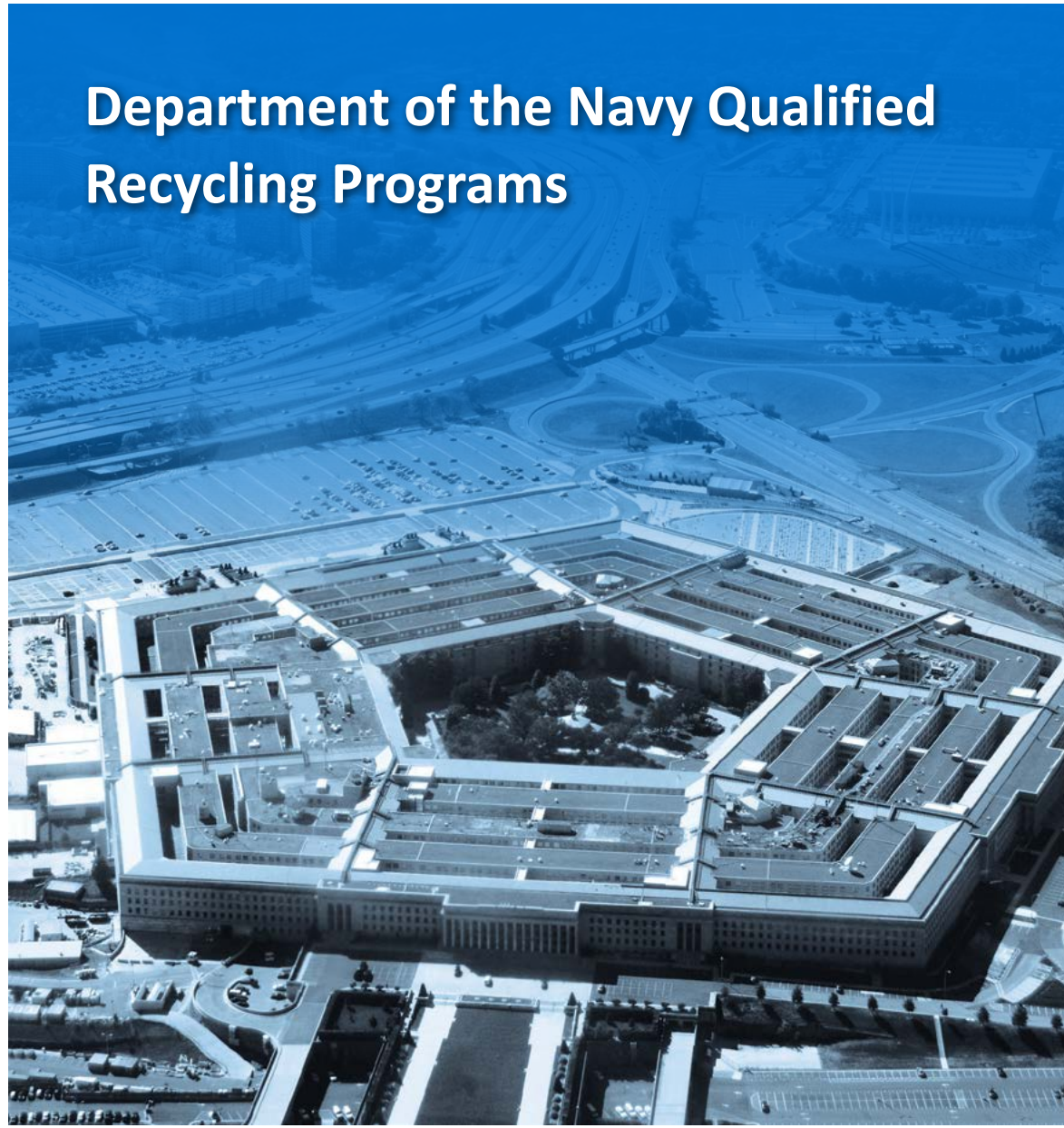




INSPECTOR GENERAL

U.S. Department of Defense

MAY 10, 2018



Department of the Navy Qualified Recycling Programs

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

Department of the Navy Qualified Recycling Programs

May 10, 2018

Objective

We determined whether the Department of the Navy (DON) provided adequate oversight of its qualified recycling programs (QRPs). Specifically, we verified if DON headquarters personnel performed QRP assessments. We also verified whether the DON headquarters personnel ensured that the QRP managers followed guidance requiring them to segregate duties, deposit checks timely, ensure checks are made payable to the Department of the Treasury, reject cash payments, develop business plans, reconcile transactions to the accounting system and maintain supporting documentation.

Background

A QRP is a program that collects and sells eligible scrap materials, such as paper, cardboard, plastics, glass, scrap metal, and brass. Sales proceeds are used to cover the costs directly attributable to operating expenses of the program. After the costs are recovered, up to 50 percent of the remaining proceeds can be used for pollution reduction and similar projects at the installation or region, and any remaining proceeds can be transferred to the nonappropriated morale, welfare, and recreation account. If the balance available at the end of any fiscal year is more than \$2 million, the amount of that excess is deposited into the Department of the Treasury account as miscellaneous receipts.

Finding

The DON did not provide adequate oversight at the 10 QRPs reviewed. Specifically, DON headquarters personnel did not adequately perform assessments, which include a review of QRP financial records, and oversight to verify that the QRP managers were following guidance for operating a QRP.

Because guidance was not followed, the QRP managers did not:

- segregate incompatible duties to decrease the risk of fraud or error. At 6 QRPs, the QRP manager was solely responsible for requesting bids, selecting the winning bidder, performing the sales transaction, and collecting the check or proceeds.
- deposit checks from QRP sales in a timely manner at 7 QRPs, increasing the risk of lost revenue due to lost or expired checks.
- require checks from QRP sales to be made payable to the Department of the Treasury or reject cash payments at 3 QRPs. When checks are not made payable to the Department of the Treasury or when payments are made in cash, theft could occur. For example, checks not made out to the Department of the Treasury can be deposited into individual bank accounts and not recorded in the QRP records.
- develop business plans or include all required elements in a business plan that could be used to evaluate the success of the 10 QRPs we reviewed. A business plan details QRP operations, such as its mission, goals, and objectives.



Results in Brief

Department of the Navy Qualified Recycling Programs

Finding (cont'd)

- reconcile revenue and expense transactions with the accounting system to ensure accurate reporting at 4 QRPs.
- maintain supporting documentation, such as contracts or sales agreements, weight tickets, and receipts, at 9 QRPs to ensure the accurate reporting of revenues and expenses.

These deficiencies occurred because the DON did not have standard operating procedures (SOPs) defining how to perform assessments and oversee the QRPs.

As a result, the DON cannot accurately assess the performance of its QRPs, the QRPs may not be operating in the most efficient and effective manner, and the QRPs are vulnerable to fraud.

Recommendations

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement SOPs to provide guidance to DON headquarters personnel on overseeing the QRP.

