



COPY

UNITED STATES MARINE CORPS
NONAPPROPRIATED FUND INSTRUMENTALITY AUDIT OFFICE
MARINE CORPS AIR STATION (HELICOPTER)
NEW RIVER, JACKSONVILLE,
NORTH CAROLINA 28540

IN REPLY REFER TO
233
7510
23 April 1985

From: Auditor-in-Charge
To: Commanding Officer, Marine Corps Air Station (Helicopter), New River,
Jacksonville, North Carolina 28545

Subj: MANAGEMENT ADVISORY REPORT - MASD

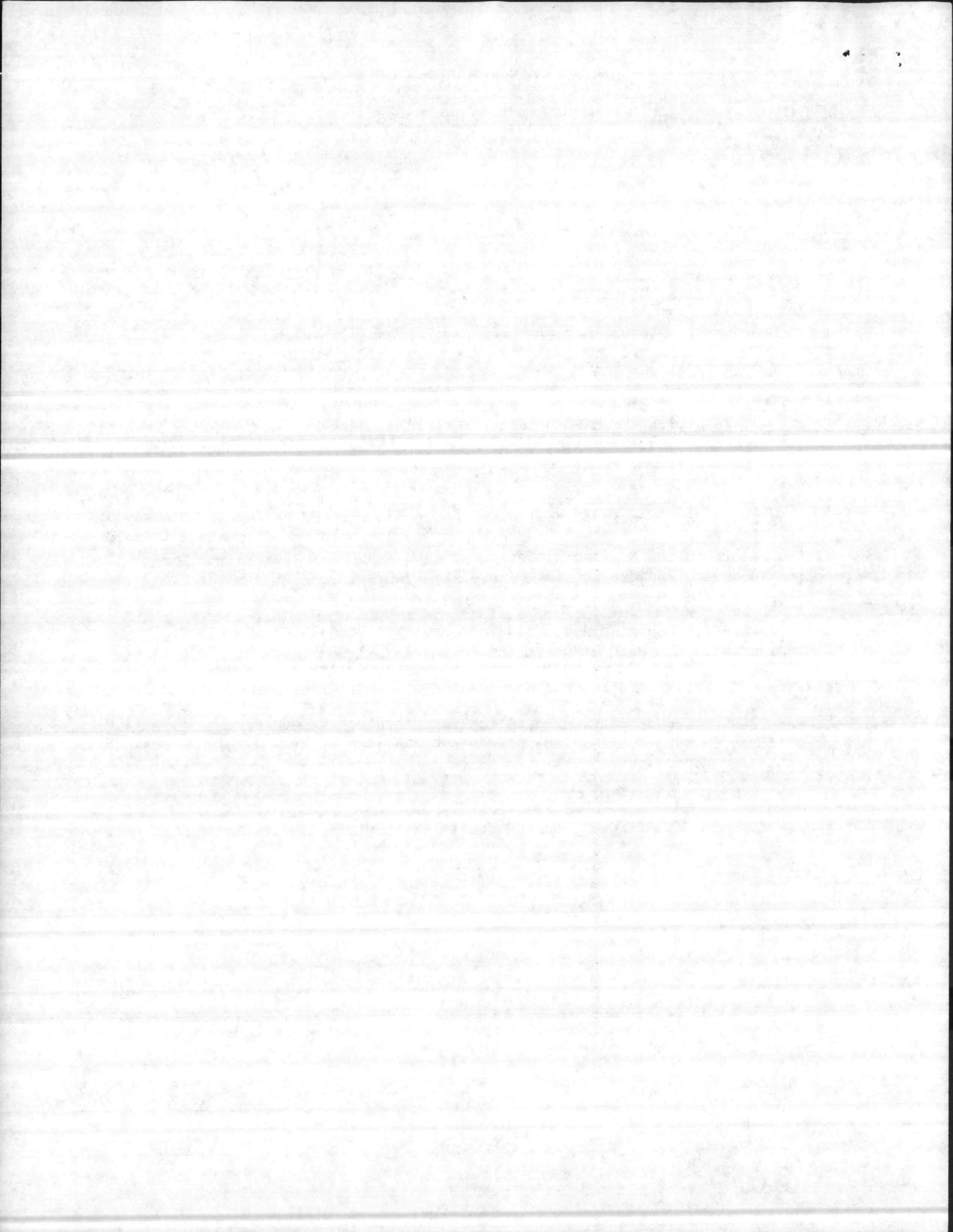
Ref: (a) MCO 7510.2B

Encl: (1) Copy of Management Advisory Report on the MASD dated 8 April 1985,
along with the MASD Director's replies and Services Officer's endorse-
ment dated 15 April 1985 and the Auditor's comments on the Adequacy
of Replies

