

**DEPARTMENT OF THE NAVY  
BUREAU OF NAVAL PERSONNEL  
5720 INTEGRITY DRIVE  
MILLINGTON TN 38055-0000**

**IN REPLY REFER TO  
BUPERSINST 7510.2A  
PERS-656  
2 Jun 2003**

BUPERS INSTRUCTION 7510.2A

From: Chief of Naval Personnel  
To: All Ships and Stations (less Marine Corps field addressees not having Navy personnel attached)

Subj: LOCAL COMMAND FISCAL OVERSIGHT AND REVIEW OF MORALE, WELFARE, AND RECREATION (MWR) NONAPPROPRIATED FUND (NAF) FACILITY PROJECTS

Ref: (a) OPNAVINST 1700.7D  
(b) SECNAVINST 5200.35D  
(c) SECNAVINST 7510.7E  
(d) OPNAVINST 11000.8H  
(e) DOD 5500.7-R of 30 Aug 93 (NOTAL)  
(f) BUPERSINST 7510.1B  
(g) BUPERSINST 7043.1B

Encl: (1) Fiscal Oversight and Review of Morale, Welfare and Recreation (MWR) Nonappropriated Fund (NAF) Facility Projects  
(2) Standards of Conduct and Government Ethics Sample Statement of Compliance

1. Purpose. To provide local activities with a program for fiscal oversight and review of nonappropriated fund (NAF) disbursements by any Morale, Welfare and Recreation (MWR) Nonappropriated Fund Instrumentality (NAFI) for MWR projects not wholly administered by the Naval Facilities Engineering Command (NAVFACENGCOM), Engineering Field Division (EFD), Engineering Field Detachment/Activity, area Public Works Office (PWO) or authorized agent, which are accomplished using local in-house work forces, Naval Construction Forces (NCF) or a combination thereof. References (a) through (g) pertain. This instruction is a complete revision and should be reviewed in its entirety.

2. Cancellation. BUPERSINST 7510.2.

3. Policy. This instruction does not apply to MWR projects funded with appropriated funds (APF). Fiscal oversight and

review of all NAF facility projects, as defined above, shall be conducted following the guidance provided in enclosure (1).

4. Information. Reference (a) designated the Chief of Naval Personnel (CHNAVPERS) as the Program Manager for Navy MWR programs with the responsibility for establishing and issuing procedures for fiscal oversight and review of local command-administered MWR NAF facility improvements. Navy Personnel Command (NAVPERSCOM), Morale, Welfare and Recreation Division (PERS-65) functions in this capacity for Navy MWR facilities.

5. Action

a. A post-audit/review of each applicable centrally-or locally-funded NAF facility project and all disbursements must be completed within 90 days after receipt of the "final billing" with copies to the chain of command and NAVPERSCOM (PERS-656). This is required for NAF facility projects accomplished by the MWR department or other authorized in-house organizational element. Post-audit/review reports for locally/chain of command NAF-funded projects and activity-managed NAF projects should be forwarded to the chain-of-command level, which approved the expenditure of funds. Reporting procedures should conform to reference (a) and the supplementary guidance provided in enclosure (1).

b. Commanding officers (COs) shall

(1) ensure enclosure (1) is available to all personnel assigned to perform local fiscal oversight and reviews of all MWR NAF facility projects defined in paragraph 1.

(2) ensure that all applicable MWR NAF facility projects for their activities are reviewed, audited/evaluated following the guidance provided in enclosure (1).

(3) use civilian or military personnel trained in conducting fiscal oversight and reviews of NAF facility projects. Fiscal oversight and management control reviews may be completed using local internal audit, command evaluation and review, or other comparable staff; contracting with certified public accountants; using a separate audit board; or performing management control reviews as discussed in references (b) and (c).

(4) use APF/personnel to support NAF facility project audits, when considered necessary.

(5) refer to reference (e) and enclosure (2) for guidance regarding standards of conduct, ethics, post-government employment and related matters required of all Department of the Navy (DON) personnel. COs should ensure compliance by all key MWR managers, and employees, particularly those directly involved in project administration, contracting, procurement, and fund disbursement process, and personally complete a compliance statement.

6. Form and Report

a. OGE 450 (4/99), Executive Branch Confidential Financial Disclosure Report, can be obtained on line at website <http://www.dior.whs.mil/ICDHOME/FORMS.HTM>.

b. The reporting requirements contained in paragraph 5 are exempt from reports control per SECNAVINST 5214.2B.

