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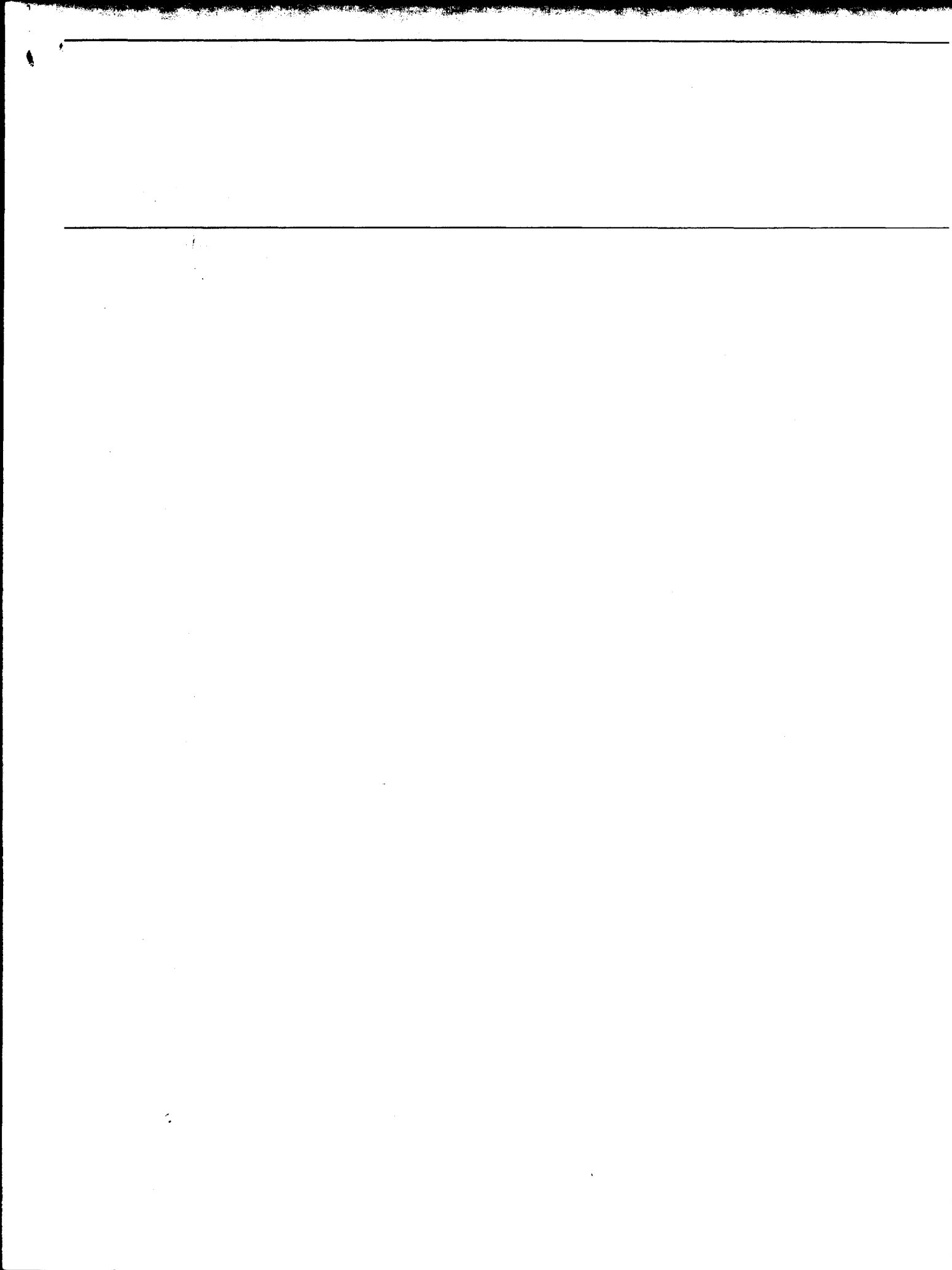
Fact Sheet for the Chairman,
Subcommittee on Readiness, Committee
on Armed Services, House of
Representatives

April 1989

DOD INTERNAL REVIEW

Extent of Operations, Types of Work Performed, and Benefits Derived







United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

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The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

At the request of the former Chairman of the Subcommittee, we reviewed the activities of internal review staffs in the Department of Defense (DOD) in order to identify (1) the extent of internal review operations, (2) the types of work performed by internal review personnel, and (3) the benefits derived from internal review work. "Internal review" is a term used by DOD to describe groups which assist commanding officers and management by reviewing the performance of the command and carrying out other functions associated with ensuring appropriate internal controls and use of resources.

