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Report to Secretary, Department of Agriculture; by Henry Eschwege, Director, Community and Economic Development Div.

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The Department of Agriculture's (USDA's) audit requirements have increased sharply in recent years without a corresponding increase in the internal audit staff. To provide increased audit coverage and to make more effective use of available resources, the Office of Audit (OA) has: emphasized the use of advanced audit techniques, such as statistical sampling and computer packages; increased use of coordinated and program-type audits; attempted to increase the quantity and quality of State audits of USDA programs; and undertaken various management improvement projects intended to increase the efficiency and effectiveness of OA audit operations.

Findings/Conclusions: The number of staff-years initially programmed for internal audit in 1977 (379) was about the same as in 1962 (384) when the audit function was first centralized. OA has been able to provide improved audit coverage, but the size and complexity of the USDA programs have increased so greatly that a number of areas do not receive enough audit coverage. The main shortfall in coverage is in USDA programs administered by State and local governments and educational institutions. Overall, OA audit reports are accurate, fair, and objective; they include all significant deficiencies detected during the audit; and they give adequate consideration to auditor comments. However, management of audits and the timeliness and clarity of reports on major audits could be improved. OA has recognized the need to improve workpaper techniques, cross-referencing of reports to supporting workpapers, and the timeliness and clarity of reports. Recommendations: The Secretary of Agriculture should require the Director of OA to: further increase the use of program audits while continuing to perform a reasonable level of cycle coordinated audits and maintain adequate staff to perform and implement management improvement projects promptly and work with other agencies to increase the number and quality of audits of Department programs by external audit groups. The Director of the Office of Audit should: complete the audit universe by adding requirements for contract audits and complete arrangements to coordinate requirements and plans for audits of

State welfare department indirect expense account reimbursements. He should also: take appropriate actions to insure that regional officers' report followup and closeout procedures are consistent and adequate, establish a system for periodic reports to OA on the status of open recommendations, and consider establishing an Office-wide system to identify the more important recommendations for priority consideration. (RRS)

5343



*UNITED STATES  
GENERAL ACCOUNTING OFFICE*

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## **Opportunities For Improving Internal Auditing In The Department Of Agriculture**

Agriculture's Office of Audit has, for the most part, performed its audit activities satisfactorily. Audit requirements have increased sharply in recent years, however, without a corresponding increase in audit staff. Programs administered by State and local governments and educational institutions have not received enough audit coverage, including coverage by the States and other Federal agencies. Lack of staff has caused the Office of Audit to curtail audits of certain Department-administered programs.

The Office of Audit has emphasized using advanced audit techniques to accomplish more and better audit coverage with existing staff and has tried, with only limited success until recently, to obtain additional staff. It has also undertaken several management improvement projects, although the lack of staff has delayed completion of some of these.

The Office of Audit has initiated actions to improve audit planning, preparation of workpapers, cross-referencing, report writing, and following up on open audit recommendations. GAO is recommending some additional actions.

**FEBRUARY 9, 1978**



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

B-160759

The Honorable  
The Secretary of Agriculture

Dear Mr. Secretary:

This report discusses the Department's internal auditing system and suggests ways to improve audit coverage, performance, reporting, and followup.

The selection of GAO's audit efforts is determined largely by the effectiveness of the audit organizations within the Federal departments and agencies. This review was made to determine the extent to which the Department's internal audit system can be relied on and to identify areas where the system can be strengthened.

We discussed the report with Department officials and have incorporated their comments.

This report contains recommendations to you on pages 26, 32, 39, and 46. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Acting Director, Office of Management and Budget; the Chairmen, House Committees on Government Operations and Appropriations; the Chairmen, Senate Committees on Governmental Affairs and Appropriations; other committees; and Members of Congress. We are also sending copies to your Inspector General and the Director, Office of Audit.

Sincerely yours,

A handwritten signature in cursive script that reads "Henry Eschwege".

Henry Eschwege  
Director

GENERAL ACCOUNTING OFFICE  
REPORT TO  
THE SECRETARY OF AGRICULTURE

OPPORTUNITIES FOR IMPROVING  
INTERNAL AUDITING IN THE  
DEPARTMENT OF AGRICULTURE

D I G E S T

From 1962 to 1975 the Department of Agriculture's budget doubled from \$6.3 billion to \$12.8 billion. Much of the growth was in food assistance programs. These programs are administered by State and local governments with varying organizational structures, systems, and procedures. Some of these programs are also more susceptible to fraud, embezzlement, and manipulation than most Department-administered programs.

In spite of these changes, the number of direct internal audit staff-years programmed in fiscal year 1977 was practically the same as in 1962--379 versus 384.

AUDIT COVERAGE

To provide increased audit coverage and make more effective use of available resources, the Department's Office of Audit has

- emphasized the use of advanced audit techniques,
- increased the use of coordinated and program-type audits (these are defined on p. 3),
- attempted to increase the quantity and quality of State audits of Department programs, and
- undertaken various management improvement projects intended to increase the efficiency and effectiveness of its audit operations.

These efforts have met with varying degrees of success, but more needs to be done before the Department's total audit requirements are met. (See ch. 2.)

A large part of the present shortfall in audit coverage involves programs administered by State and local governments and educational institutions. Much of this shortfall would be eliminated if State and local governments

were to make those audits now required by Federal regulations and if other Federal agencies were to provide adequate audit coverage of those Department activities for which they have cognizance under existing cross-servicing arrangements. (See pp. 7 to 15.)

Although the use of advanced audit techniques and more broad-scope audits has enabled the Office of Audit to provide improved coverage, its efforts to further expand audit coverage of Department programs have been hindered. Efforts to increase program audits and to carry out management improvement projects have been restricted by staffing constraints. Attempts to get more auditors have, until recently, met with only limited success. Attempts to increase the quantity and quality of audits by external audit groups have, for the most part, been unsuccessful. (See pp. 16 to 25.)

The Secretary of Agriculture should require the Director, Office of Audit, to:

- Further increase the use of program audits while continuing to perform a reasonable level of cycle-coordinated audits.
- Maintain adequate staff in Office of Audit headquarters to (1) perform and implement management improvement projects promptly and (2) continue to work with Department agencies, the Office of Management and Budget, the States, and other appropriate groups to increase the number and quality of audits of Department programs by external audit groups. (See p. 26.)

#### PLANNING AND COORDINATION

The Office of Audit was using new procedures to develop its fiscal year 1978 audit plan. If carried out properly, these procedures would correct all but one of the deficiencies GAO noted in prior plans--the audit universe did not include requirements for audits of contracts. (See pp. 27 to 29.) The Office of Audit has begun determining such requirements. (See p. 24.)

The Office of Audit's coordination with other review and audit groups has been adequate, except that better coordination was needed with the Department of Health, Education, and Welfare on audits of State welfare department indirect expense account reimbursements. The Office of Audit initiated discussions with the Department of Health, Education, and Welfare on this matter, but, as of December 1977, coordination arrangements had not been completed. (See pp. 29 to 32.)

The Secretary of Agriculture should require the Director, Office of Audit, to (1) complete the audit universe by adding requirements for contract audits and (2) complete arrangements with the Department of Health, Education, and Welfare to coordinate requirements and plans for audits of State welfare department indirect expense account reimbursements. (See p. 32.)

#### MAKING AND REPORTING ON AUDITS

Overall, internal audit reports were accurate, fair, and objective; included all significant deficiencies detected during the audit; and gave adequate consideration to auditee comments. However, the timeliness and clarity of reports on major audits could be improved. Also, in some cases, workpapers were inadequate, reports were not adequately cross-referenced to the workpapers, supervisory reviews were inadequate and/or not documented, and delays in completing audits were not adequately explained. (See pp. 33 to 36.)

The Office of Audit acted to correct some of these deficiencies before GAO completed its review. In addition, the Office has a program of regional office performance evaluations planned. (See pp. 23, 24, 38, and 39.)

The Secretary of Agriculture should require the Director, Office of Audit, to (1) implement the planned regional office performance evaluations to identify those procedures and practices that do not meet Office of Audit standards and to assess the effectiveness of the changes being made to improve the quality and timeliness of audit reports and (2) follow up aggressively on those matters needing improvement. (See p. 39.)

## FOLLOWUP ON AUDIT RECOMMENDATIONS

Department directives do not require periodic reports to management on the status of open audit recommendations, although this is required by Federal Management Circular 73-2. Office of Audit regional offices have also been inconsistent in closing recommendations involving claims and referring problem cases to Office of Audit headquarters for followup with higher agency management levels.

Because of the large number of recommendations made each year and the limited time available to the internal audit staff, the Office of Audit, in some cases, had not adequately followed up to make sure that corrective actions were being taken as promised. In other cases, subsequent audits revealed that the deficiencies had not been corrected as promised or that corrective actions had been limited to correcting the examples cited rather than the underlying causes. (See pp. 41 to 45.)

The Secretary of Agriculture should require the Director, Office of Audit, to:

- Take appropriate actions, including more detailed instructions if needed, to insure that the regional offices' report followup and closeout procedures and practices are consistent and adequate.
- Establish a system for periodic reports to Office of Audit and agency headquarters officials on the status of open recommendations.
- Consider establishing an Office-wide system for identifying the more important recommendations for priority consideration during subsequent audits.

The Secretary should also remind agency administrators and office heads of the importance of timely and adequate responses to audit reports. (See p. 46.)

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ABBREVIATIONS

AMS	Agricultural Marketing Service
ARS	Agricultural Research Service
ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
CSRS	Cooperative State Research Service
DCAA	Defense Contract Audit Agency
FAS	Foreign Agricultural Service
FCIC	Federal Crop Insurance Corporation
FMC	Federal Management Circular
FmHA	Farmers Home Administration
FNS	Food and Nutrition Service
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
JFMIP	Office of the Joint Financial Management Improvement Program
OA	Office of Audit

ABBREVIATIONS (Cont.)

OI	Office of Investigation
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMF	Office of Management and Finance
SCS	Soil Conservation Service
USDA	U.S. Department of Agriculture

## CHAPTER 1

### INTRODUCTION

The U.S. Department of Agriculture (USDA) consists of more than 20 constituent agencies and offices. It employs more than 80,000 persons to administer some 300 programs, which cost the taxpayers about \$13 billion each year. USDA's programs include such diverse functions as food assistance, research, education, conservation, marketing, regulatory work, agricultural adjustment, surplus disposal, forestry, and rural development. An organizational chart of USDA is included as appendix I.

### AUDITING AT USDA

USDA's Office of Audit (OA) is responsible for audits of USDA programs and activities. As the head of OA, the Director is responsible for directing and controlling audit activities by and for USDA, including (1) formulating audit policies, programs, plans, and procedures within USDA and (2) setting standards for, approving the use of, and entering into agreements with organizations outside USDA for audit services relating to USDA programs. He also coordinates with appropriate departmental agency officials in carrying out his responsibilities of:

- Determining the need for and scheduling audits.
- Performing the scheduled audits and those additional inquiries as are (1) requested by the Office of the Secretary, (2) requested by USDA agencies or offices, and (3) determined by the Director to be necessary.
- Reporting facts and conditions disclosed by audit, together with appropriate recommendations, to management.
- Serving as liaison official for USDA on audit matters.
- Determining that USDA offices and agencies have reviewed and acted on information furnished by OA.
- Determining and approving the use which may be made of non-Federal personnel in the audit of USDA activities.

### Organization

At the time of our review, OA had a headquarters office in Washington, D.C., and six regional offices: the Northeast Region, Hyattsville, Maryland; Southeast Region, Atlanta, Georgia; Midwest Region, Chicago, Illinois; Southwest Region, Temple, Texas; Great Plains Region, Kansas City, Missouri;

and Western Region, San Francisco, California. The regions have 21 suboffices and a residency office located in USDA's downtown complex in Washington, D.C.