*Tomaszeski*

S. J. TOMASZESKI  
Rear Admiral, U.S. Navy  
Deputy Chief of Naval Personnel

Distribution:  
SNDL Parts 1 and 2

**FISCAL OVERSIGHT AND REVIEW OF  
MORALE, WELFARE, AND RECREATION (MWR)  
NONAPPROPRIATED FUND (NAF) FACILITY PROJECTS**

**INTRODUCTION**

1. Purpose. To provide guidance to local activities in the performance of fiscal oversight and post-audit reviews (hereafter called reviews) of MWR NAF facility projects, as defined in paragraph 2 below and as stated in paragraph 5c(2) of reference (a).

2. Application. This instruction is applicable to MWR projects which are accomplished using in-house work forces, NCFs, or a combination thereof and supported with NAFs which are not wholly administered by NAVFACENCOM, EFDs, PWOs, or authorized agent. It includes review of both facility construction and the procurement of project materials and equipment. Section 5 of enclosure (1) to reference (g) also contains a program for reviewing the NAF contracting, procurement, and disbursements process.

3. Objectives. For each authorized NAF facility project, local management must be provided an independent, unbiased review and constructive evaluation of the effectiveness and efficiency of fiscal responsibilities applicable to NAF facility initiatives. Specific objectives are to

a. verify the adequacy of the NAF financial controls being applied; provide an effective assessment/evaluation of cost overruns; ensure expenditures were applicable to the approved project; ensure all charges have been properly documented and paid; and any excess funds were returned to NAVPERSCOM (PERS-65), major claimant, or CO fund, as applicable.

b. verify that final billing has been submitted to the sponsoring level of command and notification of payment and project completion information was provided to the level of command approving the project execution.

c. verify that contractor/vendor/local command/in-house work force(s) complied with the conditions and specifications of the project, work order(s)/contract(s) supporting the NAF project initiative with validated documentation for deviations.

d. verify that any alterations or changes to the contract provisions were evidenced as properly executed contract modifications.

4. Standards of Conduct. At the outset of each authorized project, all people involved in project execution and disbursements should be reminded that, even if not specifically required to submit a OGE 450, Executive Branch Confidential Financial Disclosure Report, they should immediately inform their supervisors of any instances in which they have a financial interest in a business entity relative to which they are to exercise their judgement in performing official duties in the course of the review being initiated. In any instance where a person participating in a NAF facility project review has a financial interest, including stock or bond investment in a contractor under review, the supervisor after consultation with the command's ethics official should determine the extent of that involvement and whether or not the person should be continued on the assignment.

## Section 1. Contract Award

### 1.1. Background

a. Authorization for centrally NAF funded MWR facility projects is provided by NAVPERSCOM (PERS-65). The authorization letter states that projects not administered by NAVFACENCOM, EFD, or authorized PWO must be reviewed (or post-audited) immediately upon receipt of final billing. The review is to be made by the local internal audit, command evaluation, audit board, or other comparable staff. The results must be reported to, and approved by, the local CO, Echelon TWO command and forwarded to NAVPERSCOM (PERS-65). This fiscal oversight and review program applies to NAF facility projects or segments thereof, including collateral equipment, not wholly administered by NAVFACENCOM, EFD, PWO or other authorized agent.

b. These projects may be constructed by other than NAVFACENCOM, EFD or a PWO. They may be constructed by NCFs or a NAF activity using its own labor and equipment. Projects may also be accomplished using both commercial contractors and in-house work forces; however, reference (g) addresses the procurement policy for NAF activities under the cognizance of NAVPERSCOM (PERS-65) and requires all construction contracts in excess of \$2,000 (other than those awarded by NAVPERSCOM (PERS-65) or their designated NAF agent) to be administered by

NAVFACENGCOM designated contracting officers per Navy facility acquisition directives/regulations.

c. NAF contracting officers do not have warrant authority (e.g., sign construction contracts) for construction/repair contracts in excess of \$2,000. Projects shall not exceed the dollar limit stated in the approval/authorization letter. Firm fixed price contracts are the preferred method of contracting.

Section 2. Contract Administration

2.1. Progress and Quality. Reviewers must rely on progress and final inspections by the contracting officers or their representative to insure that the facility and equipment meet the contract specifications. Inspections are evidenced by a locally designed "punch list" or report, which is given to the contractor for use in correcting deficiencies. Deficiencies should be corrected in a timely manner. Failure to do so may be cause for an adjustment in the contract price or contract termination.

2.1.1. Steps for Review of Contract Progress and Quality

Remarks or  
Work Paper  
(W/P) Reference

- a. Review the contracting officer's inspection reports. Was the facility/built-in and collateral equipment visually inspected, tested, measured by the contracting officer or representative?
- b. How was the contractor advised of defects? Did the contractor correct the defects in a timely manner, or grant a price adjustment?