We also recommend that the Commander, Navy Installations Command, Facility Services; and Commander, Marine Corps Installations Command, include a requirement in the Commander, Navy Installations Command Instruction 7300.1A and the U.S. Marine Corps Qualified Recycling Program Guidance, Version 2.x., to require the QRP managers to document bid information, weights of material sold, and prices of materials.

Management Comments and Our Response

The Office of the Assistant Secretary of the Navy (Financial Operations) (FMO), responding on the behalf of the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, agreed with the recommendation to develop and implement SOPs to provide guidance to DON headquarters personnel on overseeing the QRPs. FMO will develop guidance to provide oversight and contain instructions regarding assessments, financial reviews, and compliance, which will address annual reviews of business plans, segregation of duties and placement of mitigating controls, and proper check endorsement and receipt of non-cash vendor payment procedures. Additionally, FMO guidance will include procedures for timely deposit and end-to-end data reconciliations ensuring revenue and expense are properly recorded and reported in the financial statements.

The Commander, Navy Installations Command, and Commander, Marine Corps Installations Command, agreed with the recommendation to include a requirement in Commander, Navy Installations Command Instruction 7300.1A and U.S. Marine Corps Qualified Recycling Program Guidance, Version 2.x., to require the QRP managers to document bid information, weights of material sold, and prices of materials. Guidance will be revised to include requirements for the QRP managers to document the list of bidders, responses for the bidders, winning bids for recyclable materials, contract or sales agreements, weight tickets of the material sold, and market price or other agreed-upon sale price.

The comments addressed the recommendations; therefore, the recommendations are resolved. We will close the recommendations when we verify that management has completed the agreed-upon actions and that the guidance has been implemented.

Please see the Recommendations Table on the next page for the status of the recommendations.

Recommendations Table

| Management | Recommendations Unresolved | Recommendations Resolved | Recommendations Closed |
|--|----------------------------|--------------------------|------------------------|
| Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations | None | 1 | None |
| Commander, Navy Installations Command, Facility Services | None | 2 | None |
| Commander, Marine Corps Installations Command | None | 2 | None |

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.





**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

May 10, 2018

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE NAVAL
INSPECTOR GENERAL

SUBJECT: Department of the Navy Qualified Recycling Programs (Report No. DODIG-2018-117)

We are providing this report for your information and use. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. The Office of the Assistant Secretary of the Navy (Financial Operations), responding on the behalf of the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, addressed Recommendation 1 and the Commander, Navy Installations Command, Facility Services; and Commander, Marine Corps Installations Command, addressed Recommendation 2. Responses to the recommendations conformed to the requirements of DoD Instruction 7650.03; therefore, the recommendations are resolved. We do not require additional comments.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

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Introduction

Objective

We determined whether the Department of the Navy (DON) provided adequate oversight of its qualified recycling programs (QRPs). We nonstatistically selected 10 QRPs that totaled approximately an unaudited \$10 million of revenue from FY 2016 through second quarter FY 2017.¹ See Appendix A for more discussion on our announced audit objective, scope and methodology, and prior coverage.

Background

A QRP is a program established at the installation or regional level that collects and sells eligible scrap materials, including paper, cardboard, plastics, glass, scrap metal, and brass. An installation QRP serves only one location, and sales proceeds can be used for projects and improvements only at that location. A regional QRP serves more than one location, and funds can be used for projects and improvements at any location within the region, regardless of which location sold the recyclable material.

Qualifying recyclable materials are collected and segregated from other solid waste materials and sold through direct public sale or established scrap sales programs. Direct public sales include term bids or other-than-term bid sales. A term bid is when the sale involves the purchase of scrap or disposable material that will be generated over time with periodic removal by the successful bidder. An other-than-term bid is either a one-time removal by the successful bidder or a multi-year contract. Both types of bids should be accompanied by a bid solicitation sent out to private recycling companies to acquire the best price.

The set price is stated on the bid or contract and the amount paid to the QRP is generated by multiplying the quantity of material by the current market price or set price. The current market price is available through industry publications, for example, the American Metal Market reports the current market price for metal material.² The recyclable material is weighed at the QRP, the private recycling company, or both. A weight ticket is produced to document the actual weight of the

¹ We were unable to determine a total value of revenue across the DON. The DoD FMR requires the use of a suspense account for recycling revenue; however, not all Navy QRPs use a suspense account. The audit team requested the total revenue amount for Navy QRPs and received only suspense account data. The total revenue data was incomplete because it did not include all Navy QRPs. The DoD OIG issued report number DODIG-2016-104, "Improvements Needed in Managing Department of the Navy Suspense Accounts," June 30, 2016, which recommended removing DON recycling transactions from suspense accounts, and identifying a more appropriate, Generally Accepted Accounting Principles-compliant accounting treatment. Because of this open recommendation, the audit team did not perform further work in this area. In addition, we focused our review on DON headquarters personnel oversight of QRPs, and the QRPs selected for testing.

² The American Metal Market sets the standard for the price of recyclable metal.

recyclable material. A weight ticket amount, multiplied by the price accepted on the contract or sales agreement, or market price or set price, will equal the amount due to the QRP for the recyclable material.

Net proceeds from the sale of these recyclable materials are then deposited into the QRP's account, known as the Budget Clearing Account. The proceeds are first used to cover the costs directly attributable to operating expenses of the QRP. After these costs are recovered, up to 50 percent of the remaining proceeds can be used for pollution abatement and similar projects at the installation or within the region. Any remaining proceeds can be transferred to the nonappropriated morale, welfare, and recreation account at the installation or within the region. If the balance in the QRPs Budget Clearing Account is more than \$2 million at the end of any fiscal year, the amount of that excess is deposited into the Department of the Treasury account as miscellaneous receipts.

Roles and Responsibilities

The Commander, Navy Installations Command, Facility Services, and Headquarters, Marine Corps, Installations and Logistics Department, Logistics Facilities Division, Facilities Branch, are responsible for planning and budgeting resources necessary to establish, execute, monitor, and maintain the DON Integrated Solid Waste Management program, as well as conducting assessments that include audits of QRP financial records. We refer to both offices as DON headquarters personnel in this report. The Integrated Solid Waste Management program is a comprehensive approach to managing materials and nonhazardous solid waste. The QRP is incorporated in this program.

A QRP manager is designated by the commanding officer of the installation to operate the QRP, which includes budgeting, accounting for revenue and expenses, and managing equipment and employees. The QRP manager also provides strategic focus, organizational design, oversight of performance measurement, and development towards continual improvement. The QRP manager conducts the sale of recyclable material and ensures only recyclable material is processed through the QRP.

The comptroller office or the disbursing office records the proceeds obtained from the sale of the recyclable material. The Navy QRPs have comptroller offices that receive the QRP proceeds as a check and mail the check to the Defense Finance and Accounting Service (DFAS) to be recorded into the accounting system.³ The

³ The DON uses either the Defense Cash Accountability System or the Standard Accounting, Budgeting, and Reporting System as its accounting system.

Marine Corps installations have onsite disbursing or fiscal offices that record the checks into the accounting system without mailing them to DFAS.

DFAS, in coordination with the Assistant Secretary of the Navy (Financial Management and Comptroller), performs finance and accounting services for the DON.