There are five divisions within the headquarters operations unit in Washington: Marketing and Consumer Services; International Affairs and Commodity Programs; Conservation, Research, Education, and Agricultural Economics; Rural Development; and Financial Management and Automated Systems. The divisions, each headed by a division director who reports to the Assistant Director, Operations, have small staffs ranging in size from five to eight employees. The divisions' primary concern is determining agency audit needs and including such needs in OA planning and programing. They also monitor ongoing audits and provide technical audit counsel to OA regional personnel in their specialized areas.

The Financial Management and Automated Systems Division is responsible for audit work throughout USDA related to the centralized accounting system and automated data processing systems and operations. The Division also directs the development of advanced audit techniques, such as those using computers, scientific sampling, and economic analysis.

The other four operating divisions are essentially assigned the same agencies as the respective Assistant Secretaries. They maintain liaison with the Assistant Secretaries and their staffs; with their counterparts on USDA's planning, evaluation, and operations review staffs; and with officials in their assigned agencies.

Three other headquarters divisions--Policy and Procedures, Quality Control and Liaison, and Resource Development and Application--are each headed by a division director, who reports to the Assistant Director, Policy and Resources. They are responsible for all nonoperational functions, including overall office policies, audit planning and programing, staff management, coordination with our Office, internal OA reviews, maintaining computerized information systems, handling requirements under the Freedom of Information Act, and OA administrative services.

Each OA regional office is headed by a regional director who operates with considerable delegated authority. The directors and their staffs hire and train personnel, schedule individual audits, supervise audit work, write and distribute reports, and follow up on actions taken on reports. The regional directors also handle liaison with USDA field offices in their region and with State and local government agencies that administer USDA programs. An organization chart of OA is included as appendix II.

## Staffing and costs

As of July 30, 1977, OA had 522 employees, including 62 at headquarters and 460 in the field. A breakdown of the total by category showed 400 auditors, 32 management employees, and 90 administrative and clerical employees.

OA's budget for fiscal year 1977 was over \$16 million (about one-eighth of 1 percent of USDA's budget). In addition, OA receives a relatively small amount of funds on a reimbursable basis from Agricultural Marketing Service (AMS) trust funds and from the Commodity Credit Corporation (CCC).

## Audit types

OA categorizes most of the audits it performs for USDA agencies as program, cycle, coordinated, and special audits.

1. Program audits are comprehensive reviews of a single program or a designated part of a program, function, or activity. They may review operations vertically (top to bottom) or laterally (several entities of a comparable level).

2. Cycle audits are audits of specifically designated organizational entities, programs, activities, or functions that are planned for or performed on a recurring basis. Most cycle audits are included in coordinated audits.

3. Coordinated audits are multilevel cycle audits to evaluate overall operations within an agency unit or field installation by coordinating audits at the major offices (for example, State or regional) with audits at the lower entities (for example, counties or projects) to determine the effectiveness of program management of the senior and subordinate levels. Coordinating the reviews at the two levels helps to identify the management level responsible for any weaknesses and permits evaluation of the management and supervisory guidance given lower entities by the major entity.

4. Special audits can be any type audit, and the term is frequently used to emphasize their significance because of Secretarial or other high-level interest or because they involve an extremely sensitive area.

Audits of USDA grants to educational institutions, contracts, and cooperative agreements are generally made by other Federal audit agencies in accordance with existing cross-servicing arrangements. OA monitors the activities of these audit agencies and reviews their reports for responsiveness to USDA needs.

## Reports issued

For fiscal year 1976, OA issued more than 2,200 audit reports. Of these,

--95 included results of program audits,

--1,865 covered repetitive audits of organizational entities (coordinated and other cycle audits), and

--275 represented special audits.

## Organizational placement

In 1962 the audit and investigative activities of various USDA agencies were consolidated within a new Office of Inspector General (OIG). As head of OIG, the Inspector General reported directly to the Secretary of Agriculture.

On January 9, 1974, the Secretary issued Secretary's Memorandum No. 1836 which abolished OIG and transferred the audit function to OA, a new staff office placed under the Assistant Secretary for Administration. The memorandum also moved the investigative function to a new Office of Investigation (OI) which was placed in the Office of the Secretary.

On March 23, 1977, the current Secretary issued Secretary's Memorandum No. 1915, which reestablished OIG and transferred to the Inspector General (1) all functions and responsibilities relating to audit activities which had been delegated to the Assistant Secretary for Administration and redelegated to the OA Director and (2) all functions and responsibilities which had been delegated to the OI Director. On October 5, 1977, the position of Inspector General was filled. As of December 31, 1977, reorganization plans had been drafted, but the reorganization had not been completed.

Also, at the time of our review, there was a bill before the Congress (H.R. 8588, amended) to establish statutory offices of Inspector General in 12 Federal departments and agencies, including USDA. The bill was reported to the full House by the House Committee on Government Operations on August 5, 1977. (H. Rept. 95-584, 95th Cong., 1st sess.)

## SCOPE OF REVIEW

We made our review at USDA headquarters in Washington, D.C., and at OA's regional offices in Hyattsville, Maryland; San Francisco, California; and Atlanta, Georgia.

We reviewed OA's organization, operations, and audit activities in relation to the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" and the requirements of Federal Management Circular (FMC) 73-2, "Audit of Federal Operations and Programs by Executive Branch Agencies." We reviewed audit guidelines, workpapers, audit reports, memorandums, and consultants' reports and interviewed members of the OA headquarters directorate, three regional directors, and other members of their staffs to obtain information on their audit responsibilities and activities. We also interviewed officials of (1) OI and the Office of Management and Finance (OMF) 1/ with regard to certain functions they performed that served to complement audits made by OA and (2) selected USDA agencies.

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1/In May 1977 OMF was abolished and its functions transferred to two new offices. Those functions discussed in this report were placed in the Office of Budget, Planning, and Evaluation.

## CHAPTER 2

### NEED TO EXPAND AUDIT COVERAGE OF DEPARTMENT OF AGRICULTURE PROGRAMS

USDA's audit requirements have increased sharply in recent years without a corresponding increase in the internal audit staff. To provide increased audit coverage and make more effective use of available resources, the Office of Audit has (1) emphasized the use of advanced audit techniques, such as statistical sampling and computer packages, (2) increased the use of coordinated and program-type audits, (3) attempted to increase the quantity and quality of State audits of USDA programs, and (4) undertaken various management improvement projects intended to increase the efficiency and effectiveness of OA audit operations. These efforts have met with varying degrees of success, but more needs to be done before USDA's total audit requirements are met.

A major part of the present shortfall in audit coverage involves those programs administered by non-USDA entities, such as State and local governments and educational institutions. Much of this shortfall would be eliminated if State and local governments were to make those audits now required by Federal regulations and if other Federal agencies were to provide adequate audit coverage of the USDA activities for which they have cognizance under existing cross-servicing arrangements.

Audits of certain smaller or older, more stable USDA-managed programs have also been cut back, canceled, or postponed because of a lack of resources.

### AUDIT REQUIREMENTS HAVE INCREASED WHILE STAFFING HAS NOT KEPT PACE

When the audit function was first centralized at the departmental level in 1962, 384 direct audit staff-years were budgeted. For fiscal year 1977, OA initially programmed 379 staff-years but only 349 staff-years were applied. In the interim, USDA expenditures more than doubled, from \$6.3 billion in 1962 to \$12.8 billion in 1976.

Much of the growth in USDA's budget has been in food assistance programs; for example, the food stamp program has grown from a \$30 million pilot project to a nationwide program costing about \$5 billion, and the school lunch and special milk programs--then costing \$200 million--are now part of the child nutrition programs which cost over \$2.8 billion. Some of these programs are more susceptible to fraud, embezzlement, and manipulation than most USDA programs and

are administered by State and local governments with organizational structures, systems, and procedures which are extremely varied.

In spite of this growth in the size and complexity of USDA programs, direct audit time, as shown in the following table, declined from 1972 until 1977 when staff was hired to fill (1) headquarters positions which had been authorized but not filled in the past and (2) 24 additional positions authorized for fiscal year 1977.

<u>Fiscal year</u>	<u>Direct audit time applied (staff-years)</u>
1972	393
1973	352
1974	343
1975	336
1976	330
1977	349

According to OA's Director, the major farm subsidy programs, which had provided the major opportunity for fraud and manipulation through the 1960s, were practically eliminated during the above period. He said that OA had reallocated its resources to the food programs and provided reasonable, if not desired, coverage. He added, however, that recent food program additions had stretched that coverage even more and that, with the major increases in the farm support programs imminent, OA's resources for fiscal year 1978 may not be sufficient to provide reasonable assurance of integrity throughout USDA's many sensitive activities.

#### PROBLEMS IN OBTAINING ADEQUATE EXTERNAL AUDITS

Obtaining adequate audits of USDA grants, contracts, and agreements with State and local governments and educational institutions has been a problem for many years. It is a complex problem involving direction from the Office of Management and Budget (OMB), coordination among executive departments and agencies, and Federal relationships with the State and local governments and educational institutions. It also involves trying to reach agreement on audit concepts, standards, and performance; workload planning and financing; and audit professionalism.

The importance of improving interagency cooperation on audits, increased Federal coordination with State and local auditors, and increased reliance on audits made by others was stressed in the President's September 9, 1977, memorandum to department and agency heads. In the past,

OMB has issued several directives to try to standardize the administration and audit of Federal grants and contracts. The concepts and principles of standardization are hard to dispute, considering the conservation of manpower, the efficiency of grant administration and audit operations, and the impact on the grantees. OA has encountered considerable problems, however, in trying to carry out the intent of OMB's directives.

Programs administered by State and local governments have not received enough audit coverage

State and local governments administer a number of programs which receive USDA financing. These include food stamps, child nutrition, meat and poultry inspection, and State and private forestry. The largest of these, the food stamp and child nutrition programs, accounted for 57 percent of USDA's budget in fiscal year 1977. The food stamp program involves over 3,000 project offices and in 1977 received USDA funds totaling nearly \$4.9 billion. The child nutrition programs involve about 25,000 school districts and in 1977 received over \$2.8 billion in USDA funds.

These programs need particularly close audit attention because of their large budgets; the number of entities involved; their susceptibility to fraud, embezzlement, and manipulation; and the intense interest of outside parties, including the Congress. However, neither OA nor the States have been able to provide the audit coverage required.

State and local governments' audits have not fulfilled USDA audit requirements

According to attachment G, paragraph h, of OMB Circular No. A-102, Revised, dated August 24, 1977 (formerly Federal Management Circular 74-7, dated September 13, 1974), grantee financial management systems are to provide for examinations, in the form of audits or internal audits of grant-supported activities of State and local governments. These examinations, to be made by qualified individuals, are intended to ascertain the effectiveness of the financial management systems and internal procedures that have been established to meet grant terms and conditions.

Generally, the examinations are to be made on an organizationwide basis to test the fiscal integrity of financial transactions and compliance with the terms and conditions of the Federal grants. It is not intended that each grant be examined; however, an appropriate sampling of Federal grants would be included in the tests. The examinations

are to be made with reasonable frequency, on a continuing basis or at scheduled intervals, usually annually, but not less frequently than once every 2 years, considering the nature, size, and complexity of the activity.

There are other more specific requirements for State audits of USDA programs. Food stamp regulations (7 CFR 275.8), dated December 1974, provide for State audits of program administrative costs every 2 years; child nutrition program regulations (7 CFR 210.17), dated July 1975, provide that States were to be in full compliance with FMC 74-7 (now OMB Circular No. A-102) audit requirements by the beginning of fiscal year 1978; and agreements of the cooperative Federal-State meat and poultry inspection program require State audits annually or as State laws or regulations require.

Although State audit coverage of State-administered USDA programs differs greatly from State to State, overall only small portions of the programs have been given audit coverage of the type and quality needed to fulfill even a part of USDA's audit requirements. OA said that it had been able, for example, to use State audits of the food stamp programs in North Dakota, Tennessee, and Wyoming 1/ and the national school lunch program in New York to reduce its audit coverage of those programs. More typical, however, are the situations that we and OA found in recent audits.

