priority 2). The guidelines for snack bar operations are established by the CNIC Food and Beverage (N923) program manager. The guidelines are used for monitoring the standards for each activity. The areas that will be monitored are the same as those reviewed for food and beverage operations:

- (1) Activity net profit.
- (2) Food Department COGS.
- (3) Bar Department COGS.
- (4) Food Department labor costs.
- (5) Bar Department labor cost.
- (6) Net income for the departments.

c. Once the COGS, labor cost and net income has been verified, persons conducting reviews will verify that the SAP AIMS financial statements breakdown of Food and Beverage Standards for activities meet the monthly retail accountability standards.

d. ICQ. See CNIC N9G Fiscal Oversight ICQ, Food and Beverage.

### 4. Bowling

a. Objectives. Financial and operating standards and guidelines, detailed below, establish minimum levels of performance to ensure Navy MWR bowling activities are fiscally and operationally sound. Financial standards and guidelines govern major cost centers and activity profitability. Levels of performance, facility maintenance, marketing procedures and customer



satisfaction surveys are used as indicators of a well-managed MWR bowling center. The person assigned to review the bowling center's activities will monitor adherence to internal controls by command management and employees. A breakdown in controls may provide an opportunity for reduction in operating performance.

b. Procedures (Priority 2). The guidelines for bowling center operations are established by the CNIC (N923) program manager and used for monitoring the standards for each activity. The areas that will be monitored are:

- (1) Activity net profit for CAT B and CAT C activities.
- (2) Cash flow for CAT B and CAT C activities.
- (3) Merchandise COGS for CAT B and CAT C activities.
- (4) Direct labor cost for program operations for CAT B and CAT C activities.

c. Once the COGS, labor cost and net income has been verified, persons conducting reviews will verify that SAP AIMS financial statements breakdown of Bowling Center activities meet the monthly retail accountability standards.

d. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Bowling

## 5. Golf

a. Objectives. Financial and operating standards and guidelines, detailed below, establish minimum levels of performance to ensure Navy MWR golf activities are fiscally and operationally sound. Financial standards and guidelines govern major cost centers and activity profitability. Levels of performance, facility maintenance, marketing procedures and customer satisfaction surveys are used as indicators of a well-managed MWR golf course operation. The person assigned to review golf activities will monitor adherence to internal controls by command management and employees. A breakdown in controls may provide an opportunity for reduction in operating performance.

b. Procedures (Priority 2). The guidelines for the golf center operations are established by the CNIC (N923) program manager and used for monitoring the standards for each activity. The areas that will be monitored are:

- (1) Activity net profit for CAT B and CAT C activities.
- (2) Cash flow for CAT B and CAT C activities.
- (3) Merchandise COGS for CAT B and CAT C activities.

(4) Direct labor cost for program operations for CAT B and CAT C activities.

c. Once the COGS, labor cost and net income has been verified, persons conducting reviews will verify that SAP AIMS financial statements breakdown of golf center activities meet the monthly retail accountability standards.

d. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Golf.

6. Marina

a. Objectives. Financial and operating standards and guidelines, detailed below, establish minimum levels of performance to ensure Navy MWR marina activities are fiscally and operationally sound. Financial standards and guidelines govern major cost centers and activity profitability. Levels of performance, facility maintenance, marketing procedures and customer satisfaction surveys are used as indicators of a well-managed MWR marina operation. The person assigned to review marina activities will monitor adherence to internal controls by command management and employees. A breakdown in controls may provide an opportunity for reduction in operating performance.

b. Procedures (Priority 2). The guidelines for marina operations are established by CNIC (N922) program manager and are used for monitoring the standards for each activity. The areas that will be monitored are:

(1) Activity net profit.

(2) Cash flow.

(3) Merchandise COGS.

(4) Direct labor cost for program operations.

c. Once the COGS, labor cost and net income has been verified, persons conducting reviews will verify that the SAP AIMS financial statements breakdown of marina standards for activities meet the monthly retail accountability standards.

d. ICQ. See CNIC (N9G) Fiscal Oversight ICQ, Marina.

APPENDIX A

SAMPLE ANNUAL FISCAL OVERSIGHT ANNOUNCEMENT LETTER

1700  
Ser N9/  
DATE

From: Commander, Navy Installations Command  
To: Commander, Navy Region \_\_\_\_\_

Subj: FISCAL OVERSIGHT REVIEW OF NAVY REGION \_\_\_\_\_  
NONAPPROPRIATED FUND INSTRUMENTALITIES

Ref: (a) CNIC ltr 1700 Ser N9/\_\_\_\_\_ of \_\_\_\_\_

1. Per reference (a), a fiscal oversight review of Navy Region \_\_\_\_\_ to include Morale, Welfare and Recreation; Civilian Morale, Welfare and Recreation, Navy Gateway Inns and Suites, Navy Flying Club and Fisher House operations will be conducted during \_\_\_\_\_ DATE \_\_\_\_\_.