Recycling Criteria DoD Instruction 4715.23

DoD Instruction 4715.23 establishes policy, assigns responsibility, and prescribes procedures for implementing Integrated Solid Waste Management programs through waste prevention and recycling.⁴ This Instruction details QRP responsibilities, requirements, and operations. The Instruction canceled DoD Instruction 4715.4, which did not provide information on QRP responsibilities, requirements, and operations.⁵ It focused on policies and responsibilities for the implementation of pollution prevention programs and did not give direction specific to QRPs. Therefore, we relied on DoD Instruction 4715.23 during this audit. Our review covered the period from October 1, 2015, until March 31, 2017. Although the Instruction was not issued during the entire review period, it includes relevant guidance that could make the QRP more efficient if followed and is in effect as of the date of this report.

According to DoD Instruction 4715.23, DON headquarters personnel are required to conduct internal compliance assessments yearly and external compliance assessments every 3 years at major installations.⁶ Assessments include audits of existing QRP financial records and compliance with laws and regulations. The Instruction also states that the QRP manager must develop and annually review a QRP business plan that outlines the overall management of the installation QRP, arrange for the sale of recyclable material or accept sales revenue, and reconcile the Budget Clearing Account at least quarterly for revenue and expense transactions. The QRP committee should designate, in writing, the QRP manager's responsibilities for arranging sales and managing generated sales revenue. We relied on DoD Instruction 4715.23 for the review of the QRPs because it gave direction on how the QRP should operate. This Instruction was in place for part of the audit scope, and therefore will be referred to in this report.

During the audit, DON headquarters personnel stated that they recognized the need for an instruction to help account for and manage the QRPs. DON headquarters personnel were developing draft instructions at the time of this

⁴ DoD Instruction 4715.23, "Integrated Recycling and Solid Waste Management," October 24, 2016.

⁵ DoD Instruction 4715.4, "Pollution Prevention," June 18, 1996.

⁶ Internal assessments are performed by the QRP installation or region personnel, and external assessments are performed by personnel outside the QRP installation or region.

report to help DON headquarters personnel oversee the QRPs. These instructions are titled Commander, Navy Installations Command Instruction 7300.1A, and the U.S. Marine Corps Qualified Recycling Program Guidance, Version 2.x.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.⁷ We identified internal control weaknesses in the oversight of the QRPs. Specifically, DON headquarters personnel did not adequately perform assessments. Moreover, DON headquarters personnel did not ensure the QRP manager's followed DoD guidance requiring them to ensure duties were properly segregated; deposit checks in a timely manner; or require checks from QRP sales to be made payable to the Department of Treasury or reject cash payments. The QRP manager also did not develop business plans or include all required elements in a business plan that outlines the overall management of the QRP; reconcile QRP revenue and expense transactions with the accounting system; or maintain supporting documentation for revenue and expenses as required by the DoD guidance. We will provide a copy of the report to the senior officials responsible for internal controls.

⁷ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

DON Lacks Oversight of Its Qualified Recycling Programs

The DON did not provide adequate oversight at the 10 QRPs reviewed. Specifically, DON headquarters personnel did not adequately perform assessments, which include a review of QRP financial records, and oversight to verify that the QRP managers were following guidance for operating a QRP. Because guidance was not followed, the QRP managers did not:

- segregate incompatible duties to decrease the risk of fraud or error. At 6 of the 10 QRPs we reviewed, the QRP manager was solely responsible for requesting bids, selecting the winning bidder, performing the sales transaction, and collecting the check or proceeds.
- deposit checks from QRP sales in a timely manner at 7 of the 10 QRPs we reviewed, increasing the risk of lost revenue because checks were either lost or expired. Checks deposited after 40 days were considered late.
- require checks from QRP sales to be made payable to the Department of the Treasury or reject cash payments at 3 QRPs. When checks are not made payable to the Department of the Treasury or when payments are made in cash, theft could occur. For example, checks not made out to the Department of the Treasury can be deposited into individual bank accounts and not recorded in the QRP records
- develop business plans or include all required elements in a business plan that could be used to evaluate the success of the 10 QRPs we reviewed. A business plan details QRP operations, such as its mission, goals, and objectives.
- reconcile revenue and expense transactions with the accounting system to ensure accurate reporting at 4 QRPs.
- maintain supporting documentation, such as contracts or sales agreements, weight tickets and receipts, at 9 QRPs to ensure the accurate reporting of revenues and expenses.

These deficiencies occurred because the DON did not have standard operating procedures (SOPs) defining how to perform assessments and oversee the QRPs.⁸ As a result, the DON cannot accurately assess the performance of the QRPs and the QRPs may not be operating in the most efficient and effective manner and are vulnerable to fraud.

⁸ An SOP is a set of step-by-step instructions compiled by an organization to help workers carry out operations.

DON Headquarters Personnel Did Not Perform Assessments or Ensure DoD Guidance Was Followed

DoD Instruction 4715.23 details QRP responsibilities, requirements, and operations. The Instruction states that DON headquarters personnel were required to perform assessments and oversee the QRPs to ensure compliance with policies, procedures, and accountability over the QRP. However, DON headquarters personnel neither performed assessments nor provided adequate oversight to verify that the QRP managers were following DoD guidance for operating a QRP. This occurred because the DON headquarters personnel did not consider the QRP assessments a priority, and did not have SOPs defining how to perform assessments and oversee the QRPs to verify that QRP managers were complying with existing DoD guidance.

DON headquarters personnel were required to review QRP financial records during assessments. Assessments provide DON headquarters personnel accurate information on how the QRP managers account for revenue and expenses, and manage the QRP's overall operations. Assessments would also allow DON headquarters personnel to identify potential loss of revenues and eliminate the unnecessary use of funds from other sources. A QRP is a self-sustaining operation that relies on revenues to offset its expenses. If a QRP does not have enough revenue to cover its expenses, DON headquarters must allocate funds from another source.

Additionally, without DON headquarters personnel overseeing the QRPs, QRP managers were able to operate outside of the existing DoD guidance. This led to internal control weaknesses in the areas of ensuring the QRP manager's duties were properly segregated; developing business plans or including all required elements in a business plan that outlines the overall management of the QRP; reconciling QRP revenue and expense transactions with the accounting system; or maintaining supporting documentation for revenue and expenses.

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement SOPs stating how DON headquarters personnel will perform assessments and oversee the QRPs.

QRP Manager Duties Were Not Properly Segregated

At 6 of the 10 QRPs reviewed, the QRP managers did not ensure incompatible duties were properly segregated, in accordance with DoD Instruction 4715.23. Segregation of duties is defined as the separation of incompatible responsibilities of processes to more than one person to decrease the risk of fraud and error. For example, incompatible duties that are not segregated include QRP managers that

arrange for the sale of recyclable materials and accept the sales revenue. The sale of recyclable materials includes the tasks of selecting the vendor, scheduling the pickup or delivery of the recyclable material, and receiving an invoice. Accepting sales revenue involves receiving checks from vendors for the recyclable material sold. The QRP managers could misuse sales revenue by stealing the funds or depositing funds into wrong accounts. In addition, possible collusion with the vendors could occur. The vendor could provide false invoices showing less material was sold and pay the QRP manager for the difference, causing the QRP to receive less revenue.