--In 1976 we undertook a survey of State and local governments' audits of USDA programs. The purpose was to issue a supplement to our audit standards 2/ on the subject of Federal auditors' use of State and local government audits. The survey was terminated, however, because we found that benefits from the non-Federal audits had been limited and had had little impact on OA's audit work.

--In our August 1976 report, "Selected Aspects of the Administration of the Meat and Poultry Inspection Program" (CED-76-140, Aug. 25, 1976), we concluded that USDA's Animal and Plant Health Inspection Service's efforts to have the States make audits--in accordance with program agreements--had, for the most part, been unsuccessful.

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1/In June 1977 OA learned that Wyoming had discontinued its audits of the food stamp program.

2/"Standards For Audit Of Governmental Organizations, Programs, Activities and Functions" by the Comptroller General of the United States, 1972.

--A May 1977 OA audit report on food stamp program administrative costs (60305-1-Ch, May 5, 1977) said that, of 18 States reviewed, 10 were not auditing, nor were they planning to audit, administrative expenditures claimed for reimbursement, although this is required by Federal regulations. 1/

According to OA, the greatest problem in getting State and local governments to make more and better audits is funding. Although audit costs incurred by State and local governments are eligible for reimbursement, there are various limitations on the amounts reimbursable. USDA reimburses 50 percent of the cost of State audits of the meat and poultry inspection program and food stamp program administrative costs. On other USDA programs, such as the child nutrition programs, audit costs are considered administrative cost and, as such, are eligible for full reimbursement.

There are limitations on the total amount of administrative costs which can be reimbursed, however, and OA said that program officials preferred to use available funds for program operations and administrative activities other than audit. Therefore, these reimbursement provisions have not been a sufficient incentive to get the State and local governments to increase their audit effort appreciably.

OA has tried to obtain funds specifically for State audits but has been unsuccessful. For example, in its fiscal year 1975 appropriations request, USDA asked for \$1 million for OA to use to contract with States for audits of Food and Nutrition Service (FNS) programs, primarily the food stamp and child nutrition programs. The Senate approved the request but the House did not.

Reimbursing State and local governments for audits of federally assisted programs is a problem which is not unique to USDA programs. We have issued other reports which discuss this matter as it relates to other departments and agencies, including "Problems in Reimbursing State Auditors for Audits of Federally Assisted Programs" (FGMSD-75-22, June 25, 1975) and "An Overview of Federal Internal Audit" (FGMSD-76-50, Nov. 29, 1976).

The Treasury Department, the Office of Joint Financial Management Improvement Program (JFMIP), and the Intergovernmental Audit Forums have also identified this matter as a major impediment to implementing an efficient coordinated intergovernmental audit system.

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1/This report did not comment on the extent or adequacy of any audits which the remaining eight States may have done.

- A Treasury report released in 1976 cited difficulties in reimbursing State auditors as a reason State auditors give for not performing audits for Federal agencies. The report recommended assuring automatic and expeditious reimbursement to State auditors for conducting Federal assistance program audits.
- An April 1977 JFMIP report, on its survey of current practices and problems in auditing federally assisted programs administered by State and local governments, identified "mechanisms for reimbursement of State and local auditors" as one of seven areas to be covered in a subsequent more-indepth study.
- The report of the January 1976 joint conference of the Intergovernmental Audit Forums said that there was a need (1) to insure that funds will be available to State and local audit organizations for additional work done on federally assisted programs and (2) for changes at the State and local level which will enable State and local auditors to receive and use the funds.

The total cost of funding the required State audits on USDA programs would be considerable. For the child nutrition programs alone, OA estimates that it would require 400-plus staff-years and cost \$18 million to \$20 million annually to perform those audits required by program regulations and OMB Circular No. A-102. In response to FNS questionnaires, the States estimated that it would take at least 463 auditors and \$7 million to fund this same audit requirement. The OA estimate was calculated using a \$200-a-day rate, which OA officials said was equivalent to what the total cost would be for OA or independent public accountants. The States' estimates, which equate to about \$75 a day, were based on the use of State auditors but excluded such high cost items as travel, per diem, training, and certain administrative support items.

While funding is a major problem, there are others. A USDA "Nutrition Program Staff Study," mandated by Public Law 94-105 and submitted to the Congress on April 25, 1977, reported that some States had not always been able to hire audit staff even when funds to do so had been provided from Federal sources. According to the study, most of these States were involved in hiring freezes or had personnel ceilings, while some States would not allow employees to be hired unless funds were in hand to pay for them for a specific length of time.

Several States which were auditing USDA programs discontinued such audits, apparently due to changes in State officials (in some States the State auditor is an elective

position). A few Federal officials also question whether they can rely on State and local audit organizations to be wholly independent--to report on overpayments and claims which would result in refunds to the Federal agency. Other problems include the need for and cost of training State and local auditors (or independent public accountants where they would be used to perform these audits); determining the adequacy of the audits performed (i.e., whether they meet our standards); and establishing effective systems for liaison between Federal, State, and local audit organizations (as it would still be necessary for OA to perform broad-scope, particularly program results-type, audits).

Level of OA audit coverage has been less than considered desirable

According to OA's fiscal year 1977 annual audit program, its yearly planning document, audits of State-administered USDA programs were to account for 152 staff-years, or 40 percent of OA's total planned fiscal year 1977 staff-years. This included 109 for the food stamp program, 37 for the child nutrition and special supplemental food programs, and 6 for the meat and poultry inspection program. However, this was still far less than some internal estimates of the audit requirements of these programs. For example:

--In an earlier planning document, the program and financial plan for fiscal year 1977-81, OA had proposed an increase of 94 direct staff-years for the food stamp and child nutrition programs for fiscal year 1977. The food stamp program was to be increased by 61 staff-years (from 70 to 131) and the child nutrition programs by 33 (from 37 to 70). In its fiscal year 1977 appropriations request, USDA reduced OA's request to 40 staff-years, all for the food stamp program. The Congress approved funding for the 40 staff-years but, in allocating its overall personnel ceiling for 1977, USDA allowed OA only 24 additional positions: 20 for food stamp audits and 4 for audits of the new Federal Grain Inspection Service.

--A May 1977 internal OA survey of optimum staffing requirements, assuming budget limitations were not to be considered, also indicated that coverage of the food stamp and child nutrition programs could be greatly increased.

Shortfall in audit coverage of the food stamp program has occurred at all organizational levels. Before developing its fiscal year 1977 annual audit program, OA had planned to make (1) annual audits of the 6 FNS regional offices, the 8 largest project offices, and each State and territory agency

office (along with sampling 687 small- and medium-size project offices) and (2) biennial audits of 200 large project offices. Because of manpower constraints, however, the number of entities covered and total staff-days allotted were reduced in the annual program. Also, the programed amounts were further reduced, as shown below, because of unscheduled and special audit work in other FNS areas.

	<u>Entities</u>		<u>Staff-days</u>	
	<u>Programed</u>	<u>Actual</u>	<u>Programed</u>	<u>Actual</u>
Regional offices	6	1	570	151
Largest project offices	7	1)		
Large project offices	63	51)	6,163	5,517
Coordinated audits:				
State and territory agencies	58	29	3,634	4,877
Small- and medium-size project offices	<u>600</u>	<u>326</u>	<u>11,277</u>	<u>6,819</u>
Total	<u>734</u>	<u>408</u>	<u>21,644</u>	<u>17,364</u>

Audits of contracts with or grants to educational institutions have been unsatisfactory

FMC 73-6, "Coordinating Indirect Cost Rates and Audit at Educational Institutions," dated December 19, 1973, directs that a single Federal agency, usually either the Department of Health, Education, and Welfare (HEW) or the Defense Contract Audit Agency (DCAA), be responsible for auditing all Federal contract and grant funds at a single institution. This is intended to promote a coordinated Federal approach in these areas and to achieve more efficient use of manpower.

In calendar year 1976, USDA received 50 cognizant-agency reports on audits which included USDA programs. The USDA agencies whose programs were audited, however, considered the reports to be unsatisfactory and of little value. They have been pressing OA for more indepth and more frequent audits.

Cognizant-agency audits have not met USDA needs

USDA agencies, such as FNS, Forest Service, Agricultural Research Service (ARS), Soil Conservation Service (SCS), Farmer Cooperative Service, and Farmers Home Administration (FmHA), may have contracts with any of the more than 1,800 educational institutions covered under the cognizant-agency concept. However, the preponderance of USDA grants to educational institutions are made to 64 "1862 Land Grant

Institutions" and 17 "1890 Land Grant Institutions" by the Cooperative State Research Service (CSRS) and the Extension Service. In fiscal year 1977, CSRS grants amounted to about \$116 million and Extension Service grants to \$235 million.

HEW has cognizant-agency responsibility at 73 of the 81 land grant institutions; DCAA is responsible for the rest, but the trend is toward HEW's assuming those now handled by DCAA. Because of its limited resources and the size, number, and variety of grants involved, HEW audits direct costs on a sample basis--and then only at the larger institutions. This type of audit provides principally an opinion of the financial system and its implementation and provides specifics only on those grants falling within the sample. These audits do not generally cover compliance with laws, regulations, and agency procedures or provide enough specifics so that the USDA agencies can lodge claims against the institutions in those cases where they use USDA funds improperly.

Because the cognizant-agency reports seldom identify the agencies or specific funds involved for each agency, OA has had considerable difficulty in merely distributing the cognizant-agency reports to appropriate USDA agencies. In some cases, it has taken OA up to 12 months to obtain from HEW, or other sources, the identities of the agencies to which a report pertains.

In January 1976 the Extension Service sent OA a memorandum complaining that its programs in 34 States had not been audited for 4 or more years--for 3 of these it had been 9 years; for 6, 8 years; for 4, 7 years; and for 12, 6 years.

#### OA efforts to provide more coverage

HEW, the cognizant agency for the 1890 Land Grant Institutions, has not audited them because of insufficient resources. OA has been auditing the CSRS and Extension Service programs at these institutions at the request of the USDA agencies and with the concurrence of HEW. (OA has not audited the management of the financial systems at these institutions, however.)

For more than a year, OA has been reviewing the problems associated with cognizant-agency audits and has discussed these with HEW. According to OA, HEW has indicated a willingness to make more-indepth audits or do specific work on USDA grants, but it does not expect to get any increase in financing or personnel. Therefore, any increased coverage in one area would be at the expense of another and the cycle for a given institution could get even longer. HEW also indicated a willingness to explore the possibility of OA's assuming cognizance at some or all of the land grant institutions.

At the time of our review, OA had decided to undertake cognizant-agency-type audits at two 1890 Land Grant Institutions so that it could get a better understanding of what can/cannot be expected from other Federal agencies' audits under the cognizant-agency concept. After evaluating these audits, OA is to decide what suggestions it can make to resolve the problems of and improve the current system.

OA recently estimated that, to provide CSRS and the Extension Service with the type and frequency of audits they desire, OA and/or the cognizant agency would need to expend an additional 13.5 staff-years annually.

#### INTERNAL AUDIT COVERAGE OF SOME PROGRAMS AND AGENCIES HAS BEEN LIMITED

To meet the internal audit needs of the expanding, and highly controversial, externally administered food assistance programs, OA has found it necessary to divert audit resources from USDA-administered programs, particularly the older, more stable programs and the programs of the smaller agencies and staff offices. Although it is difficult to precisely determine the additional staffing needed to provide adequate internal audit coverage to these USDA-administered programs, recent OA efforts to identify total USDA-wide requirements have provided a fuller picture as to areas which have not received adequate coverage in the past.

In a 1976 audit workload inventory, OA stated that, because of a lack of manpower, entities considered appropriate for cycle/coordinated audit coverage (such as Rural Electrification Administration program area offices and ARS offices and research locations) were not being audited on a cycle basis. It also indicated that smaller agencies and staff offices (such as Economic Research Service, Packers and Stockyards Administration, Farmer Cooperative Service, and National Agricultural Library) were not being audited. Some of these agencies and offices had been scheduled for audit but were continually rescheduled for future years because of special request audits or high-priority work in other areas. OA also indicated that cost-reimbursement-type contracts were being audited only when the applicable agency determined the need and either made its own audit or obtained the audit from another Federal agency.

