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Internal Auditing in the Departments of the Air Force and Navy.
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A review of the Air Force Audit Agency indicated that the benefits of the agency's service outweighed the costs. During fiscal year 1976, the agency issued over 5,400 audit reports which identified \$242 million in potential savings and contained recommendations for lowering costs and increasing efficiency. Improvements are still needed to keep management better informed. Recommendations were made to: raise the audit function to a higher level in the Air Force's organization, remove restrictions on the scope of its audit work, appoint civilians to the position of Auditor General and most internal audit staff positions, and use the audit staff more effectively. The Naval Audit Service has also been cost effective, with reported potential savings of \$177 million and an operating cost of about \$13 million. Most of the problems identified in the Naval Audit Service and recommendations to correct them were similar to those for the Air Force Audit Agency. An additional problem noted was that the Naval Audit Service's followup system does not insure that all deficiencies identified by internal audits are promptly corrected. The Secretary of Defense should direct the Secretary of the Navy to make more followup reviews on audit findings and periodically to provide management with summaries of evaluations. (RTW)

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STATEMENT OF
DONALD L. SCANTLEBURY, DIRECTOR,
FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION
BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES
CONCERNING INTERNAL AUDITING IN THE DEPARTMENTS
OF THE AIR FORCE AND NAVY

Mr. Chairman and Members of the Committee:

We are pleased to be with you today to discuss the results of our review of the internal audit activities of the Departments of the Air Force and Navy. With me are Mr. George Egan and Mr. Richard Nygaard from the Financial and General Management Studies Division, GAO.

I will summarize the major issues addressed in two reports. The reports, which were issued to you on November 11, 1977, are the third and fourth in a series which we are preparing on the internal audit agencies of the Department of Defense. They discuss a number of issues relating to the internal audit activities of the Air Force and Navy audit agencies.

Mr. Chairman, the reports were sent to the Secretary of Defense for comment, and the Air Force report contains the Departments of Defense and Air Force positions on our findings and recommendations. However, comments on the Navy report were not received in time to meet the required issue date and therefore are not included in our report.

RESULTS OF OUR REVIEW OF
THE AIR FORCE AUDIT AGENCY

First I would like to discuss the Air Force. Mr. Chairman, let me say that the Air Force Audit Agency enjoys a high level of competence and professionalism among its staff. We believe that the benefits of its service greatly outweigh its cost. During fiscal year 1976 the Audit Agency issued over 5,400 audit reports, the bulk of which were issued to local level or installation commanders. These reports identified \$242 million in potential savings to the Department of the Air Force and contained many recommendations for achieving lower costs and increased efficiency. Considering the Audit Agency's annual operating costs, which totaled about \$21.4 million in fiscal year 1976, these accomplishments are noteworthy.

Despite these accomplishments, Mr. Chairman, the internal audit function of the Department of the Air Force needs strengthening so its auditors can keep top management better informed on how operations are conducted and recommendations and improvements are carried out. Our report contains recommendations to:

--raise the audit function to a higher level in the

Air Force's organization,

- remove restrictions on the scope of its audit work,
- appoint a qualified civilian to the position of Auditor General of the Air Force Audit Agency,
- appoint civilians to most internal audit staff positions, and
- use the audit staff more effectively.

At this time, I would like to discuss each of these areas in more detail and summarize the Department of Defense's comments on the report.

INDEPENDENCE OF THE AUDIT AGENCY

At the time of our review the Air Force Audit Agency reported to a relatively low level within the Department of the Air Force. The Auditor General reported to the Comptroller of the Air Force with three reporting levels between the Audit Agency and the Secretary of the Air Force. This placement was inconsistent with our audit standards relating to independence which require the audit function to be located at the highest practical organizational level. We believe the chief auditor should have the kind of relationship with the head of the agency that (1) will enable him to report his findings directly to the agency head when warranted, (2) meet with the agency head when he has problems that merit the agency head's attention, and (3) be used by the agency head to ferret out and help solve problems the agency head is concerned about. Reporting to the highest practical level ensures that top management

is made aware of problems and can take appropriate action to correct them.