1. Reference (a) prescribes reporting requirements pertaining to audit coverage, findings and recommendations, replies to audit reports and review of adequacy of management's responses. The reference also requires that auditors submit a written report to the Commanding Officer on the responsiveness of management's replies to audit findings and recommendations addressed in Management Advisory Reports.
2. Enclosure (1) contains audit findings and recommendations pertaining to the MASD, along with the MASD Director and Services Officer's replies to the report, and the auditor's comments on the adequacy of the replies, and additional action if warranted that should be initiated at the Command level.
3. Required follow-up pertaining to replies contained on enclosure (1), will be accomplished in subsequent audit periods and made the subject of a separate report if considered necessary.

WALTER J. BRUDERER

Copy to:
S-1





UNITED STATES MARINE CORPS
MARINE CORPS AIR STATION
(HELICOPTER)
NEW RIVER, JACKSONVILLE
NORTH CAROLINA 28545-5001

IN REPLY REFER TO:

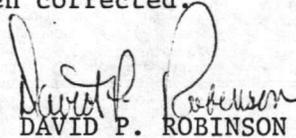
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15 April 1985

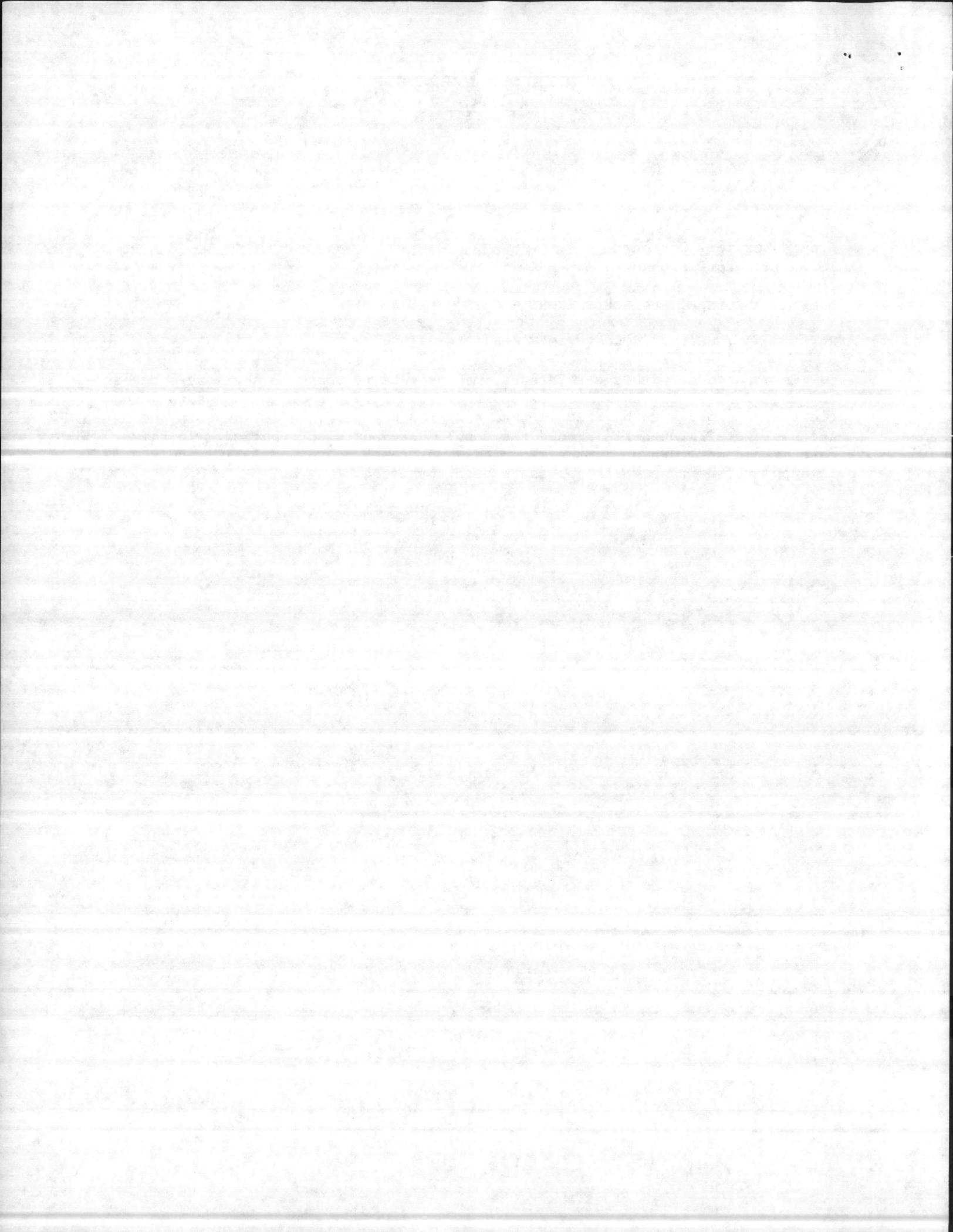
From: Services Officer
To: Auditor-in-Charge