In 1976 and 1977 an OA/USDA task force undertook a study, one purpose of which was to ascertain the total audit and agency review requirements within USDA. As part of that study, the individual agencies and offices were asked to comment on the adequacy of audit coverage OA was providing. Persons from six agencies and staff offices--FNS, FmHA,

Foreign Agricultural Service (FAS), Federal Crop Insurance Corporation (FCIC), Office of Operations, and Office of Personnel--cited the need for more or improved audit coverage.

For example, FAS desired more OA audits of foreign market development cooperatives; FNS was concerned that the number of food distribution program audits had dropped steeply in the past 3 fiscal years even though the program level had remained fairly constant and that some food distribution programs, such as supplemental foods and title VII nutrition programs for the elderly and institutions, had been receiving no coverage; and the Office of Operations pointed out that it would like more OA audits in the general areas of procurement, facilities management, transportation/supply management, and grants and agreements.

In February 1977 OA furnished USDA's Office of Management and Finance with a list showing that 168 USDA programs had not been reviewed by OA or the applicable agency in the preceding 2 years. (The USDA program structure dictionary lists 275 programs.) OA noted, however, that, of the 168 programs, 46 had been reviewed by GAO.

Also the May 1977 internal OA survey of optimum staffing requirements (see p. 12) included requirements for new programs (for example, the Food Safety and Quality Service and the Federal Grain Inspection Service) and for shortening the cycle on programs which were being audited, particularly FmHA activities, Agricultural Stabilization and Conservation Service (ASCS) State and county offices, and Commodity Credit Corporation offices.

#### EFFORTS TO MEET INCREASED AUDIT REQUIREMENTS HAVE MET WITH MIXED SUCCESS

OA has been able to improve audit coverage and increase its effectiveness in some instances by using specialized audit techniques and broader scope audits. Lack of adequate resources has slowed implementation of these and other OA initiatives, however, and, until recently, attempts to obtain additional audit resources have been relatively unsuccessful.

#### Use of advanced audit techniques and revised audit approaches has improved audit coverage

OA has emphasized using advanced techniques and revised audit approaches to accomplish more and better audit coverage with existing staff levels, and it is probably in these areas that the most significant gains have been realized. Also OA has established and implemented an automatic data

processing training program for its auditors and has hired computer specialists and secured the services of outside computer systems contractors to augment existing staff as required.

### Computers and statistical sampling

OA has used statistical sampling, computers, and computer packages (for example, STRATA, WELSAVE, Easytrieve, and Auditape) to save labor, to make more types of checks and/or verifications than otherwise possible, and to project results.

- Computers have been used to (1) analyze computer files for certain exception data, (2) make statistical samples of large universes, (3) provide special reports for audit purposes, and (4) assist in providing information for managing OA itself.
- Computer packages have been used to identify duplicate issuances of food stamp authorization-to-purchase cards and detect cases of potential fraud.
- In audits of the food stamp and FmHA loan programs, computer software systems and statistical sampling techniques have been used to analyze USDA data bases and provide computer analyses to OA's field auditors for verification at the project, county, and regional levels.
- Automatic data processing audit assistance has also been used effectively in audits of Forest Service, ASCS, and FCIC programs.

According to OA, the use of statistical sampling has proven to be of great value in demonstrating the significance of audit findings to program managers, thereby increasing the chances of obtaining comprehensive corrective actions. There is, however, an unresolved question regarding the use of statistical sampling to support claims against State and local administering agencies and to settle accounts with program beneficiaries. In March 1977 CA told the House Appropriations Committee's Subcommittee on Agriculture and Related Agencies that it had come up with many potential claims against States or projects for overissuances of food stamp authorization-to-purchase cards, based on statistical sampling of eligibility determinations, and that where this was done the potential recoupment was sizable--in terms of hundreds of thousands of dollars.

We noted that, as of July 1977, OA had made over 100 such audits, of which 9 had resulted in actual claims against States.

<u>State</u>	<u>Claim</u>		<u>Amount collected</u>	<u>Comments</u>
	<u>Date</u>	<u>Amount</u>		
California	7/25/75	\$ 720,000	None	State refused to accept billings and filed a court suit against USDA on 12/3/75 claiming, among other things, that the methods used to make the audits were insufficient to support USDA's findings.
	7/25/75	<u>a/216,400</u>	None	
	5/24/77	806,800	None	
Washington	5/24/77	1,878,400	None	
Hawaii	7/ '75	51,100	None	State questioned a portion of the amount; as a result, the claim was withdrawn.
Indiana	6/29/77	90,200	None	
New York	12/10/76	25,000	None	
New Jersey	2/21/73	70,787	\$35,393.50	State disagreed with the method used to compute the claim but agreed to settle for 50 percent.
New Hampshire	7/21/76	<u>16,000</u>	<u>16,000.00</u>	
Total		<u>\$3,874,687</u>	<u>\$51,393.50</u>	

a/Revised to \$209,600, after billing had been made to State, due to errors in computation of claims amount.

As can be seen, only three of the smaller claims had been settled. The smallest of the nine claims was paid in full; a second was settled for half of the amount claimed; and, in the third case, the claim was withdrawn. Because some of the larger claims have not been settled, however, and because of the California court suit, the value of using

statistical sampling as a basis for pursuing claims remains to be established.

### Economic analysis and other advanced techniques

OA has used economic analysis techniques on various occasions to determine the relative cost and benefit of USDA projects. In a number of instances, these analyses have resulted in cutbacks to original proposals and considerable reductions in agency expenditures. For example, a proposal by USDA's Office of Automated Data Systems to obtain an uninterrupted power supply for computers at two computer centers was found by OA to be economically unjustifiable. In another instance, OA, in cooperation with our Office, evaluated FmHA proposals to establish a nationwide teleprocessing network and concluded that the cost justification was not adequate. OA also has used economic analysis techniques to determine the relative cost and benefit of watershed projects and the acquisition of computers by other USDA agencies. OA has also tried other advanced audit techniques, such as budget analysis and results auditing, but their value has not been as discernible.

### Broad-scope audits

Another major OA effort has been the shift in emphasis to coordinated and program audits. For several years, OA had performed practically all its cycle audits as part of coordinated audits. Recently, OA has further revised its approach to auditing lower level entities of certain USDA agencies. In fiscal year 1976, OA had a management-by-objectives project 1/, the purpose of which was to experiment with new and modified techniques in food stamp program audits; that is, to get away from reviewing all small- and medium-sized project offices on a cycle basis. As a result, in fiscal year 1977 OA decided that small- and medium-sized project offices would continue to be audited as part of State-coordinated audits, but only on a sample basis.

OA has also been working on revised audit approaches for some of the other more significant workload agencies, such as FmHA, ASCS, and FCIC. In the FmHA program area,

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1/The management-by-objective system, used throughout the Federal Government, was a results-oriented approach to managing an organization's goals and objectives. Individual projects were short term in nature, focused on producing a tangible result by a specific time--usually not more than 18 to 24 months from the time the objective was determined.

for example, OA is making surveys at the national, State, and finance office levels to identify major weaknesses that can be pursued in program-type audits. The functions and programs selected for such audits are then excluded from routine coverage in the coordinated audits of State and county offices, thereby saving considerable time that auditors have used in the past in auditing the lower level entities.

Although the above examples show definite progress in shifting from single-entity cycle audits to coordinated and program audits, certain factors have limited OA's ability to increase the number and quality of its program audits as much as it would like.

First, program audits are usually more complex and require larger numbers of higher graded auditors. In a fiscal year 1977 planning document, OA said that its existing grade structure and budget did not permit it to employ the number of such auditors needed to significantly increase the proportion of program and other highly complex audits.

Second, a large portion of OA's program audit workload is scheduled for its Northeast Region's Washington Residency Office because of that Office's staffing capabilities and the fact that it is normally responsible for headquarters-type audits. The Office is also assigned many unscheduled special request and high-priority audits, however, because such audits have similar staffing requirements. Therefore, staff which had been planned for use on program audits sometimes has had to be used on the unscheduled audits.

Third, certain agencies have resisted efforts to curtail cycle audit coverage of their lower level entities. While the program and coordinated audits, by nature, are normally more productive (that is, they result in more significant and more meaningful disclosures), certain agency and office heads have voiced their concerns to the Secretary and Assistant Secretaries that (1) cycles programed by OA are longer than desirable (FmHA, FNS, ASCS, CCC, FAS, and Office of Operations) or (2) some areas not now on established cycles (for example, the special supplemental food program for women, infants, and children and the Farmer Cooperative Service) should be. Therefore, OA feels somewhat restricted in its ability to increase program audits at the expense of reduced cycle audits. If the agencies and offices receive what they consider less than adequate audit service, they may request more and larger staffs of their own to carry out review (or audit-type) functions.

Efforts to obtain additional audit resources have had limited results

OA requested additional staff or funding each of the past few fiscal years in attempts to increase its audit resources. For fiscal year 1975, it requested \$1 million to contract with States for audits of USDA programs, and, for fiscal years 1976 and 1977, it requested 16 and 94 additional audit positions, respectively, for its own staff. Also, in fiscal years 1975 and 1976, OA had management-by-objective projects, each of which was to increase the number of State and local audit groups making audits of USDA programs and to encourage their adoption of GAO standards by getting all participating audit groups to use OA audit guides, which are to incorporate such standards. OA has also used independent public accountants and temporary hires to increase its resources.

OA's 1975 request for \$1 million for State audits and its 1976 request for 16 additional audit positions were both turned down by the Congress. For 1977 OA received permission, as explained on page 12, to hire only 24 of the 94 additional auditors requested. This little more than offset 20 positions which had been transferred from audit to the Office of Management and Finance in fiscal year 1974 in the course of abolishing the Office of Inspector General.

To implement the 1975 and 1976 management-by-objective projects, OA's regional offices were instructed to contact the State and local audit groups and provide assistance as needed. In this regard, OA held training seminars and conferences, exchanged personnel, and made joint audits with several of these audit groups to try to get more involvement on their part. This effort had few positive results. According to OA, the major hindrances were USDA's inability to fund the audits and the lack of a full-time staff at the headquarters level to pursue and monitor the regional offices' efforts in this area.

In May 1977 OA assigned one headquarters staff member to handle coordination of the State and local audit effort on a part-time basis. In August 1977, as a temporary measure, one staff member was assigned this function on a full-time basis. According to OA, it planned to make this a permanent assignment in fiscal year 1978. Also, OA officials have attended meetings of State auditors where they have expressed OA's goal of involving more State auditors in audits of USDA programs and have provided information on USDA programs and funding, audit requirements, and obtaining reimbursements for audits.

OA has been using summer aides and a small number of retired annuitants (a total of about 15 staff-years annually) in its audits of the child nutrition and Federal grain inspection programs. Also, in fiscal year 1977, independent public accountants were used--for the first time--for auditing (1) the child nutrition programs in the State of Washington and (2) summer feeding program sponsors' claims.

Completion of several management improvement projects has been delayed

In recent years OA has undertaken or planned numerous projects intended to increase the efficiency and effectiveness of its internal audit function. These included projects to:

- Update and complete the audit universe (workload inventory).
- Develop a mathematical model for allocating audit resources.
- Increase the quantity and quality of State and local audits.
- Test and implement a regional office performance evaluation system.
- Develop and implement an improved OA management information system.
- Determine the volume of, and propose ways for OA to meet, audit requirements related to USDA procurement activities.
- Determine whether OA audit coverage meets the full scope of an audit as set forth in FMC 73-2 and the GAO Audit Standards and to prepare necessary guidelines.