Audit Scope Restrictions

Another aspect of independence relates to the auditors' freedom to select areas for audit. Air Force auditors did not have such freedom because sometimes their plans and reports were reviewed and approved by the Comptroller and members of the Air Staff System Selection Committee, comprised of persons responsible for operations to be audited. This practice resulted in the cancellation of audits in favor of inspections by the Inspector General even though the activities had been identified by the Audit Agency as needing its attention. We recognize that top level managers need information on their operations, however, most manager's span of control is necessarily limited and they cannot monitor all aspects of every operation. Internal auditors uniquely supplement management's control in this regard and should not be restricted from selecting areas which they identify as needing management attention.

Audit Agency reviews have been cancelled because the Inspector General had either planned an inspection or was conducting an inspection in the same area. Inspections cannot be a substitute for audits because they lack the depth of audits and therefore do not satisfy our standards for audit coverage. Restricting audits of activities can result in problems not being identified and reported to top management, our Office, and the Congress.

THE CHIEF OF THE AIR
FORCE AUDIT AGENCY
SHOULD BE A CIVILIAN

Contrary to the intent set forth in congressional appropriation language and DOD policy, which requires all nonmilitary positions to be filled by civilians, the Audit Agency is headed by a military officer. The position of Auditor General of the Air Force Audit Agency requires skills found in the civilian community and does not require the skill factors set forth in Department of Defense criteria for using military personnel. In addition, because military officers are subject to periodic rotation, the Audit Agency has had four different military chiefs since May 1970. We believe that long audit and financial management experience is an essential requisite of top audit policy and management positions. Based on these considerations, we concluded that the position should be filled by a qualified civilian. This arrangement would not only be consistent with Department of Defense policy but would also provide for a longer tenure for incumbents of the position, thus providing greater continuity.

AUDIT STAFF OF THE
AIR FORCE AUDIT AGENCY
SHOULD BE CIVILIANS

Congressional appropriation language and DOD policy require that audit staffs as well as supervisory personnel are to be civilian if that is the least costly form of manpower.

We estimated that the Air Force incurred over \$2 million in excess operating costs because it used military personnel in approximately 50 percent of its audit positions. This could have been avoided by employing civilian personnel in all audit positions.

NEED FOR MORE EFFECTIVE
USE OF AUDIT STAFF

The Audit Agency devotes a considerable amount of time to work that is either not consistent with its primary mission or is not sufficiently productive to warrant the use of its scarce staff resources.

Unlike the Army and Navy audit groups, the Air Force Audit Agency maintains audit offices at major commands and bases worldwide. Under this concept the resident auditor has a large amount of discretionary time. This contributes to increased audits of small areas and may result in delays or cancellations of audit work in important functional areas. The Audit Agency also spends a considerable amount of staff time on audits specifically requested by local unit commanders. Usually these audits are evaluations of problems already identified by the requesting commands. The audits result in reports with limited distribution and low visibility, and do not result in the correction of major problems. We are not suggesting that commanders request audit work be discontinued entirely. We are suggesting that it be more carefully and selectively performed.

RECOMMENDATIONS TO THE
SECRETARY OF DEFENSE

Mr. Chairman, we recommended in our report that the Secretary of Defense direct the Secretary of the Air Force to:

- 1) relocate the Air Force Audit Agency under the Secretary or Under Secretary of the Air Force;
- 2) clearly identify the mission of the Air Force Audit Agency as it relates to scope and reporting and insure that the Audit Agency is not restricted in its audit coverage;
- 3) fill the position of Auditor General of the Air Force with a professionally qualified civilian;
- 4) fill all internal audit staff positions with civilians; and
- 5) improve the organizational structure and system of management control to bring about more effective use of staff.

In our opinion, implementation of these recommendations will strengthen the Air Force Audit Agency, and increase its ability to do the job intended of it.

AGENCY ACTION

Mr. Chairman, the Assistant Secretary of Defense (Comptroller) responded to the recommendations in our draft report and concurred with most of them. He agreed to raise the reporting level of the Audit Agency, convert the military auditor positions to civilian over the next 3 to 4 years, clarify Air Force regulations governing audits and inspections,

and seek ways to more effectively use the audit staff.