Subj: MANAGEMENT ADVISORY REPORT - MASD

Ref: (a) CMC ltr 7000 over MSF dtd 13 Aug 1984

1. In accordance with the reference, managements response to advisory comments are contained in the basic correspondence. The Services Officer concurs with the response provided by MASD in that a 2 or 3 day period after deposit and the Bank goes through its procedures should turn any discrepancies. In this case it did not turn up in the expected time frame; consequently it resulted in apparent shortage which has since been corrected.


DAVID P. ROBINSON



ORIGINAL



UNITED STATES MARINE CORPS
NONAPPROPRIATED FUND INSTRUMENTALITY AUDIT OFFICE
MARINE CORPS AIR STATION (HELICOPTER)
NEW RIVER, JACKSONVILLE,
NORTH CAROLINA 28540

IN REPLY REFER TO
233
7510
8 April 1985

From: Auditor-in-Charge
To: Services Officer, Marine Corps Air Station (Helicopter), New River,
Jacksonville, North Carolina 28545

Subj: MANAGEMENT ADVISORY REPORT - MASD

Ref: (a) MCO 7510.2B
(b) CMC's ltr 7000 over MSF dtd 13Aug84

Encl: (1) Advisory Comments

1. In accordance with the provisions of reference (a), selective audit coverage was conducted of financial and related matters pertaining to MASD.

2. Scope of Audit Coverage. Audit coverage and related periods covered were as follows:

- Conducted a bank reconciliation and proof of cash for the period 1 October 1984 through 3 February 1985. Examined all cancelled checks for authorized signatures, validity of various endorsements, and clearing dates. Ascertained that all checks were properly prepared, and that all checks applicable to the period covered, were accounted for. Examined selective bank deposits for validity for the months of October, November and December 1984, and 100% of those for January 1985. Traced all cancelled checks to applicable bank statements for the period covered. Examined bank statements for any indicated items of an irregular nature.
- Reviewed selective documents to ascertain timely payments of liability accounts.
- Examined the Fixed Asset and related Depreciation accounts for correctness and proper classification of charges.

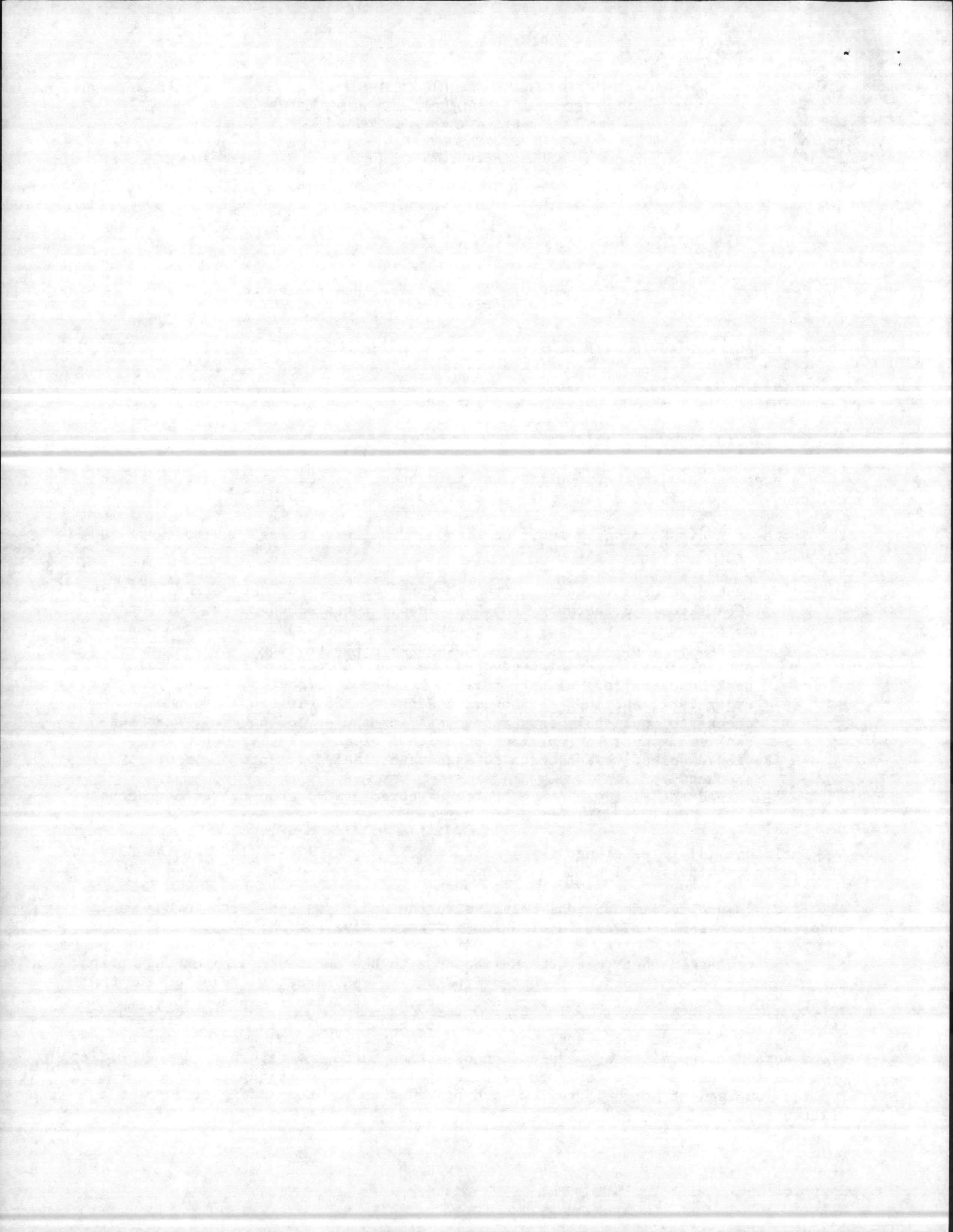
3. Enclosure (4) to reference (b) , effective 13 August 1984, requires the Services Officer to respond to all NAFI audit reports.