2. This review will focus primarily on current program internal controls and adherence to laws and regulations in areas of accounting reconciliations, cash, accounts receivable, sales, inventories, disbursements, costs, payroll and procurement.

3. The review can be enhanced and duplication avoided if reports and work papers of recent reviews, audits, inventories and inspections are made available to the Commander, Navy Installation Command representatives at the in-brief. It is highly recommended that a representative of your Region command evaluation or audit office attend the out-brief.

4. Our staff representatives hold positions of trust. No access to classified information is anticipated.

5. My point of contact is \_\_\_\_\_, who may be reached at (XXX) XXX-XXXX, DSN: XXX or e-mail: \_\_\_\_\_@navy.mil.

\_\_\_\_\_  
By direction

## APPENDIX B

### SAMPLE CNIC FISCAL OVERSIGHT REVIEW DATA REQUIREMENTS

1. Request your command provide the following data elements for CNIC NAFI being reviewed.
2. Data elements are to be pulled and set aside ready for review by CNIC fiscal oversight representative(s) upon their arrival:
  - a. Data elements annotated as “access to” need not be printed as they can be pulled upon arrival; and data elements listed as “copies” refer to your on-hand copies or files. Additional hard copies are not required.
  - b. Note: Data elements not available at a specific base or installation will be reviewed at the Region business office; otherwise, each installation reviewed will have the required documentation ready and available for review upon arrival.
3. The below items will be available at each location for review:
  - a. Administrative
    - (1) Copies of fund administrator letter(s) and letters of designation for management, central cashier(s) and department managers. Central cashiers and cash handling letters are to be available at the local bases only.
    - (2) Copies of any and all letters of delegation from the CO to the MWR director to include any specific letters. Copies are to be available at the base(s) for review.
    - (3) Listing of all personnel that approve transactions or are authorized to spend \$100,000 or more annually, to include government purchase card holders, approving official, agency program coordinator, contracting officers, etc., along with the dates of having completed Confidential Financial Disclosure Report (OGE Form 450), for the current and past fiscal years (FY).
    - (4) Approved memorandum of understanding (MOU) between the Navy MWR Director and the base comptroller for Uniform Funding Management (UFM). Provide the breakdown of MW and CD codes for actual expenses incurred and taken along with supporting budgets or other details for use of UFM funds.
    - (5) Provide supporting documentation for the following:
      - (a) Explanation and approvals for all UFM funds carried over to the new FY. Additional requirements will be forwarded at a later date.

(b) Approved memorandum of agreement or MOUs between MWR and any other organization within the Region for current FY (e.g., NGIS and CMWR).

(6) All current and prior FY completed and ongoing command evaluations, local internal audits and audit board schedule of MWR, CMWR, fund NAF audits and reviews to include the approved current FY audit plan. Most recent internal (local) reports of findings and recommendations along with management's responses for all applicable funds audits, reviews and command inspections.

(7) List of all MWR, NGIS, CMWR, cash and petty cash funds, records of surprise cash counts completed (dates to be determined prior to each review).

(8) Petty cash expense documentation will be requested upon arrival.

(9) Copies of MWR, NGIS, CMWR, fund accounts receivable and write off letters for current and prior FY; accounts payable aged listings as of latest month end; and access to the cash disbursement journals.

(10) Copies of latest month end completed MWR, NGIS and CMWR inventories for:

(a) NAF fixed assets, fixed asset dispositions and fixed asset transfers.

(b) Resale merchandise.

(c) Central storeroom and consumables inventories.

(11) Supporting schedules and inventory records for all MWR, NGIS and CMWR fund prepaid tickets, prepaid supplies and other expense items at latest month end.

(12) All supporting documentation and approval letters for amortization in excess of 12 months for MWR, NGIS and CMWR.

(13) Capital projects post-audit reports for all disbursements completed after receipt of final billings.

(14) Restricted cash account balances, supporting details and project authorization and expense records to support funds reserved for capital outlays as listed in the 102000 account for MWR, NGIS; payment documentation (requests, approvals etc.).

(15) The following MWR, NGIS and CMWR payroll documentation for the previous three months:

(a) Complete breakdown of compensatory time earned and used by name.

- (b) ADP report for annual leave as of (dates to be determined).
- (16) Listing of the purchasing agents, NAF purchase cardholders, designated receivers and copies of current letters of authorization for MWR, NGIS and CMWR funds.
- (17) For all MWR facilities not within COGS standards for the current fiscal year, provide copies of plans to achieve and maintain compliance with the Navy MWR program's operating and financial standards and COGS guidelines for MWR activities operating at less than required self-sufficiency profitability.
- (18) Travel claims and supporting documentation requirements will be provided upon arrival.
- (19) Provide a listing of private party contracts, entertainment contracts, personal services contracts and concessionaire information for contracts that were both active and created from date to be determined to present.
- (20) Supporting documentation for all awards and prizes (785000, 785089) for dates to be determined.
- (21) All contract files and backup for contracts in excess of \$25,000 that were active and created from dates to be determined.
- (22) Copies of Region or local standard operating procedures.
- (23) Copies of approved waivers for functions subject to CNIC fiscal oversight review.
- (24) Central fund operating grant information to include requesting and approval letters and or e-mails along with the expense files, contracts and travel claims for all grants received for dates to be determined; approved letters of authorizations for all grant funds not expensed during the proper time frames and carried forward to new FY.
- (25) Commercial sponsorship agreements, post event reports, end of year report, supporting documents for prior and current FY and copies of appointing orders, as applicable.