According to OA, some of these projects were highly complex and required a heavy investment of OA staff time

Several of these projects have encountered problems, including delays, in being completed and implemented. The major reason given by OA was the lack of staff to work on these projects. Therefore, according to OA, those considered to have the greatest potential benefit were given priority and others were deferred. Problems relating to the first project listed are discussed in chapter 3, and the third project listed was discussed previously in this chapter. The others are discussed below.

## Audit resources allocation model

A December 1973 report to the General Services Administration, on USDA's implementation of FMC 73-2, discussed a major research project then underway to develop a mathematical model which would provide OA with an objective basis for deciding how much audit time should be allocated to each of USDA's agencies and programs. In an August 1974 report, OA said that the basic work on the model, called "Audit Resources Allocation Model," had been completed in June 1974 and that review and testing indicated that the model could be a viable tool to assist management in the annual allocation of audit resources.

In its next report in February 1975, OA said that work on the primary objectives of the model had been completed in November 1974 and that OA planned to introduce quantitative data into the model by June 1975 and use the results as a tool in OA's audit planning and programming for fiscal year 1977. The data was introduced into the model, but the model was found to be flawed and not usable without additional research and revision. The Director, OA, told us that the additional work needed before the model could be used was beyond the capability of the OA staff and that this project did not have enough priority to warrant additional work on it at that time.

## Regional office performance evaluation system

USDA's previous Office of Inspector General had a unit which evaluated regional office performance. When the OIG was abolished in January 1974, this function was abolished also. In June 1974 OA contracted with an outside firm to develop a new system for evaluating regional office performance that would provide a data-supported basis for rating each office on a numerical scale. The contractor made an indepth study, which included establishing a preliminary concept of the evaluation system, testing the concept at one regional office and making necessary modifications, and furnishing the revised system to OA for review. After evaluating OA's comments, the contractor finalized and documented the final system design.

The contractor's report was issued in November 1974, but OA decided that the system required additional work and put the project aside until staff became available to work on it. It was early 1977 before a new staff member was brought on board to work on implementing this system. A test of a modified version of the contractor-developed system, initially scheduled for May 1977 and rescheduled

for November 1977, has been deferred pending reorganization decisions of the newly appointed Inspector General.

#### Management information system

An automatic information retrieval system was used for many years to codify audit and investigative findings and recommendations, in various formats. OA determined that it needed a greatly expanded management information system, however, and in June 1975 stopped producing the information retrieval system reports. In June 1976 a contract was awarded for the development of the new system. This system was to become operational in October 1976, but the contractor was unable to maintain staff continuity. As a result, the project was delayed and the system did not become operational until August 1977.

In the interim 2-year period, when OA was without an automated information retrieval system, it continued to collect and maintain the raw data. Where necessary, compilations and analyses of this data (e.g., numbers and types of audit findings, number and dollar value of accomplishments, and use of staff time) were done manually.

#### Requirements for procurement audits

In its August 1974 report to the General Services Administration on the implementation of FMC 73-2, OA said that further work was needed on its part to insure that (1) all USDA contracting officials were made aware of the audit requirements of cost-reimbursable contracts and (2) OA was made aware of all contracts subject to such requirements. In developing its workload inventory and determining total audit and agency review requirements--two subsequent projects--OA determined that certain USDA procurement activities (particularly cost-reimbursement-type contracts) either were not being audited or were being audited by others without OA's knowledge. Further, OA did not know the volume of such activities.

Early in 1977 OA started a project to determine the procurement activity universe requiring audit and the resources (such as staff and training) necessary to carry out the function. The staff member assigned to the project became seriously ill and later retired. Due to staffing restrictions, a replacement to complete the project was not assigned until the latter part of July 1977. Eventually OA hopes to have staff trained in each regional office for audit work in the procurement areas.

## OA audit guides

One of OA's stated management improvement objectives for fiscal year 1976 was to review its existing audit guides to determine whether OA audit coverage met the full scope of an audit as set forth in FMC 73-2 and the GAO Audit Standards and adjust the guides as necessary. We were advised that staff had not been available to undertake this project.

## CONCLUSIONS

The number of staff-years initially programed for internal audit in fiscal year 1977 (379) was about the same as in 1962 (384) when the audit function was first centralized within USDA. By using advanced audit techniques and more broad-scope audits, OA has been able to provide improved audit coverage. However, the size and complexity of the USDA programs have increased to such an extent that there are a number of program areas which are not receiving enough audit coverage at this time.

To expand audit coverage of existing programs most efficiently, an increased level of program audits (while retaining a reasonable level of cycle-coordinated audits) will be required. In the past, OA efforts to increase program audits have been restricted by staffing constraints and pressures from the agencies to continue or increase cycle-coordinated audit coverage.

The main shortfall in coverage is in the USDA programs administered by State and local governments and educational institutions. USDA regulations and OMB circulars require the former to be audited by the States, while the latter are supposed to be audited by other Federal agencies in accordance with existing cross-servicing arrangements. To date, these external audits have been unsatisfactory.

Our Office is currently reviewing HEW's cognizant-agency audits at educational institutions, and JFMIP is studying the problem of funding State audits of federally assisted programs. Therefore, we are not making recommendations on these matters in this report.

OA efforts to further expand its coverage of USDA programs have been hindered. Efforts to increase program audits and to carry out management improvement projects have been somewhat restricted by staffing constraints. Attempts to get additional audit staff and to increase the quantity and quality of external audits have had only limited success.

## RECOMMENDATIONS

We recommend that, to improve audit coverage of USDA programs, the Secretary of Agriculture require the Director, OA, to:

- Further increase the use of program audits while continuing to perform a reasonable level of cycle-coordinated audits. In this regard, the Director should identify and continue to request whatever resources (training, higher graded positions, etc.) are necessary to increase the number and quality of program audits. At the same time, the Secretary should advise the Assistant Secretaries and agency heads that it is no longer feasible to provide extensive audit coverage to lower level (county, project office) organizational units on a cycle basis and that such units are to be audited on a selective basis-- such as is the case presently with OA audits of small- and medium-sized food stamp program project offices.
- Maintain adequate staff in OA headquarters to (1) perform and implement management improvement projects promptly and (2) continue to work with the USDA agencies, OMB, the States, and other appropriate groups (e.g., JFMIP and the Intergovernmental Audit Forums) to increase the number and quality of State and local government audits of USDA programs.

### CHAPTER 3

#### PROGRESS MADE IN IMPROVING AUDIT PLANS AND COORDINATION WITH OTHER REVIEW GROUPS

In 1977 the Office of Audit modified its procedures for developing its annual planning document, the audit program, beginning with the program for fiscal year 1978. Before the change, OA's annual audit program did not reflect the relative priorities of the audits scheduled; in some instances factors considered in selecting the audits had not been documented; and, for the past several years, a complete up-to-date audit universe had not been available to OA planning personnel. At the time of our review, OA's audit universe still did not include audit coverage requirements for contracts. Except for that, we believe that OA's revised audit planning procedures, if properly implemented, will be adequate and comply with Office of Management and Budget guidelines.

OA's coordination with other internal Department of Agriculture review groups has improved in recent years and appeared adequate. The need for coordination with departmental program evaluation staffs and external review groups (from State and other Federal agencies) has been limited, however, as these groups have done relatively little work which would affect OA audits and plans.

USDA has plans to expand the number and upgrade the quality of State audits. The amount and type of future review efforts by USDA program evaluation staffs and other Federal audit groups, however, were uncertain at the time of our review. If these other groups expand the number and upgrade the quality of their reviews and evaluations, OA coordination with them will need to receive increased attention in coming years.

#### IMPROVEMENTS MADE IN AUDIT PLANNING SYSTEM

Federal Management Circular 73-2 requires that each agency prepare an audit plan at least annually which reflects the

- audit universe (all programs and operations subject to audit);
- programs and operations selected for audit, with priorities and specific reasons for selection;
- audit organization that will conduct the audit;
- audit cycle or frequency and locations to be audited;

- scope of audit coverage to be provided; and
- anticipated benefits to be obtained from the audits.

Further, in determining the coverage, frequency, and priority of audit required for each program and operation, consideration is to be given to

- newness, changed conditions, or sensitivity of the organization, program, activity, or function;
- its dollar magnitude and duration;
- extent of Federal participation;
- management needs to be met;
- prior audit experience, including the adequacy of the financial management system and controls;
- timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants;
- results of other evaluations; for example, inspections and program reviews;
- mandatory requirements of legislation or other congressional recommendations; and
- availability of audit resources.

During our review OA made major modifications to its planning procedures to incorporate zero-base budget concepts. In April 1977, instructions 1/ were issued to OA headquarters officials for developing the fiscal year 1978 annual audit program. According to the instructions:

- Each operating division was to determine which entities were to be selected for audit; the optimum, current, and minimum workday levels for each entity selected; and an overall ranking of the selected audits in order of importance. For documentation, selection factors and scheduling guidance worksheets were to be prepared for each planned audit. (See app. III for the format of these worksheets.)

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1/The OA manual was revised in August 1977 to reflect the new procedures.

--The divisions' packages of worksheets were to be reviewed, and adjusted as necessary, in turn, by the assistant directors and the Director and Deputy Director.

--Following the Director's approval, an OA-wide scheduling guidance package was to be prepared. Each audit planned was to be listed, along with the number of entities and workdays to be accomplished by each regional office.

--The scheduling guidance was then to be sent to each regional office, where it would be used to prepare the regions' annual audit programs. At this time the States to be included in the cycle audits were to be identified.

--The regional offices then were to submit to OA headquarters the regional audit programs and a list of work in process, including an estimate of workdays needed to complete each ongoing audit.

--After adjusting the regional programs to accommodate the work in process, OA's final annual audit program was to be printed and distributed.

Before adopting these new procedures, OA's planning documents did not reflect the relative priority of the audits scheduled, and, in some instances, the factors considered in selecting the audits were not documented. The new procedures require that these now be done. Another deficiency had not been fully corrected at the time of our review, however. OA still did not have a complete audit universe.

In June 1976 OA completed updating its centralized inventory of auditable entities (that is, audit universe)--its first update since 1969. This inventory did not provide for audit coverage of USDA contracts, however, as the volume of such contracts was unknown. At the time of our review, OA was in the process of updating the 1976 inventory data and had initiated action to determine audit requirements for contracts. (See p. 24.)

#### NEED FOR COORDINATION COULD INCREASE

Except for one small program area, where OA and HEW are both performing audits, OA coordination with other internal and external review groups appeared adequate. However, USDA's program evaluation system has not been producing evaluations of the number and quality that it should and

the States and local governments have not been making audits required by FMC 74-7 and USDA regulations. If USDA carries out its plans to increase the quantity and quality of these internal program evaluations and external audits, the need for and importance of coordination will increase considerably.

### Internal review groups

There are about 105 other review functions throughout USDA. These include functions performed by the Office of Investigation and by groups making program evaluations, inspections, supervisory reviews, budget reviews, and management analyses.

OA provides OI with copies of its audit plans, and OA and OI officials meet periodically both at headquarters and at their collocated regional offices to discuss ongoing and planned work. Coordination between the auditors and the investigators was more formal than it had been under the previous OIG but, for the most part, it appeared adequate.

OA coordinates with the other groups in two ways-- through individuals assigned by USDA agencies to act as liaisons with OA and through the Office of Budget, Planning, and Evaluation (formerly the Office of Management and Finance).

Program evaluations can be particularly relevant as, in many instances, their objectives are similar to those of program results and efficiency-effectiveness audits; that is, evaluating the cost and effectiveness of ongoing programs in achieving planned results. Up to the time of our review, however, USDA's program evaluation staffs had performed relatively little work of the type which would affect OA's audit workload.

USDA's program evaluation system was established by Secretary's Memorandum 1777, Supplement 1, dated August 22, 1972. An OMF review of program evaluations undertaken during fiscal years 1973 through 1976 pointed out serious shortcomings in this system. According to OMF, USDA agencies had made commitments to their respective Assistant Secretaries to make 186 program evaluations during that period. As of July 1976, a total of only 55 had been completed, another 7 had been submitted for review and/or decision on need for additional work, and over 50 of the commitments had been dropped from the agendas. Of the completed studies, OMF concluded that less than 50 percent were of sufficient quality and scope to provide useful data for policy decisions and that the rest were of questionable usefulness.