At Marine Corps Base Quantico, Marine Corps Air Station Miramar, Marine Corps Base Camp Pendleton, Naval District Washington Region, Marine Corps Recruit Depot Parris Island, and Marine Corps Air Station Beaufort, the QRP managers were solely responsible for arranging the sale of recyclable material and accepting the sales revenue. This occurred because the QRP manager was unaware of or misunderstood the requirement to segregate these incompatible duties, or could not segregate the duties because there was not sufficient staff available.

In addition, DON headquarters personnel did not have SOPs to ensure the QRPs are in compliance with DoD Instruction 4715.23, which states that QRP managers may arrange for the sale of recyclable materials or accept sales revenue, but should not be involved in both functions. Without proper oversight, the DON headquarters personnel cannot identify whether QRP duties were properly segregated. Proper segregation of duties reduces the potential for loss and fraud within the QRPs. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement SOPs stating how DON headquarters personnel will oversee the QRPs. The procedures should include guidance on how to ensure duties are appropriately segregated.

Checks From Sales of Recyclable Material Were Not Always Deposited Timely and Addressed to the Department of The Treasury

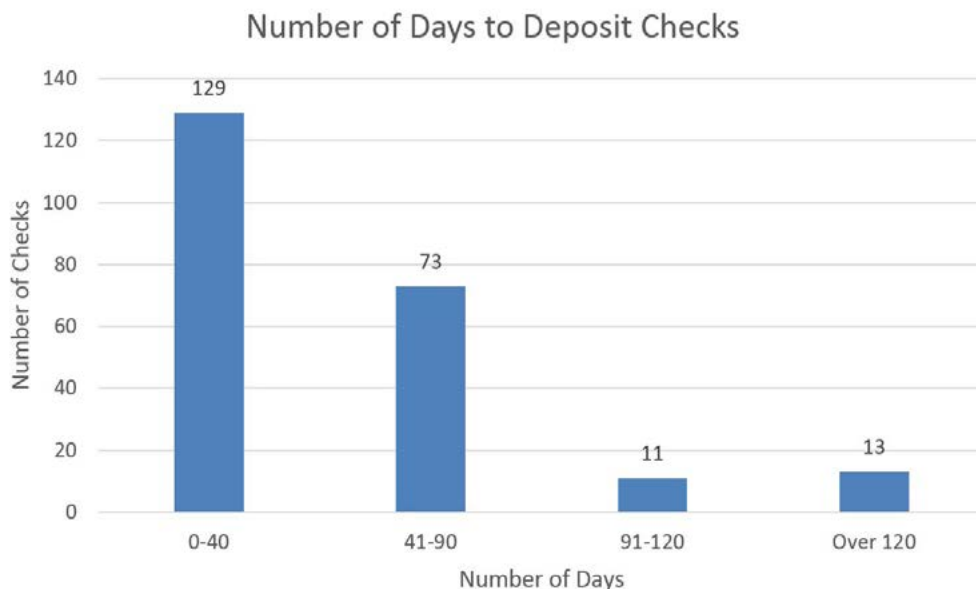
For 7 of the 10 QRPs reviewed, the QRP managers did not always deposit checks from the sale of the recyclable materials in a timely manner. Of the 226 checks that we reviewed, 97 (43 percent) were not deposited in a timely manner. We determined that checks deposited within 40 days were considered prompt.⁹ We calculated the number of days by the difference between the date written on the check and date the check was deposited to the Department of the Treasury.

⁹ We determined that deposits are considered timely if recorded in the accounting system within 40 days of the check date. The audit team is using 40 days to account for 30 days, plus 10 days for delays in receiving the check. Because some QRP managers did not record the date the check was physically received, we used the most consistent date, which was the check date. This is the reason for the 10 days for delays in the calculation used.

The process for depositing checks differs between the Navy and Marine Corps QRPs. When a Navy QRP receives a check, the QRP manager takes it to the comptroller’s office. The comptroller’s office mails the check to DFAS, where the check is deposited into the Department of the Treasury account. When a Marine Corps QRP receives a check, the QRP manager takes it to the disbursing office, where it is deposited into the Department of the Treasury account. DoD Instruction 4715.23 states that the QRP manager deposits sales revenue “promptly” into the F3875 Budget Clearing Account. Title 32 Code of Federal Regulations section 172.5 (2009), states that the DON’s finance and accounting office should report collections within the same month to the Department of the Treasury.

The QRP managers, the comptroller’s office, or the disbursing office held the checks instead of promptly taking or sending them to be deposited, increasing the risk that checks would either be lost or expire. Some checks took over 100 days to be deposited into the Department of the Treasury account. For example, the Mid-Atlantic Region comptroller’s office held a check, valued at \$22,391.26, for 182 days before depositing it into the Department of the Treasury account. A lost or expired check would require the QRP manager to identify the check as missing or old and request a new check from the recycling vendor, which takes additional time and resources. Without access to the sales proceeds, DON headquarters personnel would not have an accurate representation of funding levels related to the QRPs, and the QRP manager could not fund such activities as scheduling maintenance repairs to equipment. The following Figure shows the number of days to deposit checks from when the check was dated. See Appendix B for a list of QRPs that did not always deposit checks in a timely manner.

Figure. Number of Days to Deposit Checks



Source: The DoD OIG.

Additionally, at 3 of the 10 QRPs reviewed, the QRP managers either did not require checks received from QRP sales be made payable to the Department of the Treasury or reject cash payments. For example, at Naval Air Station Jacksonville, the QRP manager accepted checks made payable to Moral Welfare and Recreation and deposited the checks into a Department of the Navy, Millington Detachment Bank of America checking account instead of a Department of the Treasury account. At the same location, the QRP manager accepted cash for the sale of shredded paper. The QRP manager requested the recycling company make the checks out to the Department of the Treasury, but was unsuccessful. The QRP manager could not explain why the checks were not deposited into a Department of the Treasury account. When checks are not made payable to the Department of the Treasury, they can be deposited into individual bank accounts and not recorded in the QRP records. In addition, theft of cash payments could occur. Appendix D provides a breakdown of the QRPs that did not require checks be made payable to the Department of the Treasury or reject cash payments. The DON headquarters personnel did not have SOPs to ensure the QRPs were in compliance with DoD Instruction 4715.23 and Title 32 Code of Federal Regulations section 172.5 (2009), which require the timely deposit of checks. Additionally, DoD Instruction 4715.23 states that checks received should be made payable to the Department of the Treasury and that cash payments are prohibited.

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement SOPs stating how DON headquarters personnel will oversee the QRPs. The procedures should include guidance on how to record checks into the accounting system in a timely manner and how to verify that checks are made payable to the Department of the Treasury, and reinforce that collection of cash is not permitted.