APPENDIX C

ACRONYMS

AIMS	Accounting Information Management System
AO	Approving Official
APC	Agency Program Coordinator
APF	Appropriated Funds
BI	Beginning Inventory
BPA	Blanket Purchase Agreement
CAT	Category
CMWR	Civilian Morale, Welfare and Recreation
CNIC	Commander, Navy Installations Command
CO	Commanding Officer
COGS	Cost of Goods Sold
CPA	Certified Public Accountant
DAR	Daily Activity Report
DoD	Department of Defense
DON	Department of the Navy
EI	Ending Inventory
FH	Fisher House
GAGAS	Generally Accepted Government Auditing Standards
ICQ	Internal Control Questionnaire
IFC	Installation Fund Custodian

IRS	Internal Revenue Service
MWR	Morale, Welfare and Recreation
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MR	Merchandise Received
NAF	Nonappropriated Funds
NAFI	Nonappropriated Fund Instrumentalities
NAVAUDSVC	Naval Audit Service
NEXCOM	Navy Exchange Command
NGIS	Navy Gateway Inns and Suites
POS	Point of Sale
REGCOM	Region Commanders
SAP	Systems Application and Product
SOP	Standard Operating Procedure
UFM	Uniform Funding Management
WP	Work Papers



APPENDIX D

REFERENCE LIBRARY MATERIAL

Each NAF instrumentality command will establish and maintain a current, ready reference library for use by personnel. Though the below list is not all inclusive, the reference library will contain the below listed manuals and instructions at a minimum.

<u>PUBLICATION</u>	<u>TITLE</u>
BUPERSINST 12990.1A	Manual for the Operation of Navy Civilian Morale, Welfare And Recreation (CMWR) Activities
BUPERSINST 1710.22	Navy Flying Club (NFC) Program
BUPERSINST 7200.2A	Collection of Bad Debts Incurred by Navy Morale, Welfare and Recreation (MWR) Nonappropriated Fund Instrumentalities (NAFIS)
CNICINST 1710.3	Operation of Morale, Welfare and Recreation Programs
CNICINST 7000.3	Accounting Procedures for Navy Nonappropriated Funds
CNICINST 7043.1	Procurement Policy for CNIC Nonappropriated Fund Activities
CNICINST 5300.2	Commander, Navy Installations Command Nonappropriated Fund Personnel Manual
CNICINST 5720.2	Distribution of Free Publications on Navy Installations
CNICINST 5890.1	Navy Morale, Welfare and Recreation (MWR) Property, Casualty And Bonding Self-Insurance Program
DoDI 1015.10	Military Morale, Welfare and Recreation (MWR) Programs
DoDI 1015.11	Lodging Policy
DoDI 1015.12	Lodging Program Resource Management
DoDI 1015.15	Establishment, Management and Control of Nonappropriated Fund Instrumentalities and Financial Management of Supporting Resources

<u>PUBLICATION</u>	<u>TITLE</u>
DoD 5500.7-R	Joint Ethics Regulation
DoDI 7000.14R	DoD Financial Management Regulation, Volumes 1,4,5,8,9,10,13
NAVSO P-1000, Change 67	DON Management Policy Manual
SECNAVINST 5200.34E	Management of Audit Decision and Follow-Up Functions
SECNAVINST 5200.35F	DON Managers' Internal Control Program
SECNAV M-5210.1, Part III	DON Records Management Program, Retention Standards for Naval Records
SECNAVINT 5211.5E	DON Privacy Program
SECNAVINST 7010.8B	Establishment, Management and Control of the Fisher House Program
SECNAVINST 7510.7G	DON Internal Audit
Accounting Information Management Systems (AIMS) User Handbook	
ASN (FM&C) Memo, "Implementation of Uniform Funding Management (UFM) of Morale, Welfare and Recreation" of 12 October 04	
Outdoor Recreation Program Standards	
Navy Nonappropriated Fund Standard Operating Procedures (SOP) for Use of the Government Purchase Card (GPC) for Commander, Navy Installations Command (CNIC) Fleet & Family Readiness (F&FR) Activities	
CNIC N9G Fiscal Oversight Internal Control Questionnaires ( <a href="http://www.navymwr.org/resources/Fiscal_Oversight_Internal/">http://www.navymwr.org/resources/Fiscal_Oversight_Internal/</a> ).	
Fleet and Family Readiness Change Fund/Central Cashier Cash Controls Standard Operating Procedure signed 16 March 2016	
ALL applicable local standard operating procedures	