4. Findings and recommendations relative to the audit, as set forth in the enclosure, are furnished for your information and corrective action.

5. It is requested that your written response to the enclosure, indicating action taken and/or comments on the reported findings be contained on copies of the enclosure in the applicable space provided thereon (additional pages may be used as necessary) and returned to this office within ten days of receipt of this letter. Responses to the enclosure should provide documentary references and be in sufficient detail to permit ready evaluation of action taken and returned to this office by a signed cover letter. Comments pertaining to the adequacy and responsiveness of replies, subsequent to their review, are provided to the Commanding Officer in a written report.

Walter J. Bruderer
WALTER J. BRUDERER

Copy to:
S-1



ADVISORY COMMENT

1. Classification of a Package Store cash shortage in the amount of \$58.10 by MASD, that didn't actually exist. During the reconciliation of the checking account it was noted that the bank had made a deposit adjustment to add \$58.10 to the MASD checking account on 9Jan85 for an incorrectly totalled Package Store deposit slip dated 17Dec84. Considering the significance of this amount, a detailed examination of all the applicable source documents was conducted. The results, which is shown below, shows MASD processed a Package Store cash shortage that never actually existed.

a. On 17 December 1984, the Package Store Manager prepared a deposit slip for commercial credit card sales transactions of 15 December 1984, which consisted of a total of \$203.65. The deposit slip was incorrectly totaled by the manager showing the total as \$145.55. The deposit slip was present to the bank showing the \$145.55 total.

b. The bank validated deposit slip and applicable Daily Activity Records were turned into the MASD office for input to the cash receipt records. The MASD accounting technician then compared the amount recorded on the deposit slips to the amount recorded on the Daily Activity Records, and when the two amounts didn't agree, the accounting technician assumed that the bank deposit slips were correct, and that a cash shortage of \$58.10 existed. He made a change to the Cash Processing Worksheet used to consolidate financial transactions, showing that a cash shortage of \$58.10 existed, and reduced the amount of cash by the same amount. The Daily Activity Records prepared by Package Store Cashiers, completed and verified for correctness as to total cash reconciliation to conducted sales transactions and total cash accountability by the Package Store Manager who signed those reports as "Signature of Persons Designated to Verify Cash and Charges", contained no record of any cash shortage existing for business transactions conducted on 15 December 1984.

On the bottom of the Cash Processing Worksheet, the explanation "Deposit error - wrong computation of charge card deposit - " was placed thereon by the accounting technician of MASD.

When cash totals contained on deposits slips did not agree with Daily Activity Records sales transactions and no cash shortages were recorded on those DARs, the first course of action that should have been taken was to check back with the Package Store Manager to determine why the inconsistency between cash deposit slips and DARs. Paragraph 359.2 of NAVSO P-3520 requires that unexplained overages and shortages be determined by investigation.