Business Plans Were Not Developed or Did Not Include Required Elements

At all 10 QRPs, the QRP managers did not develop business plans, or the business plans did not include all the required elements. A business plan details QRP operations. It contains an introduction or executive summary; mission, goals, and objectives; QRP history; market research; roles and responsibilities; operations; financial management; records management; and education, awareness, and outreach programs. DoD Instruction 4715.23 states that QRP managers must develop and annually review a QRP business plan.

At nine QRPs, the QRP managers did not develop a business plan because they were either unaware of the requirement to develop a business plan, or aware of the requirement to develop a business plan, but had not yet developed one. At the

remaining QRP, Naval District Washington Region, the QRP manager developed a business plan, but the plan did not include information related to the history; financial management; records management; and education, awareness, and outreach programs. This occurred because the QRP manager was unaware of all the categories required in the business plan. A business plan is important to help evaluate the QRP and provide insight into aspects of the QRP that may need attention. When a business plan is not developed, operations could be affected. For example, when market research is not performed, it can directly affect the financial performance of a QRP. Performing market research helps identify the most cost-effective recycling opportunities for current or potential recyclable materials. As discussed further in this report, QRP managers did not always maintain supporting documentation for revenues and expenses transactions. QRP business plans that include information on records management may improve the supporting documentation maintained by QRP managers.

In addition, DON headquarters personnel did not have SOPs to ensure the QRPs are in compliance with DoD Instruction 4715.23, which required a business plan for each QRP. SOPs for DON headquarters personnel could ensure compliance with DoD guidance and improve the oversight of individual QRPs business plans. For example, DON headquarters personnel may identify segregation of duties concerns if roles and responsibilities were included in the business plan and the business plan was reviewed. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement SOPs stating how DON headquarters personnel will oversee the QRPs. The procedures should include guidance on how to develop complete business plans that are reviewed and updated annually.

Reconciliation of the Revenue and Expenses Not Performed

The QRP manager's universe of transactions include revenue transactions, such as checks received for the sale of recyclable material, and expense transactions, such as the money spent to operate the QRP. QRP managers were not required to use a standard format to record revenue and expense transactions. Some QRP managers used an excel spreadsheet to record revenue and expense transactions, while others used a book keeping program. At 4 of 10 QRPs reviewed, the QRP managers did not reconcile the universe of revenue and expense transactions maintained by the QRP with the transactions recorded in either the Defense Cash Accountability System or the Standard Accounting, Budgeting, and Reporting System. The DoD Financial Management Regulation, volume 6A, chapter 2, states that the reconciliation of source data with reported balances is a joint responsibility of

DFAS and the DoD Component.¹⁰ Additionally, DoD Instruction 4715.23 states that the QRP managers should ensure that there is a Budget Clearing Account for temporary collection, deposits, management, and dispersion of sales revenues in place and reconcile the Budget Clearing Account at least quarterly for revenue and expense transactions.

Reconciliations are a critical function for QRP managers to ensure accurate reporting of the QRP's revenues and expenses. For example, at Marine Corps Base Quantico, the QRP manager did not reconcile the checks deposited with the accounting system. A review of the checks deposited showed a total of \$7,904.07, which was \$500 more than the amount shown in the accounting system. Also, three checks totaling \$6,385.80 were documented by the QRP manager in her spreadsheet. The spreadsheet did not include identifiable information, such as the check number, date received, or the vendor the checks were received from. Therefore, the transactions could not be traced to the accounting system. At the same location, the QRP manager requested and spent \$3,500 to purchase a shed to protect recycled brass. The QRP manager did not perform a reconciliation to verify that the correct expense was paid. The reconciliation had not occurred because the QRP manager was unaware of the requirement to reconcile revenue and expenses with the accounting system. Without a reconciliation, the QRP managers do not know whether the revenue was recorded in the accounting system, whether the amount was accurate, and whether the amount was available for use to purchase or repair equipment needed to run the QRP. For example, checks could be lost during the depositing process, and the QRP manager would be unaware if a reconciliation is not performed. Additionally, fraud could occur if the QRP managers collect checks but does not record and reconcile them with the accounting system. See Appendix C for a listing of the QRPs that did not perform reconciliations.

Additionally, DON headquarters personnel did not have SOPs to ensure the QRPs complied with the DoD Financial Management Regulation, volume 6A, chapter 2, and the DoD Instruction 4715.23 which state that reconciliations are the responsibility of the DoD component, should be performed, respectively. The QRPs operated without performing reconciliations of the revenues and expenses to the accounting system. Without reconciliations, DON headquarters personnel have no assurance that the correct amount was recorded, leading to a potential misstatement of revenues and expenses in the accounting system. We recommend the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement SOPs stating how DON headquarters personnel will oversee the QRPs. The procedures should include guidance on how to reconcile the revenue and expense transactions with the accounting system.

¹⁰ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," Volume 6A, "Reporting Policy," Chapter 2, "Financial Reports, Roles and Responsibilities"

Supporting Documentation Not Always Maintained

At 9 of 10 QRPs reviewed, the QRP managers did not always maintain supporting documentation for revenues and expenses transactions. The DoD Financial Management Regulation, volume 6A, chapter 2, states that DoD Components must maintain audit trails with enough detail to trace transactions and balances from their source to the accounting system. Audit trails help demonstrate the accuracy, completeness, and timeliness of transactions. In addition, DoD Instruction 4715.23 states that the QRP manager maintains records of QRP direct sales and expense records for QRP operation and confirms there is a clear, documented accounting that may be verified independently to require that sales revenues are properly recorded and credited.

Specifically, the QRP managers did not always require a contract or sales agreement from private recycling companies that purchased the recyclables. For example, at Marine Corps Base Quantico, there was no contract in place for a vendor. The QRP manager stated that the sale was made without a contract or sales agreement for this vendor since this was how it was done by previous QRP managers. At Naval Submarine Base Kings Bay, the QRP manager worked with multiple vendors. The vendors inspected the material and provided verbal estimates. The QRP manager selected the vendor based on the verbal estimates received. However, the QRP manager had no documentation to support the verbal agreements received. Therefore, we could not determine the amount of revenue the QRP manager should have obtained for the sale of recyclable material or whether the best price for recyclable material was obtained.

In addition, the QRP managers did not ask for or retain a certified weight ticket detailing how much recyclable material weighed. For example, at Naval District Washington, the QRP manager relied on the vendor to weigh the recyclable material without requiring the vendor to submit the weight ticket to the QRP. The QRP manager did not realize a weight ticket was required to support the transaction. The lack of a weight ticket opens the QRP to potential theft of the recyclable material. For example, the QRP manager or vendor could state that less material was sold than what actually was sold and keep the difference.

Also, the QRP managers did not perform research to ensure the price for recyclable material was consistent with the current market value, or keep supporting documentation showing the market price or sales price. For example, at Marine Corps Air Station Beaufort and Marine Corps Air Station Miramar, the QRP managers relied on the private recycling company to determine the market value. The QRP manager stated that he could not do the research because he did not have a subscription to any websites that show current market value for recyclables. If

the QRP managers do not research the current value of recyclable materials or keep a copy of the current market value, the QRP could be losing revenue by selling material below market value.