Remarks or  
W/P Reference

- c. Did the contractor provide a warranty?  
Have warranty claims been satisfied?

2.2. Subcontracting. A contract may allow a contractor to subcontract specified parts of a contract. The contractor is responsible for the subcontractor's work, and the command's contracting officer (i.e., Staff Civil Engineer, Resident Officer in Charge of Construction (ROICC), or Contracting Officer's Representative (COR)) is responsible for inspecting and accepting that work. Any deficiency must be directed to the appropriate command facility/contracting representative outlined above.

2.3. Financial Controls. The NAF facility project authorization letter contains the project dollar limit, as approved by the cognizant level(s) of command. The contract specifies the fixed cost and any progress payments. The contractor's invoices are examined to determine whether the amounts invoiced are per the contract. The amounts paid must be supported by inspection reports, and should be per the contract and payment certifications. For NAVPERSCOM (PERS-65) centrally funded NAF projects, a final bill must be submitted to NAVPERSCOM (PERS-65) which states the total project cost, completion date, that all applicable charges have been paid, and designates any monies to be returned to the NAVPERSCOM MWR Central Fund or Echelon TWO command, as applicable.

2.3.1. Steps for Review of Financial Controls

Remarks or  
W/P Reference

- a. Verify amount authorized, contract amounts and progress payments, invoiced amounts and payments approved and made. Determine the reason for any differences.

Remarks or  
W/P Reference

- b. Compare amounts approved for payment to inspection reports. Were any amounts to be retained to assure performance? Was the payment of retained amounts authorized and justified by the contractor's correction of deficiencies?
  
- c. For projects procured with Central NAF Funds verify whether
  - (1) all bills applicable to the project were submitted for reimbursement.
  - (2) all reimbursements were applicable to the approved project.
  - (3) any billing adjustments were passed back to the sponsoring echelon of command or NAVPERSCOM Central NAF unless otherwise authorized in writing.
  - (4) all funds not expended for the project were transferred back to the NAVPERSCOM Central NAF or retained as specified through written correspondence for the sponsoring level of command.
  - (5) All payments and reimbursement requests were processed promptly and were charged to the correct asset or expense account.
  
- d. For projects procured with a major claimant's or other echelon command's funds, determine whether excess funds were returned to the major claimant, or other proper disbursing authority when applicable.

2.4. Modifications and Change Orders

a. If there is a change in the scope of a contract, or if any built-in/collateral equipment is to be modified or is different from that specified, a written change order must be properly authorized and signed by both parties. A fixed price contract cannot be modified just because the contractor's cost will exceed the estimate used to compute the price. The reason for each modification must be justified, and must be in the Government's best interest. Poorly documented modifications are indicative of ineffective controls and enable waste and fraud to occur.

b. An approved and documented contract modification must be used to change the scope of a contract. Each modification must be identified to a specific contractual specification, clause or provision, or by supplemental agreement by both parties.

2.4.1. Steps for Review of Contract Modifications

Remarks or  
W/P Reference

- a. Review the contracting officer's file to determine whether the modifications are identified to a contract specification or clause, are adequately justified, and in the Government's best interest.
- b. Verify the computation of any change in the contract price or payment terms.

2.5. Termination and Settlement. Construction contracts MUST contain dispute and termination clauses. Disputes can arise when, in the NAF manager's or contracting officer's opinion, the contractor's performance varies from the contract specifications. The contracting officer should attempt to resolve the dispute. Failing to do this, the contracting officer should decide the matter per the dispute and default clauses of the contract. The default clause may include a provision for liquidated damages. The person assigned should review the application of liquidated damages when a contractor defaults. Questions regarding the meanings or interpretation of the contract should be referred to legal counsel for opinion. Termination may be for the Government's convenience. The

termination procedures described in paragraph 706 of reference (g) are applicable.

2.5.1. Steps for Review of Invoked Termination and Settlement Clauses

Remarks or  
W/P Reference

- a. If the disputes and termination clauses were invoked, ascertain whether the procedures used conform to reference (g). If not, determine the reason.
- b. Verify any price adjustments or liquidated damages resulting from the change or termination of the contract. Identify and document the reasons for any differences

Section 3. Collateral Equipment/Property

3.1. Property Administration. Non-expendable property ordinarily retains its original identity, is not consumed, and has a life expectancy of more than 2 years. Furniture, fixtures, equipment and vehicles having a unit acquisition value of \$2,500 or more, and buildings and facilities construction costing \$2,500 or more shall be recorded on the activity's local property and depreciation records and in the general ledger, as specified in pages C-54 to C-65 of the Recreation and Mess Centralized Accounting System (RAMCAS) User Handbook. Additionally, renovation and construction projects funded from the MWR/Navy Exchange (NEX) Board Of Directors (BOD) Trust Fund or Navy MWR NAF Central Fund shall be recorded on the station's plant property account and depreciated per pages C-63 to C-65 of the RAMCAS User Handbook.