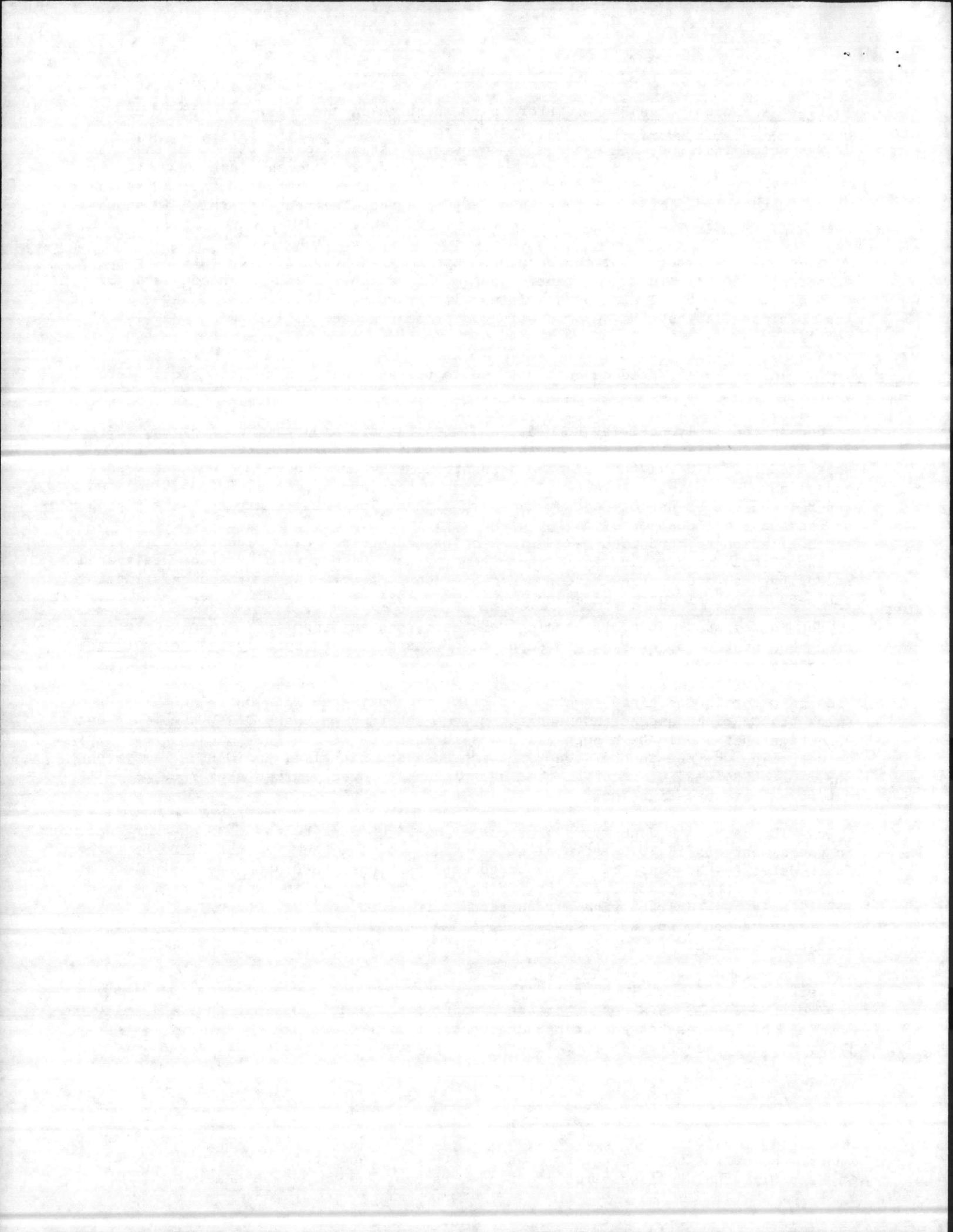
c. The bank on 9 January 1985 processed an adjustment to the MASD checking account in the amount of \$58.10. What's significant is that the bank and not MASD nor Package Store detected the cause of the recorded cash shortage. MASD upon processing the adjustment to the financial records which was made on 3 March 1985, classified the \$58.10 as a cash overage vice a reduction to the cash shortage account where it was initially recorded to, which was wrong, since neither a cash shortage nor overage initially existed.

The significant internal control deficiency that existed pertaining to the classifying of the \$58.10 as a cash shortage without first inquiring into the circumstances and inconsistencies between cash bank deposit slips totals and amounts contained on Daily Activity Records, is that it provided an ideal opportunity for anyone, to include bank tellers, to misappropriate funds without being detected.