RESULTS IN BRIEF

We found that DOD has established internal review offices in the Army, Navy, Marine Corps, Defense Logistics Agency, and National Guard Bureau. The Air Force does not have internal review offices. In fiscal year 1988, there were about 800 internal review groups operating in DOD. The groups do not report organizationally to any central authority but generally report to local commanders. There are about 2,800 staff members assigned to internal review operations. Internal reviewers generally have audit skills but may also be skilled in other areas, such as management analysis and various military disciplines. In fiscal year 1988, the cost of internal review activities throughout DOD was \$92 million.

The type of work done by internal review varies considerably from one office to the next and from one DOD component to another. Generally, the work includes audits and other reviews, follow-up on hot-line complaints and on audit recommendations made by other audit organizations,

and liaison work with other auditors who are reviewing the internal review's command. Generally, internal review reports are not distributed outside the reviewed command.

Based on data compiled by the DOD Office of Inspector General, internal review activities resulted in about \$321 million in potential monetary benefits for fiscal year 1988, as well as other benefits which are not quantifiable, such as improved internal controls, resolution of hot-line complaints, and follow-up on actions taken on the audit recommendations of others.

BACKGROUND

DOD internal review activities are authorized by DOD Directive 7600.2, dated January 10, 1985, which sets forth audit policy for the Department. This directive authorizes DOD components, such as the military departments, to establish internal review organizations to provide commanding officers and management at various organizational levels with an internal audit capability to resolve known or suspected problems and operational deficiencies. The internal review function was also intended to supplement audit services provided by the central internal audit organizations.

The central internal audit organizations are the DOD Inspector General (IG), the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. They provide audit services that are primarily focused on the needs of higher level commanding officers and management, such as the secretaries, assistant secretaries, and military chiefs. The central internal audit organizations report directly to the Secretary of Defense or to the military secretaries. The DOD IG, along with the central audit organizations, is responsible for monitoring internal review activities throughout the Department.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to identify (1) the extent of internal review operations in DOD, (2) the types of work performed by internal reviewers, and (3) the benefits that are derived from internal review activities.

To identify the extent of internal review operations, we held discussions regarding internal review locations, staffing, and funding with internal review officials at DOD

component headquarters responsible for internal review oversight and policy guidance. We also relied on information about internal review that was submitted by DOD components to the DOD IG for fiscal year 1988, which included the number of DOD internal review personnel and the costs associated with these operations.

As agreed with Subcommittee staff, to determine the types of work performed, we contacted internal review activities based on their proximity to the Washington, D.C., area. In total, we held discussions with internal review officials at 31 of 792 DOD internal review offices. We also reviewed mission statements and discussed the type of work performed with DOD component headquarters personnel responsible for overseeing internal review operations throughout the components.

In addition, for the offices we contacted, we reviewed fiscal year 1988 plans, which included the subject matter and objectives of reviews planned. We also judgmentally selected and reviewed 132 fiscal year 1987 and 1988 internal review reports to ascertain the types of reviews conducted. Our selection of internal review reports was generally limited to those prepared by offices we visited, because internal review reports are normally not distributed beyond the command in which the report is prepared. In addition, we reviewed summaries of internal review reports included in data that had been reported to the DOD IG.

To ascertain benefits derived from internal review work, we identified (1) the types of audit findings and problems reported in internal review reports we selected, (2) the monetary benefits resulting from internal review activities reported by DOD components to the DOD IG for fiscal year 1988, and (3) the nonmonetary benefits expected to result from internal review efforts.

We did not test or otherwise verify the accuracy of the information reported to the DOD IG concerning number of internal review personnel, associated costs, and claimed monetary benefits. Also, we did not review the quality of the audit work or determine whether management took promised actions. We discussed the contents of our report with appropriate DOD officials. Our review was performed in accordance with generally accepted government auditing standards between May and December 1988.

Appendix I contains additional details about DOD internal review activities by agency and service department. Appendix II contains examples of internal review reports that we believe are typical of the 132 reports we reviewed. The major contributors to this fact sheet are listed in appendix III.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this report. At that time, we will send copies of the report to the Secretary of Defense and to other interested parties. Copies will be made available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "John J. Adair". The signature is written in black ink and is positioned above the typed name and title.