Finally, the QRP managers at Marine Corps Base Camp Pendleton and Naval Base Washington did not retain supporting documentation for QRP labor expenses. As previously discussed, QRP's are self-sustaining operations that rely on revenues to offset its expenses. For example, some salaries of QRP employees are paid from QRP proceeds. We contacted both comptroller's offices to obtain support for the labor expenses. After multiple attempts, neither comptrollers' office was able to provide supporting expense documentation. Without supporting documentation, the QRP managers had no assurance that the expenses were appropriate and properly recorded, which could impact what was available to be spent by the QRP.

The DON headquarters personnel were not aware that the QRP managers were maintaining inadequate supporting documentation. This occurred because the DON headquarters personnel did not have SOPs to ensure the QRPs complied with the DoD Financial Management Regulation, volume 6A, chapter 2, and the DoD Instruction 4715.23, which state that the QRPs retain proper support for all transactions. The lack of support can hinder the identification of potential fraud and the misstatement of revenue. See Appendix C for a listing of QRPs that did not maintain adequate supporting documentation. Additionally, Appendix D provides a breakdown of the supporting documents that were maintained. We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement SOPs stating how DON headquarters personnel will oversee the QRPs. We also recommend that the Commander, Navy Installations Command, Facility Services, and Commander, Marine Corps Installations Command, improve the documentation of the sale of recycled materials. Specifically, Commander, Navy Installations Command Instruction 7300.1A and the U.S. Marine Corps Qualified Recycling Program Guidance, Version 2.x. should include a requirement for the QRP managers to document the list of bidders, response from the bidders, winning bids for recycling material, weight tickets of the materials sold, and market price or other agreed-upon sale price.

Conclusion

The DON did not provide adequate oversight at the 10 QRPs reviewed. This occurred because the DON did not have SOPs to ensure adequate oversight was performed and whether the QRPs were in compliance with guidance for operating a QRP. The lack of SOPs contributed to DoD guidance not being followed and led to the DON headquarters personnel being unaware of how the QRP managers are

operating the QRPs. If the DON does not improve the current process used to operate and oversee the QRPs, the programs will not be as efficient and effective as possible. Additionally, the QRPs are vulnerable to waste and potential fraud. By implementing the report recommendations, the DON can improve the accountability and management of its QRPs. During the audit, DON headquarters personnel stated that they recognized the need for an instruction to help account for and manage the QRPs. Draft instruction, Commander, Navy Installations Command Instruction 7300.1A and the U.S. Marine Corps Qualified Recycling Program Guidance, Version 2.x were being developed at the time of this report.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, develop and implement the following standard operating procedures to provide guidance to Department of the Navy Headquarters personnel on how to oversee the qualified recycling program. The procedures should include the following guidance:

- **performing assessments of the qualified recycling programs, including review of the financial records and compliance with regulations;**
- **ensuring duties are appropriately segregated;**
- **depositing checks into the Department of the Treasury in a timely manner;**
- **developing complete business plans that are reviewed and updated annually;**
- **reconciling the revenue and expense transactions with the accounting system; and**
- **ensuring that checks are made to the Department of the Treasury, the collection of cash is not permitted, and appropriate remedial measures are taken when vendors do not comply with these requirements.**

Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations Comments

The Office of the Assistant Secretary of the Navy (Financial Operations) (FMO), responding on the behalf of the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations, agreed with the recommendation. She stated that the FMO will develop guidance to provide oversight, and the guidance will contain instructions regarding assessments, financial reviews, and compliance. Additionally, FMO guidance will include

procedures for timely deposit and end-to-end data reconciliations ensuring revenue and expense are properly recorded and reported in the financial statements.

We contacted the FMO representative listed in the response to verify that the guidance will include procedures for segregating duties, developing complete business plans, and properly endorsing checks. The FMO representative stated that the guidance will address the compliance of segregation of duties and placement of mitigating controls, annual reviews of business plans, and proper check endorsement and receipt of non-cash vendor payment procedures.

FMO anticipates the completion date to be September 30, 2018.

Our Response

Comments from the Office of the Assistant Secretary of the Navy (Financial Operations) (FMO) addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that FMO developed guidance for overseeing the QRPs and that the guidance has been implemented.

Recommendation 2

We recommend that the Commander, Navy Installations Command, Facility Services; and Commander, Marine Corps Installations Command; improve the documentation of the sale of recycled materials. Specifically, Commander, Navy Installations Command Instruction 7300.1A and the U.S. Marine Corps Qualified Recycling Program Guidance, Version 2.x. should include a requirement for the qualified recycling program managers to document:

- **the list of bidders, response from the bidders, winning bids for recycling material, contract or sales agreement;**
- **weight tickets of the materials sold; and**
- **market price or other agreed-upon sale price.**

Commander, Navy Installations Command, Facility Services; and Commander, Marine Corps Installations Command Comments

The Office of the Assistant Secretary of the Navy (Financial Operations) (FMO) consolidated the responses received. The Commander, Navy Installations Command, Facility Services; and Commander, Marine Corps Installations Command agreed with the recommendation. They stated that guidance will be revised to include requirements for the QRP managers to document the list of bidders, responses for the bidders, winning bids for recyclable materials, contract or sales agreements, weight tickets of the material sold, and market price or other agreed-

upon sale price. Additionally, the revised guidance will address the organizational, operational, and oversight compliance issues identified during the audit.

The anticipated completion date is September 30, 2018.

Our Response

The Commander, Navy Installations Command, Facility Services; and Commander, Marine Corps Installations Command addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation when we verify that guidance is revised and implemented.

Appendix A

Scope and Methodology

We conducted this performance audit from March 2017 through March 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our announced objective was to determine whether the DON was properly accounting for and managing its QRPs. However, we adjusted our objective because the deficiencies noted in this report indicated that the issues generally related to a lack of the DON's oversight of its QRPs.

We reviewed the following applicable guidance to understand how DON headquarters personnel oversee the QRPs.

- Title 32 Code of Federal Regulations Section 172
- DoD Financial Management Regulation, volume 6A, chapter 2
- DoD Instruction 4715.23, "Integrated Recycling and Solid Waste Management," October 24, 2016

The Navy has 11 installation QRPs and 4 regional QRPs. The 4 regions serve 45 locations. The Marine Corps has 14 installation QRPs. We excluded QRPs located outside the contiguous United States. We requested and received a list of the DON QRPs and nonstatistically selected 10 QRPs—3 Navy regions, 2 Navy installations, and 5 Marine Corps installations—based on QRP location proximity to each other on the west, east, and south coasts. We requested a universe of transactions from each selected QRP showing what was collected and expensed from FY 2016 through second quarter FY 2017. For the 10 QRPs selected, the revenues collected totaled approximately an unaudited \$10 million. Additionally, the amount expended totaled approximately an unaudited \$10 million. See Table 1 for a breakdown of the unaudited dollar amount per QRP selected from FY 2016 through second quarter FY 2017.