The type and volume of future program evaluations had not been decided at the time of our review. An April 1977 USDA report to OMB on USDA resources being devoted to program evaluations in fiscal year 1977 said that USDA intended to develop and carry out vigorous program evaluation and review activities in fiscal year 1978 and beyond to support the purposes of zero-base budgeting and for other program and management decisions.

The report further said that the level of resources then being applied to these efforts might not be sufficient; that some shifts from other types of analytical activity might be necessary; and that efforts to identify organizational and procedural alternatives for improving the objectivity, comprehensiveness, and decision relevance of USDA program evaluation activities had already been initiated.

In September 1977, however, an Office of Budget, Planning, and Evaluation staff member told us that the level and types of future program evaluations had not been decided. If the decision is made to have the agencies' program evaluation staffs perform more and improved evaluations of ongoing programs, there will be a need for increased coordination between them and OA.

OA had not reviewed USDA's overall program evaluation system or initiated any audits for the expressed purpose of reviewing individual agency systems. An OA official told us, however, that OA had noted the need for improved agency evaluations during several of its audits.

#### External audit groups

OA's need to coordinate with external audit groups in the past has been limited. Except for HEW audits of State welfare department indirect expense account reimbursements, other Federal audit groups have not audited in program areas where OA has been auditing. Thus far, State and local audits of USDA programs administered by State and local governments have been so limited (see ch. 2) that OA has not found it necessary to routinely coordinate audit plans with those organizations. Instead, OA procedures call for contacting the applicable State and/or local audit organizations at the start of individual audits and taking their work into account in developing the audit plan.

USDA's food stamp program partially reimburses the States for certain indirect costs incurred by the States' welfare departments. HEW has cognizant-agency responsibility for auditing these indirect expense accounts, but, because HEW has not been able to meet its planned coverage, OA

has been including this area in its coordinated State audits. OA has recognized the need for better coordination with HEW, and, in the fall of 1977, it initiated discussions with HEW on this matter. As of December 31, 1977, however, it had not completed the necessary arrangements for coordination.

### CONCLUSIONS

In the past, OA's procedures for developing its annual audit plan did not meet several requirements of FMC 73-2. Its new procedures, if carried out properly, should correct all but one of these deficiencies--the lack of contract audit requirements in the audit universe. OA had initiated action, however, to determine these requirements.

OA's coordination with other review groups within USDA has been adequate, and there had been little need to coordinate with external audit groups as they were doing little work in those program areas where OA has been auditing. There is a need, however, to complete arrangements with HEW for better coordination on audits of State welfare department indirect expense account reimbursements. Also, if there are significant increases in the number and quality of USDA program evaluations and State and local government audits, OA will need to increase its coordination efforts.

### RECOMMENDATIONS

We recommend that the Secretary of Agriculture require the Director, OA, to (1) complete the audit universe by adding requirements for contract audits and (2) complete arrangements with HEW to coordinate requirements and plans for audits of State welfare department indirect expense account reimbursements.

## CHAPTER 4

### CONDUCT OF AUDITS AND REPORTING ARE GENERALLY GOOD BUT SOME IMPROVEMENTS ARE NEEDED

Overall, Office of Audit audit reports are accurate, fair, and objective; include all significant deficiencies detected during the audit; and give adequate consideration to auditee comments. However, OA management of audits and the timeliness and clarity of reports on major audits could be improved.

In reviewing major audits made by three of OA's six regional offices, we noted some cases of inadequate workpapers, reports not adequately cross-referenced to the workpapers, audits in which supervisory reviews were inadequate and/or not documented, delays in completion of audits not adequately explained, and audit reports which were not clear as to the scope of work actually performed or the extent of problems being reported.

During our review, OA made at least two ad hoc studies which arrived at similar conclusions and also identified some of the causal factors. OA has already initiated action to correct some of the deficiencies.

### IMPROVEMENTS NEEDED IN OA AUDITS AND REPORTS

Our publication "Internal Auditing in Federal Agencies" states that (1) audit report contents should be concise, clear, and complete; accurate and fair; objective; and factually supportable and (2) audit reports must be issued promptly with information made available for timely use by management. In reviewing 13 major audits made by OA's three largest regional offices, we noted some weaknesses in the following areas.

#### Workpapers and cross-referencing

The OA manual provides guidance on preparing workpapers and cross-referencing the workpapers to the audit report draft. The quality of the workpapers and the cross-referencing varied considerably from audit to audit, but frequently we found that (1) the workpapers were incomplete, (2) changes and additions to initial report drafts were not cross-indexed, and (3) in some cases, statements of fact which were cross-indexed were either not supported by the workpapers referenced or the indexes provided were so general that it took an inordinate amount of time to locate the support.

We were told that it was OA practice to index an early draft copy of the report to the workpapers. Many times, however, items are added or changes are made before finalizing the report. In such instances, the OA audit files did not always show which workpapers supported the new or revised report material.

Our check of report statements that were cross-indexed did not show any major discrepancies between the report statements and the workpaper support. But we did find a number of minor discrepancies and, in some cases, the cross-indexing was so general that it took considerable time to locate support for specific statements. For example:

--In checking the workpaper support for 14 individual statements in one OA report, we found that, although the report stated that two different problems each existed in 6 of 10 counties reviewed, the workpapers showed that the problems were actually found in 7 and 8 of the 10 counties, respectively. Another statement said that 58 percent of the loan files reviewed were inadequately documented; our check of the computation showed it should have been 60 percent. Also the amounts in a table in the report were added together even though the individual amounts were computed on different bases and represented different things.

--In another audit, 34 workpapers were listed as support for three consecutive paragraphs of the report. Some of the workpapers supported statements in more than one paragraph so it was necessary for a reviewer to go through the 34 workpapers several times to verify the statements made in these three paragraphs.

In June 1977 OA headquarters sent a memorandum to the regional offices which said:

"It is the general consensus throughout OA that our workpapers leave much to be desired. The General Accounting Office during their recent reviews of OA, have endorsed that opinion."

The memorandum instructed the regions to (1) take immediate steps to review the situation and take whatever actions were necessary to insure that the workpapers are well-organized, legible, fully documented, and cross-referenced and (2) advise headquarters as to the results of these reviews and the corrective actions taken. One regional director replied

that, due to his concern over the quality of workpapers and feedback received from us during our review of that region's audits, the region had already made its own analysis of the adequacy of workpapers and issued a regional directive to correct the problems identified. This regional office analysis is discussed on page 36.

### Supervisory reviews

Although the OA manual requires that supervisors review audit workpapers and that such reviews be documented, supervisory reviews of the workpapers generally were not documented. The OA supervisors told us that either (1) there was no need to review the workpapers because of their close association with the audit staffs during the audits or (2) they did review the cross-indexed workpapers when verifying statements made in draft reports but did not document the reviews.

The audit files generally included copies of report drafts which had reviewers' comments annotated in the margins; in most instances there were no indications as to who made the reviews or when. More important, the reviewers had not always detected the discrepancies between statements of fact presented in the reports and the evidence contained in the workpapers. (See above discussion on workpapers and cross-referencing.)

### Processing report drafts

For the most part, OA management reports adequately explained changes in audit milestones and reasons for additional staff time required up until the time the report drafts were forwarded to OA headquarters for processing. Thereafter, neither the regional offices nor headquarters maintained adequate records as to who had the draft or what the causes for delays were. During our audit, headquarters and at least one regional office initiated new procedures intended to overcome this problem.

### Report writing

The reports we reviewed were not always written clearly, particularly as to the scope of audit work actually performed or the extent of the deficiencies detected during the audit. For example, one audit report included the statement:

"Ten of 18 States audited were not performing, nor were they planning to perform, audits of the administrative expenditures claimed for reimbursement."

The report did not mention what the situation was in the remaining eight States, and the cognizant staff person in OA headquarters was unable to tell us whether this particular

area had even been included in the audits of the other eight States. Similar wording problems were noted in other reports.

In another case, the scope section of a report on a special request audit stated:

"Several importers alleged that \* \* \* congested elevators or ports were intentionally nominated by exporters when less congested elevators were available."

This issue was not mentioned again in the report. When asked the reason, the OA staff said that it was OA practice to report on only those matters where problems were found (that is, exception reporting). In this case no problem was identified, so the report did not discuss what OA did or what it found.

Since the agencies audited have an opportunity to discuss the scope of the audits and extent of the problems with OA, these report writing practices may not present a problem as long as the reports stay within USDA. The number of OA reports being released outside USDA is increasing rapidly, however. For example, Freedom of Information Act requests for OA reports increased from 15 in calendar year 1974 to 96 in 1976, the latter involving 156 audit reports. In these instances, the lack of clarity in a report could create questions and misunderstandings and spoil the overall credibility of an otherwise good audit.

#### AD HOC OA STUDIES HAVE ALSO SHOWN NEED FOR IMPROVEMENTS

In analyzing workpapers from 15 recently completed audits, OA's Northeast Region found that the workpapers did not fully comply with OA directives as to purpose or objectives, scope, source, and auditor's conclusions. It also found that sometimes the cross-referencing of the audit report draft to the workpapers was too general and that the workpapers were not always cross-referenced to the audit guide or bulletin. As a result, in April 1977 the Regional Director issued a bulletin instructing auditors to complete and sign a workpaper review sheet (see app. IV) for each audit assignment. The review sheet is also to be reviewed and signed by the auditor in charge and the supervisor as part of their supervisory/review functions.

Another study, made at OA headquarters to ascertain the timeliness and quality of reports with national office recommendations (recommendations for agency headquarters

action), concluded that it had taken too long to complete the audits and that draft reports received by OA headquarters from the regional offices were not of acceptable quality. This review of 22 special reviews, program audits, and coordinated and other reports with national office recommendations indicated that over 50 percent of the total elapsed time involved report writing--about one-third was initial report writing in the regional office; the other two-thirds was used reviewing and rewriting the draft after its initial submission to headquarters.

The study discussed many factors that contributed to excessive elapsed times and poor quality reports. Some of the factors delaying completion of fieldwork were the assignment of lesser qualified people to priority work, the large turnover of capable staff, and too many priority jobs to do in too short a time. Some of the problems identified with report writing in the regions were attributed to (1) regional directors and their assistants not becoming involved early enough to affect the fieldwork; therefore causing the report writing to become a patch-up and salvage job, (2) reliance on headquarters personnel to tidy up the draft reports, and (3) not getting the report writing started early enough.

Some of the major reasons given for the more significant time lapse problems in headquarters were

- poor quality of reports coming from the regions, in both substance and presentation;
- headquarters reviewers' nonacceptance of editorial styles of original writers;
- failure to follow established procedures for audit report submissions and review; and
- lack of a uniform system for tracking and controlling the progress of reports through headquarters.

Concerning headquarters' review process, the study revealed that review comments or questions were generally handwritten and/or typed notes passed from one person to another. 1/ It was not always clear whether the questions

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1/For example, two drafts processed through headquarters in the first half of calendar year 1977 changed hands about 20 times each. Total elapsed time in headquarters (from receipt of draft to the signing of the report) was 95 days for one report and 128 days for the other.

related to major report substance problems or presentation problems, and they did not always clearly convey what action should be taken, by whom, and when. The study concluded that the report processing procedure lent itself to time loss and to a breakdown in report processing controls.

Following completion of the study in December 1976, headquarters implemented new procedures for processing and tracking reports through headquarters. Using these procedures OA found it much easier to locate reports that were still in process (in the past, reports occasionally had been temporarily lost) and to identify where the time lapses occurred. The total elapsed times and report quality improved little, however, and in June 1977 headquarters revised its processing procedures once more. Previously the headquarters operations staffs were receiving the regional office report drafts and making recommendations to the Director on whether changes were required before arranging exit or closing conferences with the agency(s) being audited. Under the revised procedures, the Deputy Director decides if a report draft is ready to be discussed at an exit conference.