(1) Recommendations:

(a) That all personnel involved in the preparation of deposit slips ensure the correctness of totals contained thereon, and that such amounts are consistent with the applicable amount of cash receipts contained on DARs.

Compl. completed.



(b) That MASD personnel compare totals contained on deposit slips to applicable cash receipt amounts as contained on DARs before entries are processed in the financial records. And if disparities exists between the amounts, they are returned to the applicable activity's manager for correction/investigation as applicable. Disparities of a significant nature should be brought to the attention of the Club's office for appropriate action.

(c) That MASD personnel not modify any Daily Activity Record financial information for transmission into the financial records without first bringing such disparities to the attention of applicable management personnel for concurrence of such changes. Such changes should be initialled by management personnel.

(d) That appropriate action be taken by MASD personnel to apprise the Club's officer of any considered to be excessive cash overages or shortages so that he may initiate necessary action consistent with surrounding circumstances and compliance with paragraph 359.2 of NAVSO P-3520.

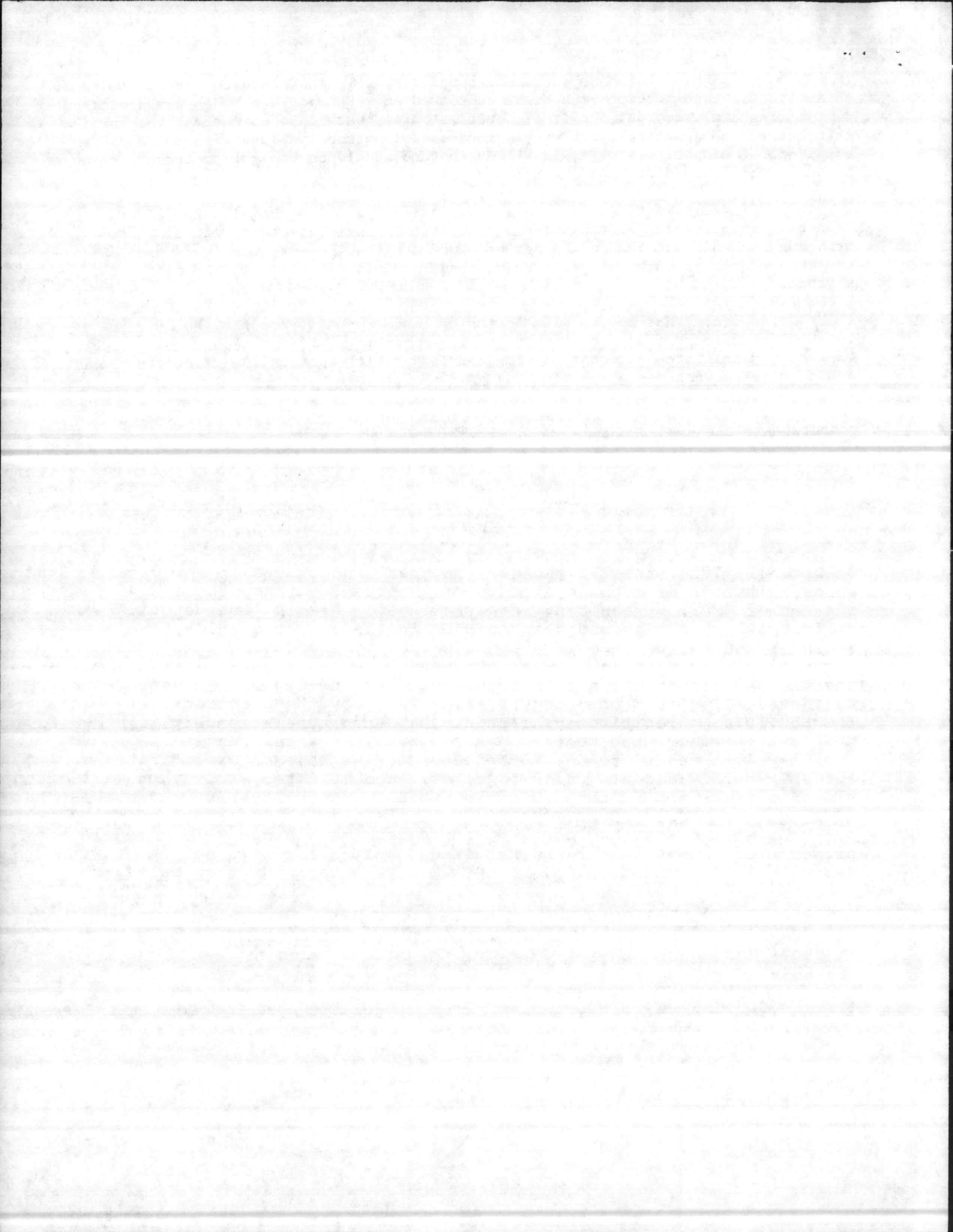
(e) That the recorded cash overage of \$58.10 be reclassified as a reduction to the cash shortage account.