Table 1. Unaudited Dollar Amount From FY 2016 Through Second Quarter FY 2017

| Qualified Recycling Program | Revenue | Expenses |
|---|--------------------|---------------------|
| Naval District Washington Region ¹ | \$ 299,019 | \$ 1,294,655 |
| Navy, Mid-Atlantic Region | 2,104,202 | 2,330,209 |
| Navy, Southwest Region | 3,511,789 | 2,232,706 |
| Naval Air Station Jacksonville | 159,825 | 74,227 |
| Naval Submarine Base Kings Bay | 232,806 | 246,680 |
| Marine Corps Base Quantico | 237,829 | 281,113 |
| Marine Corps Base Camp Pendleton | 2,839,520 | 3,098,535 |
| Marine Corps Air Station Miramar | 99,434 | 28,143 |
| Marine Corps Recruit Depot Parris Island | 460,953 | 393,274 |
| Marine Corps Air Station Beaufort | 45,414 | 38,910 |
| Total | \$9,990,791 | \$10,018,452 |

¹ The Naval District Washington QRP is in the process of closing. This action is estimated to be completed by the end of FY 2018.

Source: The DON.

We determined whether the DON provided adequate oversight at the 10 QRPs selected. We interviewed the QRP managers to assess internal controls and understand how each QRP manager accounts for and manages the qualified recyclable program. We also verified if checks were deposited in a timely manner, reconciliations of revenue and expense transactions to the accounting system were performed, supporting documentation was maintained, and checks from sales receipts were written to the Department of the Treasury. In addition, we verified if the DON headquarters personnel performed assessments and provided oversight verifying that the QRP managers were following the Title 32 Code of Federal Regulations section 172.5 (2009), DoD Financial Management Regulation, volume 6A, chapter 2, and DoD Instruction 4715.23. Also we determined if QRP managers properly segregated duties to decrease the risk of fraud or error, and developed business plans to detail QRP operations, such as its mission, goals, and objectives. Additionally, we requested supporting documentation for the transactions selected. For a collection, we verified whether:

- there was a contract or sales agreement in place before the sale of the recyclable commodity;
- there was a weight ticket from the scrapyard, installation, or region included in the support;
- there was a document supporting the agreed-upon price paid;

- there was a cash collection voucher verifying the collection of the sale; and
- the check received was issued to the Department of the Treasury with the correct amount.

The types of expense transactions varied. Examples of expense transactions included payroll, credit card purchase, and fuel. Because the type of expense varied, the supporting documents were unique to each type of expense. We determined whether an expense was supported on a case-by-case basis. The types of support we verified included a purchase document, a credit card statement, system printouts from a payroll system, and a paid invoice.

Use of Computer-Processed Data

We used computer-processed data extracted from multiple databases and systems to select the transactions we reviewed. To verify that the selected transactions were valid, we reviewed the supporting documentation provided by the QRP installation or region and DFAS. The supporting documentation we used to verify whether the transaction was supported included:

- contracts or sales agreements from private recycling companies that purchase the recyclables;
- weight tickets;
- current market prices for recyclable material;
- checks made payable to the Department of the Treasury;
- Defense Cash and Accountability System and Standard Accounting, Budgeting, and Reporting System screen prints verifying the collection was recorded in the accounting system; and
- sales receipts.

As a result, we determined the computer-processed data to be sufficiently reliable to support the findings and conclusions made in this report.

Use of Technical Assistance

During the audit, we requested and received technical assistance from DoD Office of Inspector General Quantitative Methods Division (QMD) personnel to design a control test sample of FY 2016 through second quarter FY 2017 QRP transactions to review.

QMD personnel provided statistical sampling support for the project. Among the 10 QRPs the team selected for review, two programs were broken into two subgroups, for a total of twelve groups. QMD drew simple random samples from each of the

twelve subgroups (see Table 2). The audit team used the sample transactions in assessing the programs' accounting of revenue and expenses and how their QRPs were managed. The samples provided unbiased selections of transactions for testing. The results of the testing are found in Appendixes B-D.

Table 2. 10 QRP Sites Selected and the Universe of Transactions

| Qualified Recycling Program | Universe Size | Sample Size |
|--|---------------|-------------|
| Marine Corps Base Quantico | 34 | 18 |
| Naval District Washington Region | 130 | 33 |
| Navy, Mid-Atlantic Region large transactions | 244 | 41 |
| Navy, Mid-Atlantic Region medium to small transactions | 2,762 | 45 |
| Marine Corps Air Station Miramar | 41 | 22 |
| Navy, Southwest Region expenses | 75 | 32 |
| Navy, Southwest Region collections | 734 | 44 |
| Marine Corps Base Camp Pendleton | 311 | 42 |
| Naval Submarine Base Kings Bay | 290 | 41 |
| Marine Corps Air Station Beaufort | 57 | 28 |
| Naval Air Station Jacksonville | 399 | 43 |
| Marine Corps Recruit Depot Parris Island | 355 | 43 |
| Total | 5,432 | 432 |

Source: The DoD OIG

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued one report discussing the QRPs in the Department of the Navy. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

DoD OIG

Report No. DODIG-2016-104, "Improvements Needed in Managing Department of the Navy Suspense Accounts," June 30, 2016

The DON incorrectly used suspense accounts to record \$42.1 million in income generated from the sale of recyclable materials and forestry products, leasing of land for agricultural purposes, and licensing DON trademarks because the DoD Financial Management Regulation incorrectly required the use of suspense accounts to record these transactions.

Appendix B

Segregation of Duties and Timely Deposit of Checks

Table 3 identifies the QRPs that did not segregate duties or deposit checks in a timely manner.

Table 3. QRP Segregation of Duties and Timely Deposit of Checks

| Qualified Recycling Program | Segregation of Duties | Timely Deposit of Checks |
|--|-----------------------|--------------------------|
| Naval District Washington Region | No | No |
| Navy, Mid-Atlantic Region | Yes | No |
| Navy, Southwest Region | Yes | No |
| Naval Air Station Jacksonville | Yes | Yes |
| Naval Submarine Base Kings Bay | Yes | No |
| Marine Corps Base Quantico | No | No |
| Marine Corps Base Camp Pendleton | No | No |
| Marine Corps Air Station Miramar | No | No |
| Marine Corps Recruit Depot Parris Island | No | Yes |
| Marine Corps Air Station Beaufort | No | Yes |
| Total | 6/10 | 7/10 |

Source: The DoD OIG.

Appendix C

Business Plan, Reconciliation, and Supporting Documentation

Table 4 identifies the QRPs that did not maintain business plans, perform reconciliations, or maintain sufficient supporting documentation.

Table 4. QRP Business Plans, Reconciliations, and Supporting Documentation

| Qualified Recycling Program | Business Plan Maintained | Reconciliations Performed | Supporting Documentation Maintained |
|--|--------------------------|---------------------------|-------------------------------------|
| Naval District Washington Region | No | Yes | No |
| Navy, Mid-Atlantic Region | No | Yes | Yes |
| Navy, Southwest Region | No | Yes | No |
| Naval Air Station Jacksonville | No | Yes | No |
| Naval Submarine Base Kings Bay | No | Yes | No |
| Marine Corps Base Quantico | No | No | No |
| Marine Corps Base Camp Pendleton | No | No | No |
| Marine Corps Air Station Miramar | No | No | No |
| Marine Corps Recruit Depot Parris Island | No | No | No |
| Marine Corps Air Station Beaufort | No | Yes | No |
| Total | 10/10 | 4/10 | 9/10 |

Source: The DoD OIG.