OA has made some other attempts to improve auditing performance and report quality. For example, to overcome report writing problems, OA has, among other things, (1) provided funds to each regional office in fiscal year 1977 specifically for the purpose of improving report writing and presentation, (2) hired two temporary employees to provide writing instructions and editorial assistance to the headquarters staff, (3) engaged a contractor to train supervisory employees in editing reports, and (4) appointed a coordinator to control the total report writing improvement effort.

## CONCLUSIONS

OA has recognized the need to improve workpaper techniques, cross-referencing of reports to supporting workpapers, and the timeliness and clarity of reports on major audits. Its internal studies of these areas have resulted in a number of procedural changes, but, inasmuch as these changes were just being implemented, we were not able to determine how effective they would be in correcting the problems identified.

The planned regional office performance evaluations, which have been deferred pending reorganization decisions of the newly appointed Inspector General (see p. 23,) would provide an opportunity for OA to determine the effectiveness

of these changes and of various other regional office procedures and practices that help improve the quality and timeliness of OA audit reports.

#### RECOMMENDATIONS

We recommend that the Secretary of Agriculture require the Director, OA, to (1) implement the planned regional office performance evaluations to identify those procedures and practices that do not meet OA standards and to assess the effectiveness of the changes being made to improve the quality and timeliness of audit reports and (2) follow up aggressively on those matters needing improvement.

CHAPTER 5  
FOLLOWUP AND CLOSEOUT OF REPORT RECOMMENDATIONS  
SHOULD RECEIVE INCREASED ATTENTION

Each year the Office of Audit makes thousands of recommendations to Department of Agriculture officials for correcting program and administrative deficiencies or weaknesses and recovering erroneous payments. In fiscal year 1976 alone, OA issued over 2,200 reports containing over 10,000 recommendations. For the most part, OA's followup and closeout of audit recommendations has been adequate. But there are several areas deserving additional attention from OA and other USDA officials.

Because of the large number of recommendations and the limited time available to the OA staff, OA in some cases has not adequately followed up to make sure that the auditees were actually taking all the corrective actions promised. In other cases, subsequent OA audits revealed instances in which some of the larger USDA agencies either had not corrected the deficiencies as promised or had limited corrective actions to the examples cited in the audit reports.

OA regional offices' followup procedures and closeout criteria differed somewhat from region to region. This resulted in inconsistencies in closing out recommendations involving claims and in referring problem cases to OA headquarters for followup with higher agency management levels. At the time of our review, OA was reviewing the regional offices' followup and closeout procedures and practices. OA officials said that, upon completion of this review, OA instructions would be revised to correct whatever weaknesses were found.

Also USDA directives do not require periodic reports to management on the status of open audit recommendations, which is contrary to Federal Management Circular 73-2.

REQUIREMENTS FOR ACTING ON  
AUDIT RECOMMENDATIONS

According to FMC 73-2, timely action on audit recommendations by responsible management officials is an integral part of the effectiveness of a Department's audit system and has a direct bearing on it. The circular requires each Department to provide policies for acting on audit recommendations. The policies are to provide for designating officials responsible for following up on recommendations, maintaining a record of the actions taken and time schedules for responding to and acting on

recommendations, and submitting periodic reports to Department management on recommendations and action taken.

USDA directives state that, within 60 days after a report is issued, the action addressee will advise OA of the actions taken or planned on OA recommendations. They also state that the OA office issuing a report is responsible for following to conclusion all matters in the report and that an audit be considered closed only upon completion of necessary administrative actions--such as amounts of indebtedness determined and arrangements made for payment, instructions written and disseminated, personnel actions accomplished, control instituted, or agreement reached that good reasons exist for not following recommendations.

#### OA STUDY SHOWED NEED FOR IMPROVEMENTS

Because of the expressed interest of the Assistant Secretary for Administration, OA undertook a study in February 1976 of its (1) closing actions taken on 821 major audit 1/ reports issued from July 1971 through December 1975 and (2) followup activities on the 180 audit reports which had been open 6 months or longer as of February 1976.

The study disclosed that, of the 821 files closed, 87 percent were closed on the basis of agency replies of corrective action being taken and 13 percent were closed on the basis of agency promises of corrective action. Of the 180 reports with recommendations open 6 months or longer, 59 percent were Food and Nutrition Service reports, 14 percent were Agricultural Stabilization and Conservation Service reports, and 12 percent were Farmers Home Administration reports; and 54 percent had been open from 6 months to 1 year, 38 percent from 1 to 2 years, and the remaining 8 percent (14 reports--9 FNS and 5 ASCS) over 2 years.

After reviewing the results of the study, the Assistant Secretary advised OA that it should reassess its procedures for following up and closing out report recommendations and develop a plan for resolving the problems identified.

In its April 1976 response to the Assistant Secretary, OA said that its manual was fairly specific as to closure

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1/In this case "major audit" was defined as (1) program audits, (2) audits with significant disclosures, (3) reports containing national office recommendations, or (4) State and special audit reports which had material findings and recommendations in the judgment of the regional director.

requirements but acknowledged that OA's execution of the procedures had sometimes been lacking and that, in some instances, premature closures and delayed actions had resulted. The response also included an action plan to resolve the problems identified in the study and an objectives statement for a project to perfect the system for audit followup and insure that audit disclosures are promptly and fully acted upon.

In August 1976 OA established a management-by-objective project to close--in strict accordance with OA manual closing criteria--the 180 reports open more than 6 months as of February 1976 and to determine if sufficient actions were taken in those 67 instances in which reports had been closed on the basis of promised action. In addition, OA's audit plans for fiscal year 1977 instructed the audit staffs to review the adequacy of agency followup on previous OA reports during scheduled audits of FmHA, FNS, and the Soil Conservation Service.

At the time of our review, the management-by-objective project, scheduled for completion in December 1976, had not been completed and the results of OA's reviews of individual agency's followup activities were not available. According to OA officials, the regional offices' responses to the project were not adequate to make a meaningful analysis of the actual problems involved or for determining what revisions, if any, should be made to OA's existing procedures. The officials said that, because of other priority matters, further work on the project was put off until August 1977. At that time, OA headquarters prepared a list of additional data required and began gathering the data from the regional offices.

The principal types of data follow.

- The systems the regional offices have to handle audit followup. Questions to be asked at each regional office include: Is a control log maintained showing how many reports are open and for how long? Is the regional director made aware of reports that reach a certain aging date? Does the region close reports on the basis of promised action? Where a claim is involved, at what point does the region close the report?
- Causes for delays in audit closures, including the frequency of OA followup actions.
- The actions taken by the region to refer open recommendations to OA headquarters.

--The systems the regions have for flagging major audit findings (including those of our Office) for followup in future audits.

--Trend data for calendar years 1974-76; that is, numbers of reports issued, closed, and open over 6 months, for each year.

The officials said that, after analyzing the data obtained from the regions, OA planned to revise its directives, as needed, to correct the problem areas identified.

### MAJOR PROBLEM AREAS

We identified three general types of problems affecting followup on audit recommendations: those caused by inadequate auditee responses, those attributable to inconsistent OA regional office procedures and practices, and those resulting from inadequate reporting by other Federal agency audit groups.

The inability of the USDA agencies to use the audit reports of other Federal agencies to followup with USDA grantees was one of the major criticisms of the cognizant-agency audits. (See ch. 2.) The most significant problem involving OA audits, however, appears to be in getting timely and responsive actions to recommendations where the action parties are State or local government agencies.

#### Inadequate responses by auditees

OA's February 1976 study identified certain USDA agencies which had failed either to reply to OA audits or to carry out promised actions. One OA regional office found that (1) FNS and FmHA reports had been repeatedly closed on the basis of written responses from agency officials but that subsequent audits often found the same problems, (2) FNS tended to correct only those specific examples included in audit reports rather than correcting the underlying causes of the problems, and (3) the Animal and Plant Health Inspection Service had not responded to recommendations or followup requests on five audit reports nearly 1 year old. Another regional office found that certain ASCS State offices had also been very slow responding to OA audit reports. In this case, the reason given was priority of other work.

Obtaining timely and adequate actions from State and local governmental agencies has been particularly troublesome. In its March 1976 audit report, "Management of Food Stamp Program Findings," OA reported that about 1,070

State agency and project office audit reports had been open 6 months or longer, and that 57 of the reports had been open 3 years or longer. OA concluded that FNS's system of obtaining action on food stamp program findings and of clearing and closing reports had not always been effective. 1/ Other priority work and the fact that FNS lacked the authority to demand that State agencies take corrective action in a timely manner were also credited with contributing to this condition.

OA sent three memorandums to FNS during 1977, the latest dated October 20, 1977, requesting replies to 30 OA reports with significant findings. One report had been released in 1974, 4 in 1975, 24 in 1976, and 1 in January 1977. As of December 31, 1977, FNS had not responded.

OA personnel said that obtaining corrective actions, or even responses, on audits of State/local government-administered activities is also difficult because (1) the numbers of organizational entities involved make communications difficult and time consuming and (2) in many States local project offices receive very little State money, and the State agency, therefore, has little control over the local project offices. OA personnel said, however, that some FNS regional offices were much more effective than others in obtaining timely and adequate responses from the States

We also noticed that, in some instances, the OA staff making follow-on audits had spent little time reviewing the adequacy of actions taken by the auditees on prior report recommendations.

According to OA officials, OA has taken some recent steps to convey to USDA management its concern about auditee responses to its reports. For example, this matter was included during OA briefings of incoming Assistant Secretaries and agency heads, and OA has drafted a Secretary's Memorandum which would again emphasize the importance of management follow-through on audit reports. As of December 31, 1977, the Secretary's Memorandum had not been issued.

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1/One of OA's major criticisms was that FNS had been relying primarily on written replies to audits with very little personal contact.

## Inconsistent OA regional office procedures and practices

The regional office staffs were inconsistent in their followup and closeout activities. In some instances, an audit would be closed when the USDA agency established a claim. In other instances, the audit was kept open during the claim collection process. The USDA directives did not specify which procedure should be followed.

Some audit reports had been open for considerable time, and OA had not received a definite plan of action from the agency. Even so, the regional offices had not brought the matter to the attention of OA headquarters or higher management levels within the responsible agency. USDA directives provide that followup activities should be elevated to higher management levels after reasonable effort and time has been spent to obtain an adequate reply or to resolve any disagreement.

A preferred procedure for controlling open audit recommendations is to have regular status reports prepared for management and internal auditors. FMC 73-2 provides for such reporting but USDA directives do not. As a result, data on open recommendations is not routinely available to agency and OA headquarters officials, and special studies, such as the one discussed on pages 41 and 42, must be made when such information is needed.

We are currently making a review to determine the extent and effect of unresolved or improperly resolved findings on a Government-wide basis. The report will discuss the adequacy of agencies' compliance with the FMC 73-2 requirement for reporting on open recommendations and will make recommendations that (1) agencies submit periodic reports that meet certain, as yet undetermined, minimum requirements (i.e., as to frequency and content) and (2) FMC 73-2 be revised to provide more explicit guidance on agency reporting requirements.

## CONCLUSIONS

Procedures for following up and closing out report recommendations have varied somewhat between regions, and a few agencies have not provided timely and adequate responses to OA audit reports. OA was reviewing the regional offices' followup and closeout procedures and practices. After this review is completed, appropriate action should be taken to correct the weaknesses identified, including revision of USDA directives if needed.

Also, because of the large number of audit recommendations and the limited time available to the staff, OA has not always been able to check to make sure that the auditees were taking all the corrective actions promised. This indicates that there may be a need to assign relative followup priorities so that, at a minimum, adequate attention is given to the most important recommendations.

In addition, USDA audit directives should be revised to provide, in accordance with FMC 73-2, that periodic reports be made to management on the status of open recommendations.