3.1.1. Steps for Review of Non-expendable Property Associated with Contract

Remarks or  
W/P Reference

- a. Verify the completed construction/collateral equipment to the property and depreciation records

2 Jun 2003

and general ledger.

- b. Ascertain that the asset is recorded as required by RAMCAS at its acquisition cost and accurately depreciated. Record any discrepancy and document the reason.
- c. For projects procured with Central NAF determine whether the procured equipment conforms with the collateral equipment list approved by NAVPERSCOM (PERS-65) and is located in the facility for which it was purchased.
- d. Verify whether expendable items purchased as part of each NAF facility project were charged to the proper expense or prepaid account.
- e. Verify central depreciation expense and accumulated depreciation is posted to the proper RAMCAS accounts where applicable.

**REFERENCES**

BUPERS RAMCAS USER HANDBOOK	Recreation and Mess Centralized Accounting System (RAMCAS) User Handbook
BUPERSINST 7043.1B	Procurement Policy for Bureau of Naval Personnel Nonappropriated Fund Activities
BUPERSINST 7510.1B	Local Fiscal Oversight and Review of Nonappropriated Fund Instrumentalities (NAFIs)
DOD 5500.7-R of Aug 93 (NOTAL)	Joint Ethics Regulation
Federal Acquisition Regulation (Part 36)	Construction and Architect-- Engineer Contracts
Federal Acquisition Regulation (Part 1, Subpart 1.6)	Career Development, Contracting Authority, and Responsibilities
GAO GOVERNMENT AUDITING STANDARDS	Standards of Audit of Governmental Organizations, Programs, Activities and Functions, by the Comptroller General of the United States
NAVFAC P-68 of Dec 00	NAVFAC Contracting Manual
NAVSO P-1000 Section III: (Paragraph 075530 General)	Financial Management Policy Manual
OPNAVINST 1700.7D	Responsibility for Morale, Welfare and Recreation (MWR) Programs in the Navy
OPNAVINST 5000.52A	Command Evaluation Program

**REFERENCES (CONTINUED)**

OPNAVINST 11000.8H	Self-Help Program in Support of The Navy Real Property Maintenance Program
SECNAVINST 5200.35D	Department of the Navy Management Control Program
SECNAVINST 7510.7E	Department of the Navy Internal Audit

**STANDARDS OF CONDUCT  
AND GOVERNMENT ETHICS**

**SAMPLE STATEMENT OF COMPLIANCE**

MEMORANDUM FOR \_\_\_\_\_

Subj: STANDARDS OF CONDUCT FOR DEPARTMENT OF THE NAVY PERSONNEL

Ref: (a) DOD 5500.7-R  
(b) BUPERSINST 7510.2A

1. To maintain public confidence in the integrity of the Department of the Navy, which is essential to the performance of its mission, I have reviewed reference (a) and am aware of the following standards of conduct:

a. I will avoid any action, whether or not specifically prohibited, which might result in or reasonably be expected to create the appearance of

- (1) using public office for private gain.
- (2) giving preferential treatment to any person or entity.
- (3) impeding Government efficiency or economy.
- (4) losing complete independence or impartiality.
- (5) making a Government decision outside official channels.
- (6) adversely affecting the confidence of the public in the integrity of the Government.

b. I am aware of the requirement to not engage in any activity or acquire or retain any financial interest, which would result in a conflict between my private interest and the public interest of the United States related to my duties.

c. I will not engage in any activity that might result in or reasonably be expected to create the appearance of a conflict of interest.

d. I am aware of the following prohibitions against

2 Jun 2003

(1) accepting gifts from prohibited sources.\*

(2) using my official position to influence any person to provide any private benefit.

(3) using inside information to further a private gain.

(4) using my rank, title, or position for commercial purposes.

(5) using outside employment or participation in any activity that is incompatible with my duties or may bring discredit to the Navy.

(6) taking or using Government property or services for other than officially approved purposes.

(7) giving gifts to my superiors or accepting them from my subordinates.\*

(8) conducting official business with persons whose participation in the transaction would be in violation of law.

\*Consult reference (b), paragraph 5e for situations considered falling outside this rule.

I attest, by my signature, that I will bring any questionable future decisions or actions that may place me in violation of the provisions of reference (a) to the attention of the proper legal authority or ethics counselor for prior review and proper disposition.

(Signed)  
(Position Title)

Copy to:  
(Appropriate Supervisor)