John J. Adair
Director, Audit Oversight and Policy

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ABBREVIATIONS

DLA	Defense Logistics Agency
DOD	Department of Defense
IG	inspector general

DOD INTERNAL REVIEW ACTIVITIESEXTENT OF INTERNAL REVIEW ACTIVITIES

The Departments of the Army and Navy, the U.S. Marine Corps, the Defense Logistics Agency, and the National Guard Bureau have established internal review organizations. The Department of the Air Force does not have an internal review organization. Rather, it relies on the Air Force Audit Agency and other groups to provide localized audit and review services to commanders, in addition to the audits performed for higher level commanding officers and management.

At the end of fiscal year 1988, there were 2,788 internal review personnel working at 792 Department of Defense activities or locations. Fiscal year 1988 costs for DOD internal review activities totaled about \$92 million. Table I.1 summarizes the extent of DOD internal review operations.

Table I.1: DOD Internal Review Operations for Fiscal Year 1988

<u>DOD component</u>	<u>Offices</u>	<u>Personnel assigned</u>	<u>Reports</u>	<u>Cost^a</u>
Army ^b	279	1,298	3,675	\$46.1
Navy	400	916 ^c	8,923	28.7
Marine Corps	34	119	1,184	3.9
Defense Logistics Agency	25	126	299	4.8
National Guard Bureau	<u>54</u>	<u>329</u>	<u>657</u>	<u>8.8</u>
Total	<u>792</u>	<u>2,788</u>	<u>14,738</u>	<u>\$92.3</u>

^aDollars in millions.

^bIncludes Army Reserve internal review offices (53), personnel (191), reports (103), and costs (\$1.8 million). Thirty of the Army Reserve internal review personnel work full-time, while the remainder perform internal review activities during weekend drills.

^cNot all Navy personnel are full-time.

TYPES OF WORK PERFORMED

Our discussions with officials at various internal review offices and reviews of mission statements indicated that the staffs were responsible for conducting internal reviews and numerous audit-related activities, such as follow-up on corrective actions taken on other internal and external audit recommendations, and audit liaison. Audit liaison work includes serving as a focal point for all external audits, processing external audit findings and reports, and participating in discussions between management and external auditors with regard to audit results. In some instances, internal review staffs also conducted inquiries based on allegations received by the DOD IG, GAO, and other hot lines regarding fraud, waste, and abuse. Reliable data were not available to indicate the time spent on these various functions for each DOD component. The following sections discuss the types of work conducted by internal review organizations in each DOD component.

Army

The Army views the internal review function as an audit capability reporting to commanders. Almost all Army internal review offices are staffed with GS-511 civilian auditors ranging from the GS-5 to GS-15 level who must (1) report to the commander or the deputy commander and (2) conduct their work in accordance with generally accepted government auditing standards.

Our analysis showed that Army internal review staffs are primarily involved in conducting audits and performing audit-related activities such as audit follow-up and audit liaison. Our analysis was based on a review of the internal review mission statement, discussions with internal review officials at Army headquarters responsible for overseeing internal review activities Armywide, and discussions with officials and review of the work at 7 of 279 Army internal review offices. We found that each of these offices carried out audit follow-up and liaison functions in addition to performing audits.

We reviewed 33 Army internal review reports. Recent Army internal reviews included evaluations of (1) the acquisition and use of computer resources, (2) the process used to assess whether items should be procured competitively, (3) the validity of reported spare-part inventory levels, (4) the accuracy of government reports on the inspection and acceptance of materials supplied by contractors, (5) the administration of unpriced contract modifications, (6) a training support center, (7) microcomputer purchases, and (8) funding policies and procedures for leasing recruiting facilities.

Navy

Our discussions with officials at 10 of 400 Navy internal review offices, including Navy headquarters officials responsible for overseeing all Navy internal review operations, disclosed that like the Army, the Navy requires that internal review offices report to commanding officers. In contrast to the Army, the Navy does not view internal review as primarily an audit function. Rather, Navy internal review is viewed as part of the commanders' internal control system, and it conducts both audits and other kinds of efforts, such as evaluations of internal control vulnerability assessments and fund cash counts. When conducting audits, Navy internal reviewers are required to follow generally accepted government auditing standards. However, for other kinds of analyses, the Navy does not require adherence to these standards. Navy commanding officers are authorized to assign personnel to conduct internal reviews either on a full-time or part-time basis. According to Navy internal review officials, about 60 percent of the Navy's internal review personnel are GS-511 civilian auditors ranging from the GS-5 to GS-15 level. The remaining internal reviewers are management analysts, accountants, program analysts, and military personnel. About 5 percent of Navy's internal review personnel are military.