Two areas of disagreement dealt with our recommendations that the Auditor General position be converted to civilian and that the Audit Agency be reorganized on a regional basis. DOD did not fully agree with these recommendations. However; it agreed to reassess conversion of the Auditor General position when the conversion of the staff positions has been completed and to re-evaluate the organizational structure and make adjustments to achieve the most effective use of staff. We feel that the Air Force should prepare a detailed analysis of the benefits and costs of the residency program as compared to the regional system employed by the other military service audit groups. Additionally, we believe that DOD policy and instructions on the use of military staff is clear. We know of no compelling reason why the position of Auditor General and other military positions in the agency should not be filled by professionally qualified civilians in conformance with that policy.

RESULTS OF OUR REVIEW OF
THE NAVAL AUDIT SERVICE

Mr. Chairman, the Naval Audit Service also enjoys a high level of competence and professionalism among its staff. Like the Air Force Audit Agency it more than pays its way having reported over \$177 million of potential savings in fiscal year 1976 while operating costs for the same period were only about \$13 million. Most of the problems identified in

the Naval Audit Service are very similar to those identified in the Air Force Audit Agency and to save time I will only identify these similar problems and then discuss the one area not covered in the Air Force report. In our report we recommended that:

- The Naval Audit Service be at a higher organizational level to enhance its independence.
- The Director of the Audit Service and other audit positions filled by military personnel be converted to civilian personnel to provide longer tenure, continuity of management, and to save money.
- The Audit Service could be more effective if it concentrated on its mission related workload.

The one dissimilar area in the two agencies was the lack of adequate followup on Naval Audit Service report findings. The Audit Service's followup system does not insure that all deficiencies identified by internal audits are promptly corrected. Reported deficiencies sometimes are not corrected until the next audit, which may not occur for several years. In the meantime, opportunities for savings are lost and inefficient and ineffective operations continue to exist.

RECOMMENDATIONS TO
THE SECRETARY OF DEFENSE

Mr. Chairman, our recommendations to the Secretary of Defense are the same as those recommended for the Air Force for the three

areas that were similar. Additionally, we recommended that the Secretary of Defense direct the Secretary of the Navy to make more followup reviews on audit findings and periodically provide top management with summaries of these evaluations.

AGENCY ACTIONS

Mr. Chairman, the Assistant Secretary of Defense (Comptroller) has subsequently responded to the recommendations in our report and concurred with most of them. He agreed to raise the reporting level of the Audit Service, convert the Deputy Director and some of the other audit positions to civilian and reduce the level of effort spent on special request audits.

Areas of disagreement dealt with our recommendations that all audit positions be converted to civilian and that the Audit Service make more followup reviews.

The Assistant Secretary did not agree that the Director of the Audit Service and certain other key positions should be converted to civilian because he viewed the mix of military/civilian personnel as providing an effective blending of operational, managerial and professional skills. His position as stated in his reply is not consistent with the DOD policy and instructions as cited in our report nor is it consistent with his prior position on having these jobs filled by civilians. As I said earlier, we believe that long audit and financial management experience is an essential requisite of top audit policy and management positions. Considering published DOD policy and guidance

and the benefits available by having these jobs filled by civilians we do not believe that the head nor any of the audit management or policy positions need to be military to accomplish the Navy's primary audit mission.

While the Assistant Secretary agreed there was a need for improved audit followup and emphasized that management bears primary responsibility, he stated that any additional followup by audit personnel would be counter productive and further reduce the time available for high priority audit work. We agree that management bears the responsibility for followup. However, as we stated in our report the large number of repeat findings indicates the inadequacy of both management's implementation of audit recommendations and the Audit Service's procedures for audit followup. We believe the Secretary of Defense should continue to seek ways to improve audit followup to help ensure that corrective actions on audit recommendations are made where warranted.

This concludes my statement, Mr. Chairman, and I would be pleased to answer any questions you may have.