MANAGEMENT'S RESPONSE

*See Auditor
comment to Comand
p. 10*

On Dec. 17, 1984, the CPS manager prepared a deposit slip for credit card sales. The actual deposit amount was incorrectly recorded as \$145.55 instead of \$203.65 resulting in a shortage of \$58.10. The deposits were validated by the bank and sent to MASD in the amount of \$145.55 - the same amount shown on the deposit slip submitted by the CPS manager. The MASD technician then made inquiry of the manager with no determination as to why the DAR amount was not in agreement with the deposit amount. Using the validated slips from the bank as reliable proof, MASD correctly recognized the \$58.10 as a legitimate shortage. MASD has a relationship with CPS & NCNB but intimacy with neither. Ref. (b) clearly delineates MASD responsibility with regard to deposit procedure. We have no opportunity to actually verify amounts prior to deposit and must rely solely on validation slips to prove a NAFFI deposit. The unusual aspect in this instance is that NCNB does not verify CHARGE SALES immediately in the presence of the depositor as with checks and cash. Cash is counted and checks totaled in the presence of the depositor and returned to same if not in agreement with the deposit slip. Charge sales are equivalent to cash but such sales are not verified until the second working day by NCNB's Proofing department. Discrepancies are then brought to MASD's attention with appropriate action being taken by either to effect a condition of balance. In this case, an internal adjustment by NCNB resulted in the addition of \$58.10 to our account.

- (1) (a) Concur.
(b) Concur. MASD goes one step further by comparing DAR's to the validated slip issued by the bank as an external check on the accuracy of the deposit.
(c) Concur.
(d) Concur.
(e) Concur.