Half of the 10 offices we visited carried out audit liaison and follow-up activities and investigated hot-line complaints. All of the offices carried out duties related to the Federal Managers' Financial Integrity Act, including coordinating management control reviews by summarizing vulnerability assessments conducted by managers in accordance with the act.

We reviewed 42 Navy internal review reports. Some of the reviews conducted by offices we contacted involved verification of various funds, including chapel funds, enlisted and officers mess funds (ranging from \$647 to \$16,582), a \$2,500 imprest fund, and a \$2,249 bachelor officers' quarters fund. Other reviews included an evaluation of accounting transactions to assess the accuracy of accounts payable and outstanding obligations; the administration of timekeeping, leave, and overtime; microcomputer management; and financial audits of recreation association activities.

Marine Corps

We contacted officials at 3 of 34 Marine Corps internal review offices, including the official responsible for overseeing such operations throughout the Corps. Our discussions and review of mission statements revealed that internal review is viewed as a management control function to help commanders accomplish the

mission of the command. The Corps does not view internal review as an audit capability and does not require its internal reviewers to follow generally accepted government auditing standards. Marine Corps headquarters internal review officials told us that while some internal review products are called audits, they do not believe that this is an appropriate term to describe such products. They believed that internal review efforts should be described as studies or analyses.

Forty-two percent of internal review personnel are military officers and enlisted personnel. The remainder are generally GS-511 civilian auditors ranging from the GS-5 to GS-13 level. We were told that Marine Corps internal review staffs work under Secretary of the Navy policy direction but do not report to anyone outside the Marine Corps. Organizational placement of internal review staffs and qualifications of personnel are at the discretion of the commander. The offices we contacted reported to the unit comptroller.

At the three offices we contacted, we found that Marine Corps internal review personnel handled hot-line complaints, conducted monthly and quarterly cash counts of various imprest and other funds, performed audit follow-up and liaison activities, and carried out special studies. We reviewed 12 Marine Corps internal review reports. Some of the internal reviews performed included cash counts, imprest fund verifications, internal control reviews of various nonappropriated funds, and payroll audits.

Defense Logistics Agency

Discussions with internal review officials at 8 of the 25 Defense Logistics Agency (DLA) internal review offices indicated DLA's internal review offices are designed to provide commanders with their own audit capability to assess the effectiveness of operations and programs. Internal review is staffed with GS-511 civilian auditors ranging in grade from GS-5 to GS-14 who are required to follow generally accepted government auditing standards in their work. We found that DLA internal reviewers are primarily involved in audit or audit-related activities. Almost all of the offices we contacted carried out audit follow-up activities and about half spent some time investigating hot-line complaints.

We reviewed 36 DLA internal review reports. Recent audits completed by these offices included reviews of (1) the logistics systems modernization program, (2) selected charges to the

defense stock fund, (3) the timeliness of fuels contract payments, (4) unpaid interest penalties under the Prompt Payment Act, (5) security controls, and (6) physical inventory and accounting adjustments.

National Guard Bureau

Our discussions with Army headquarters officials responsible for overseeing National Guard Bureau internal review operations and our contacts with officials at two internal review offices indicated that internal reviewers primarily provide audit services to the Adjutant General who heads the National Guard of each state or territory. The reviewers are required to follow generally accepted government auditing standards. They are GS-343 series "National Guard Technicians," who work full-time for the National Guard as civilians but must also be members of the National Guard. Staff sizes in the 54 field offices (50 states and 4 territories) generally range from 5 to 12 people, depending on the size of the state or territory. Personnel at the field level range in grade from GS-5 to GS-11. The headquarters National Guard Bureau internal review office reports to the Vice Chief of the National Guard Bureau. The field internal review offices report to the state or territory National Guard U.S. Property and Fiscal Officers. These individuals are accountable for federal funds and property.

We reviewed 9 National Guard internal review reports. Recent reviews completed by the offices we contacted included evaluations of (1) the adequacy of procedures and controls governing the award and administration of contracts, (2) effectiveness of controls over scheduling the use of aircraft, (3) military pay operations, (4) photo lab/audiovisual activities, (5) telephone system utilization, (6) procurement and contracting procedures, and (7) toxic and hazardous material waste management.

BENEFITS DERIVED

DOD reported that for fiscal year 1988, internal reviews resulted in about \$321 million in potential monetary benefits, which include collections, monetary savings, and potential cost avoidances. Table I.2 shows the reported potential monetary benefits and costs of the DOD components' internal review operations. It also shows the ratio of potential monetary benefits reported per each dollar of cost. All components had potential monetary benefits exceeding their costs except the Marine Corps. Army internal review activities accounted for 65 percent of the potential monetary benefits while employing slightly less than half of the total personnel devoted to internal review. The Navy and Marine Corps internal review activities accounted for about

20 percent of the potential monetary benefits. They employed almost 40 percent of the total internal review personnel, and their costs were slightly over a third of the total.