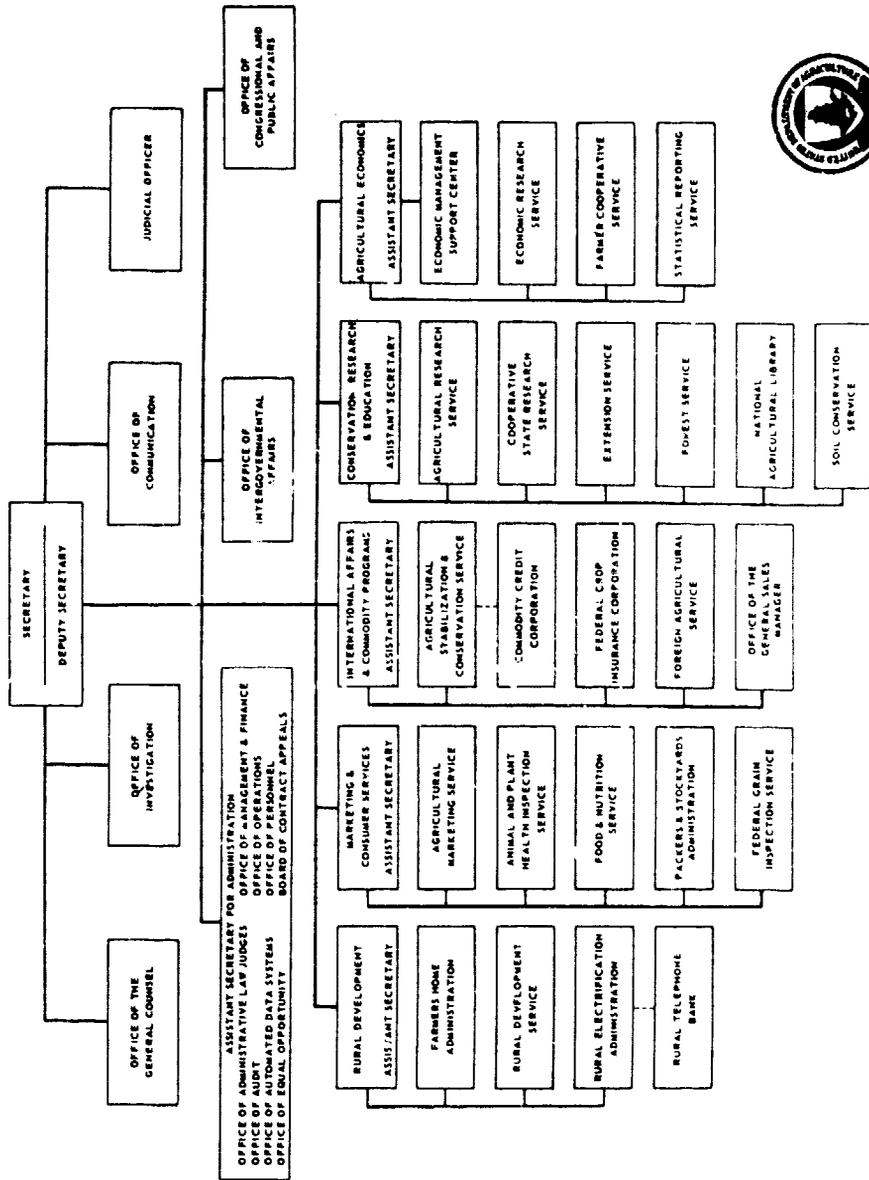
### RECOMMENDATIONS

We recommend that the Secretary of Agriculture require the Director, OA, to:

- Take appropriate action, including more detailed instructions if needed, to insure that the regional offices' report followup and closeout procedures and practices are consistent and adequate.
- Establish a system for periodic reports to OA and agency headquarters officials on the status of open recommendations.
- Consider establishing a system for identifying the more important recommendations for priority consideration during subsequent audits.

We recommend also that the Secretary remind agency administrators and office heads of the importance of timely and adequate responses to OA reports.

# U.S. DEPARTMENT OF AGRICULTURE



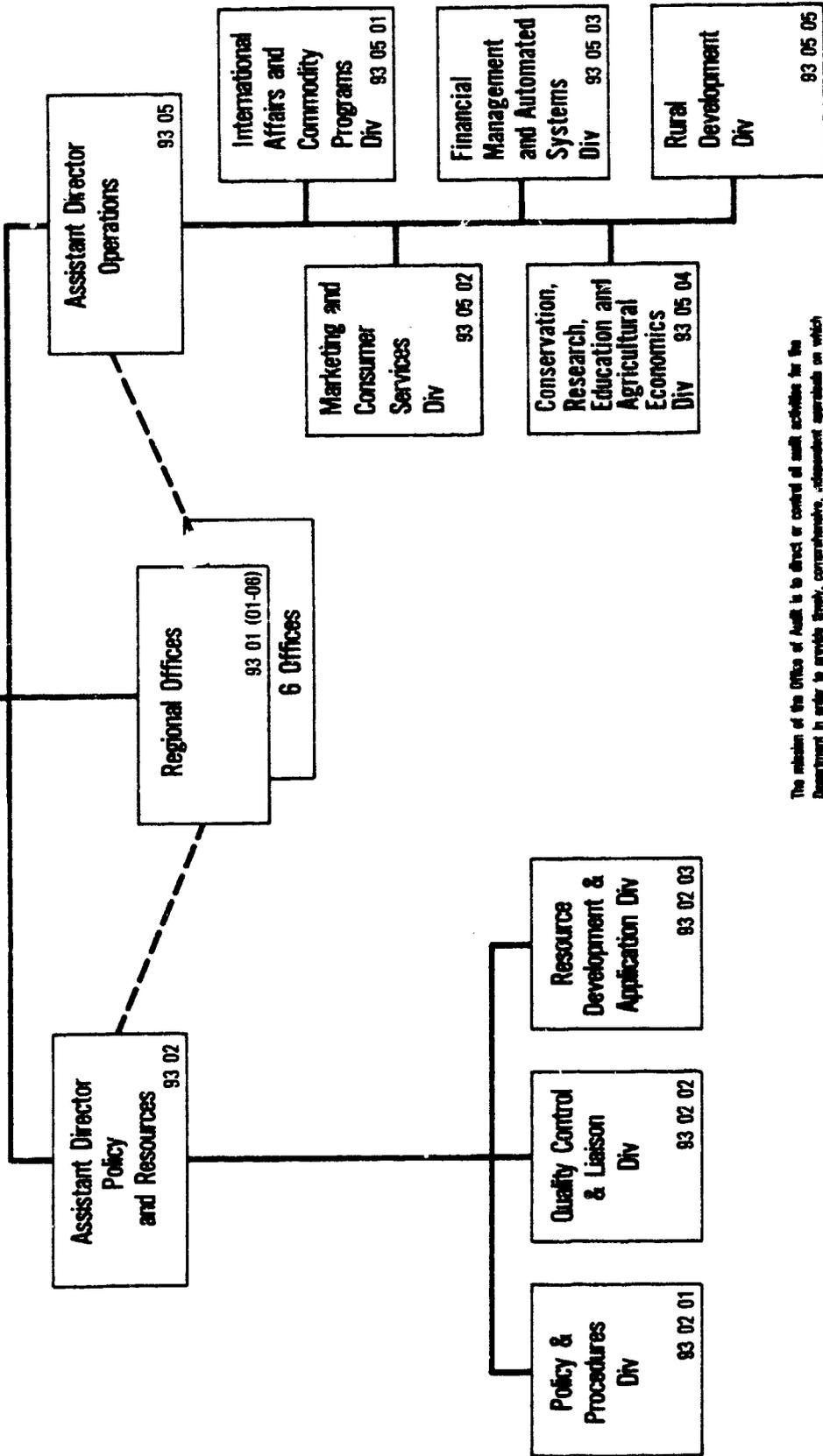
JANUARY 1, 1977

**UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF AUDIT**

RECOMMENDED: *David E. Downing Jr.*  
DIRECTOR, OFFICE OF AUDIT

APPROVED: *[Signature]*  
ASSISTANT SECRETARY FOR ADMINISTRATION

DATE: OCT 19 1976



The mission of the Office of Audit is direct or control of audit activities for the Department in order to provide timely, comprehensive, independent appraisals on which action can be taken to formulate audit policy, plans, and procedures; and to make recommendations for action.

Supersede the chart for the Office of Audit dated July 7, 1975.

OFFICE OF AUDIT  
SCHEDULING GUIDANCE  
SELECTION FACTORS

ORGANIZATION

FILE

\_\_\_\_\_

\_\_\_\_\_

AUDIT TITLE: \_\_\_\_\_

Indicate with a check mark which of the following factors were considered in selecting the above entity for audit. Explain how the factors pertain.

\_\_\_ A. Susceptibility for occurrence of fraud, embezzlement, program manipulation, or other type of irregularities.

\_\_\_ B. Changed conditions or sensitivity of public criticism of the organization, program, activity, or function.

\_\_\_ C. Expected life of the program.

\_\_\_ D. Prior audit experience, including evaluation of management effectiveness and the adequacy of system and controls.

\_\_\_\_ E. Resources involved.

\_\_\_\_ F. Extent of Federal participation either in terms of resources or regulatory authority.

\_\_\_\_ G. Timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants.

\_\_\_\_ H. Emphasis by the President and Secretary.

\_\_\_\_ I. Management needs to be met pursuant to consultation with, and requests by Departmental or agency officials.

\_\_\_\_ J. Mandatory requirements of legislation, Congressional recommendations, and other concerns expressed by the Congress, Congressional Committees, Congressmen, or the General Accounting Office.

\_\_\_\_ K. Other

OFFICE OF AUDIT  
Scheduling Guidance Worksheet

CA DIVISION \_\_\_\_\_

(1) Auditable Entity or Function by CA File Number.  Organization _____ File _____	(2) Name of Entity	(3) Funding Unit (to be completed by Budget Staff)	(4) Rank Program Specialist _____ Division Director _____ Assistant Director _____	(5) Prepared By:  Date: _____
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(6) Narrative Description of Entity or Function.

(7) Impact if audit Entity was to be Eliminated or Reduced in Scope.

(8)	NER		SER		MWR		S/R		GPR		WR		TOTAL	
	No. of Entities	Work Days												
OPTIMUM	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
MINIMUM	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

(9) Days Necessary for Survey (Program Audits Only)

(10) Period Audit Should Be Initiated

Jan	Jun	Oct

Audit No. \_\_\_\_\_

WORKING PAPER REVIEW SHEET

	<u>Working Paper Complies With QAM 7500</u>		<u>Remarks</u>
	<u>Yes</u>	<u>No</u>	
Purpose or Objective	---		
Scope .	---		
Details of Audit Performance---			
Interviews	---		
Observations	---		
Record Examination	---		
Auditor's Conclusions	---		
Descriptive Heading	---		
Source of Data	---		
Auditor's Name	---		
Date working Paper Prepared---			
Page Number	---		
Symbols	---		
Summary Sheets	---		
Standards of Preparation	---		
Indexed/Cross-Referenced	---		
Review of Working Papers	---		
Auditor	---		
Auditor-in-Charge	---		
Supervisor	---		

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE  
RESPONSIBLE FOR ADMINISTERING ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF AGRICULTURE:		
Bob Bergland	Jan. 1977	Present
John A. Knebel	Nov. 1976	Jan. 1977
Earl L. Butz	Dec. 1971	Oct. 1976
ASSISTANT SECRETARY FOR ADMINISTRATION (note a):		
J. Paul Bolduc	Mar. 1976	June 1977
INSPECTOR GENERAL (note a):		
Thomas F. McBride	Oct. 1977	Present
DIRECTOR, OFFICE OF AUDIT:		
Leonard H. Greess	Apr. 1977	Present

a/Secretary's Memorandum No. 1915, dated Mar. 23, 1977, transferred responsibility for the internal audit function from the Assistant Secretary for Administration to the Inspector General.