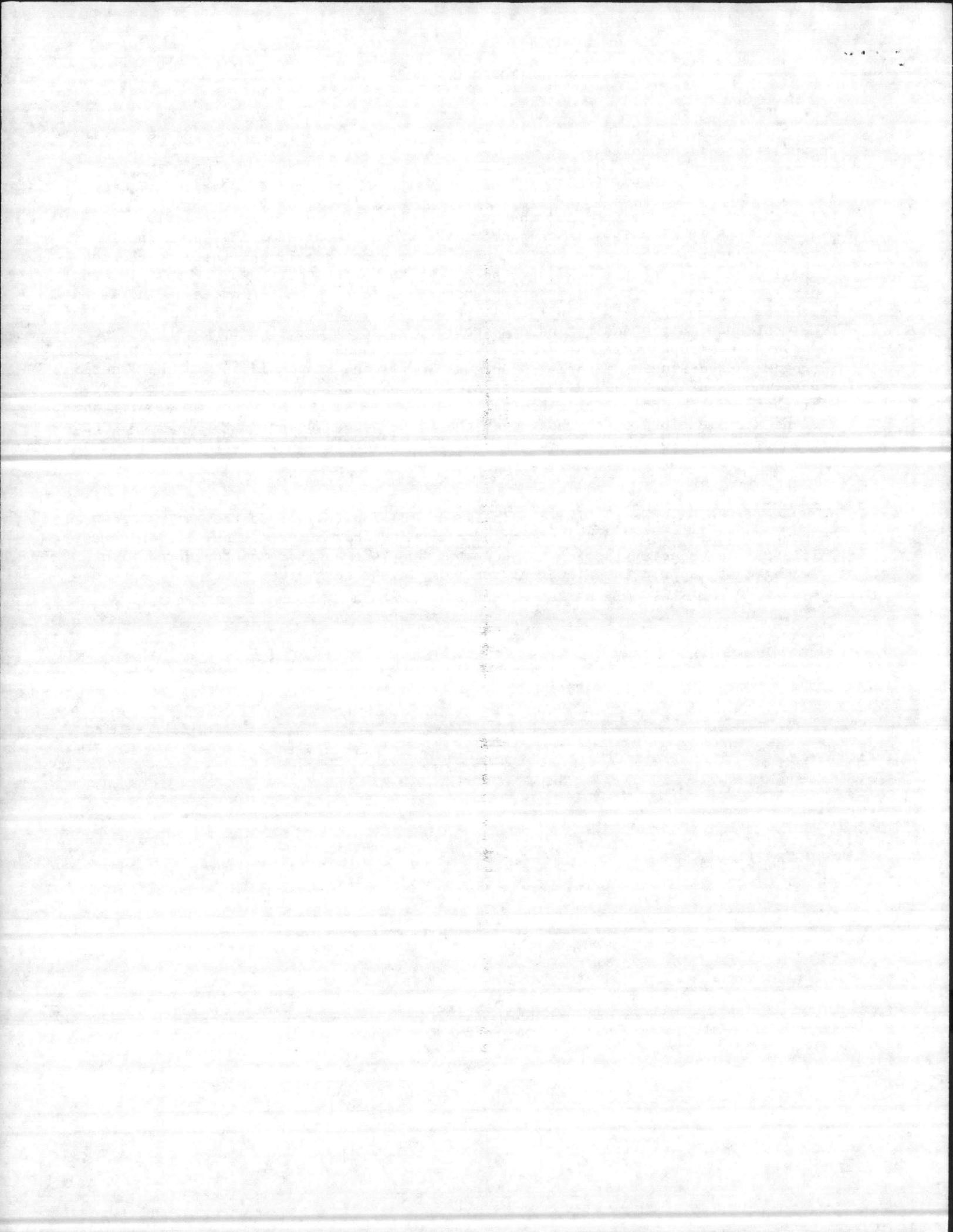


AUDITOR'S COMMENTS

1. Comments contained in the first paragraph of management's responses pertaining to audit note #1, such as,

" The MASD technician then made inquiry of the manager with no determination as to why the DAR amount was not in agreement with the deposit amount; and Using the validated slips from the bank as reliable proof, MASD correctly recognized the \$53.10 as a legitimate shortage ", are quite unique, in that a \$53.10 amount appeared on the deposit slip, and if the deposit slip had been re-checked by NAFI personnel, they should have been able to detect their own in-house internal control deficiency. It is imperative that proper checks and balances be initiated at the NAFI level, and that applicable personnel be properly trained in those areas. Like mentioned in the audit findings section, an ideal opportunity for this cash to have been misappropriated existed. Reliances should not be placed on hoping that the bank surfaces cash disparity problems. That's the responsibility of NAFI personnel who should be trained in those areas, emphasis being placed on correctness of reports and investigating cause(s) for excessive cash variances. Of significance was the statement put on the bottom of the Cash Processing Worksheet " Deposit error-wrong computation of charge card deposits "; why wasn't the deposit slips immediately re-machined for correctness by responsible NAFI personnel.

2. Pertaining to replies (1)(a), (b), (c), (d) and (e), since they all state " Concur ", and relate to the recommendations for corrective action, if management initiates the necessary action as recommended by the auditor and concurred with by management, appropriate internal controls in the cash areas mentioned, should prevail. However, its management's responsibility to properly monitor these areas.



ADVISORY COMMENT

2. None timely payment of a liability/none payment of interest applicable under the Prompt Payment Act (P.L. 97-177). On 18 May 1984, a purchase was made from Johnson Beverage Co. by Package Store in the amount of \$232.40. The vendor's invoice, #09401 which was dated 18 May 1984, contained the prior Package Store manager's signature receipting for the merchandise on 18 May 1984. The transaction was not processed through the accounting records by MASD until 19 December 1984, indicating an administrative deficiency on the part of either Package Store or MASD personnel. The vendor was not paid for the merchandise until 11 January 1985 by check #3035. Interest penalties applicable under the provision of the Prompt Payment Act were not paid to the vendor. (NAVCOMPT Notice 4330 dated 27 December 1984 sets forth interest rates from 1 January through 30 June 1985 at 12.125% per annum. It also states that the rate in effect on the day that a late payment is made will be the exclusive rate used to compute the amount of interest. In addition it states that interest will be computed from the day following the payment due date (without regard to grace periods) through the date of payment and will be compounded each thirty calendar day period following the original due date. No further interest shall accrue after one year beyond the original due date.)

a. Recommendation. That the applicable interest due this vendor be paid, and that this office be provided with the check number and amount paid.

MANAGEMENT'S RESPONSE

Concur. The sudden departure of the prior manager contributed to this invoice becoming delinquent. It was discovered in the files unpaid by the new manager and submitted for payment. Interest due in the amount of \$18.63 was paid on 10 April 1985 by check #3994.

AUDITOR'S COMMENT

Considering the amount of interest and penalty fees paid of \$18.63, its imperative that responsible incumbents ensure that an adequate administrative and follow-up system be established and monitored to ensure that all applicable source documents received by branch managers, are turned into MASD on a timely basis, for effective internal control purposes, and to eliminate unnecessary payments of interest and penalty fees.