Appendix D

Supporting Documentation Maintained

Table 5 provides a breakdown of supporting documentation that QRP managers maintained. Revenue transaction supporting documentation includes a contract or sales agreement, weight ticket, support for price, and whether checks were received and made payable to the Department of the Treasury. Support for expense transactions varied. Examples of expense transactions included payroll, credit card purchase, and fuel. Because the type of expense varied, the supporting documents were unique to each type of expense. We determined whether an expense was supported on a case-by-case basis. The types of support we verified included purchase documents, credit card statements, system printouts from a payroll system, and paid invoices.

Table 5. Supporting Documentation Maintained by QRP Managers

| Qualified Recycling Program | Revenue | | | | Expenses |
|----------------------------------|-----------------------------|---------------|-------------------|---|-----------|
| | Contract or Sales Agreement | Weight Ticket | Support for Price | Check Received and Made Payable to the Department of the Treasury | Supported |
| Naval District Washington Region | 29/30 | 0/30 | 1/30 | 30/30 | 2/3 |
| Navy, Mid-Atlantic Region | 41/41 | 41/41 | 41/41 | 41/41 | 45/45 |
| Navy, Southwest Region | 38/44 | 44/44 | 38/44 | 44/44 | 32/32 |
| Naval Air Station Jacksonville | 0/8 | 0/8 | 0/8 | 0/8 | 30/35 |
| Naval Submarine Base Kings Bay | 0/22 | 17/22 | 0/22 | 22/22 | 19/19 |
| Marine Corps Base Quantico | 8/19 | 5/19 | 6/19 | 19/19 | 7/12 |
| Marine Corps Base Camp Pendleton | 10/20 | 13/20 | 10/20 | 19/20 | 1/22 |

Table 5. Supporting Documentation Maintained by QRP Managers (cont'd)

| | Revenue | | | | Expenses |
|--|---------|-------|------|-------|----------|
| Marine Corps Air Station Miramar | 0/23 | 9/23 | 0/23 | 23/23 | 8/17 |
| Marine Corps Recruit Depot Parris Island | 0/8 | 6/8 | 1/8 | 7/8 | 35/35 |
| Marine Corps Air Station Beaufort | 0/14 | 10/14 | 0/14 | 14/14 | 14/14 |

Source: The DoD OIG

Management Comments

Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

APR 17 2018

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Comments and Sensitivity Review Requested - Department of the Navy
Qualified Recycling Programs (Project No. D2017-D000FS-095)

Reference: DoDIG Report Project No. D2017-D000FS0095.000 (Department of the
Navy Qualified Recycling Programs) of 28 March 2018

In response to the reference, attached is the Department of the Navy's response on
actions taken to implement the corrective actions pertaining to Recommendations 1 and
2.

My point of contact is [REDACTED] who may be
reached [REDACTED]

Karen L. Fenstermacher
Karen L. Fenstermacher
Deputy Assistant Secretary of the Navy
(Financial Operations)

Attachment:
As stated

Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations (cont'd)

DEPARTMENT OF THE NAVY QUALIFIED RECYCLING PROGRAMS (Project No. DODIG-2017-D000FS-0095.000)

RECOMMENDATION 1. We recommend the Assistant Secretary of the Navy (Financial Management and Comptroller) (FM&C) Office of Financial Operations, develop and implement the following standard operating procedures to provide guidance to Department of the Navy Headquarters personnel on how to oversee the qualified recycling program. The procedures should include the following guidance:

- Performing assessments of the qualified recycling programs, including review of the financial records and compliance with regulations;
- Ensuring duties are appropriately segregated;
- Depositing checks into the Department of the Treasury in a timely manner;
- Developing complete business plans that are reviewed and updated annually
- Reconciling the revenue and expense transactions with the accounting system; and
- Ensuring that checks are made to the Department of the Treasury, the collection of cash is not permitted, and appropriate remedial measures are taken when vendors do not comply with these requirements

DON RESPONSE 1. Expected completion date of September 30, 2018.

The Office of the Assistant Secretary of the Navy (Financial Operations) (FMO) concurs with Recommendation 1 and endorses the responses in Recommendation 2.

FMO supports the guidance currently being drafted by the DON and Marine Corps Headquarter Facility Services Program Managers of the DON Qualified Recycling Program. FMO guidance will provide oversight and will contain instructions regarding assessments, financial reviews and compliance. FMO will establish operating procedures for timely deposits and end to end data reconciliations ensuring revenue and expenses are properly recorded and reported in the financial statements.

RECOMMENDATION 2. We recommend that the Commander, Navy Installations Command, Facility Services, and Commander, Marine Corps Installations Command, improve the documentation of the sale of recycled materials. Specifically, Commander, Navy Installations Command Instruction 7300.1A and the U.S. Marine Corps Qualified recycling program managers to document:

- The list of bidders, response from the bidders, winning bids for recycling material, contract or sales agreement;

Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Financial Operations (cont'd)

- Weight tickets of the materials sold, and
- Market price or other agree-upon sale price

DON RESPONSE 2. Expected completed date of September 30, 2018.

Commander, Navy Installation Command (CNIC) concurs with Recommendation 2.

CNICINST 7300.1A is currently under revision. The updated instruction will provide guidance to Qualified Recycling Programs (QRP) that will satisfy Department of Defense Inspector General (DoDIG) concerns of Recommendation 2 regarding the documentation of the sale of recycled materials. Revisions include requirements for QRP managers to document the list of bidders, response from the bidders, winning bids for recycling material, contract or sales agreement; weight tickets of the materials sold; and market price or other agreed-upon sale price.

Draft CNICINST 11350.x (Integrated Solid Waste Management) is also under development that will address the organizational, operational, and oversight compliance issues identified during the subject audit.

Commander, Marine Corps Installations Command (COMMCOM) concurs with Recommendation 2.

QRP Guidance v2.x will be replaced with Integrated Recycling and Solid Waste Management (ISWM) Program Guidance. Requirements for documenting QRP sales will meet or exceed that in Recommendation 2, providing guidance to QRPs that will satisfy DoDIG concerns regarding the documentation of the sale of recycled materials. Revised guidance will include requirements for QRP managers to document invitations for bid, lists of bidders, bidders' responses, successful bidders; contracts or sales agreement, weigh tickets of commodities sold, and commodity market prices.

Final draft of Marine Corps Order 5090.2 Environmental Compliance and Protection Manual is currently in final review/coordination. When published, Vol. 17 ISWM, will address the organizational, operational, and oversight compliance issues identified during the subject audit.

Acronyms and Abbreviations

- DFAS** Defense Finance and Accounting Service
- DON** Department of the Navy
- FMO** Office of the Assistant Secretary of the Navy (Financial Operations)
- QRP** Qualified Recycling Program
- SOP** Standard Operating Procedure

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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Congressional Liaison

703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

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