Table I.2: DOD Internal Review Potential Monetary Benefit for Fiscal Year 1988

<u>Component</u>	<u>Cost^a</u>	<u>Potential benefit^a</u>	<u>Ratio of cost to benefit</u>
Army	\$46.1	\$208.3	1 to 4.5
Navy	28.7	63.0	1 to 2.2
Marine Corps	3.9	3.2	1 to 0.8
Defense Logistics Agency	4.8	17.2	1 to 3.6
National Guard Bureau	<u>8.8</u>	<u>29.1</u>	1 to 3.3
DOD-wide	<u>\$92.3</u>	<u>\$320.8</u>	1 to 3.5

^aDollars in millions.

It is important to note that not all potential monetary benefits are identifiable or measurable. Also, not all internal review activities are devoted to efforts that could yield potential monetary benefits and there are intangible benefits that result from internal review work. These include improved internal controls and other management improvements, assessments of the adequacy of actions taken to improve deficiencies reported by other auditors, and the resolution of hot-line complaints.

EXAMPLES OF INTERNAL REVIEW REPORTS

The following are examples of internal review results for each DOD component. They are provided to further illustrate the types of work performed by DOD internal reviewers. The examples presented are typical of the types of internal review reports we reviewed.

ARMY

In one Army internal review, the staff found inadequacies in the methods used to determine whether spare parts for tanks and trucks should be acquired using competitive contracts. Contractors had been employed to perform the screenings, and the internal review concluded that \$3.1 million of the \$4.2 million in total funding for this process had been wasted because Army managers did not effectively monitor how the contractors carried out the screening process. As a result, contractors were paid an average of \$950 per item to screen items with little or no demand history, items with low unit prices, and items that already had been procured competitively. The review also found that different contractors were being paid to screen the same items.

The internal reviewers estimated that \$7.3 million in planned expenditures for future screening could be saved if immediate corrective action were taken to ensure that only realistic candidates for competition were screened and made several recommendations to improve the process. The report did not include management's response.

In another Army internal review, the reviewers reported that a review of a contractor's time and attendance records showed that the government had paid almost \$6,700 for custodial services not received.

NAVY

In one Navy review, the internal reviewers evaluated time and attendance practices for about 600 employees. The reviewers found weak internal controls. The assignment of responsibility for the process was not clear, resulting in (1) a lack of certification of time card accuracy, (2) unsupported and unjustified overtime worked by personnel during the same period that annual leave was taken, and (3) incomplete and otherwise inaccurate time cards. The internal reviewers recommended the establishment of a timekeeping clerk position and procedures to review and monitor leave and overtime worked. According to the report, actions were being planned by management to rectify the problems, and the internal

review staff planned to monitor implementation of the corrective action.

In another Navy internal review of a hot-line complaint, the reviewer found that contrary to federal personnel regulations, an employee was being supervised by a spouse. Based on the reviewer's recommendations, one of the employees was transferred. In addition, the personnel department developed publications on nepotism, and instructions were strengthened to prohibit relatives working in an employee/supervisor relationship.

MARINE CORPS

The results of one Marine Corps internal review involved a review of a dependent student activity fund. This fund, which is privately supported by profits from school picture and book store sales, is used to purchase items in support of various school activities, including such things as art supplies and library books. The staff concluded that there were no internal controls or accounting records for this fund. For example, there was no documentation of bank reconciliations of the checkbook balance, cash on hand was overstated due to a posting error, a budget had not been prepared, and available discounts for certain expenditures had not been taken. In addition, funds had been collected for lost books purchased with appropriated funds, but the funds had not been remitted to the U.S. Treasury. The internal review staff made several recommendations to correct these deficiencies.

In another Marine Corps internal review, the reviewers studied and reported on the impact of 5 alternative ways to distribute \$6.1 million in budget reductions among 17 field commands.

DEFENSE LOGISTICS AGENCY

One DLA internal review involved a study of the timeliness of fuel payments made to vendors. The staff reviewed 100 payments totaling over \$90 million and found that 14 percent were paid late (over 45 days), resulting in the government paying interest to the vendors. Another 29 percent of the payments had been delayed (paid between 31 and 45 days). While the government was not required to pay vendors interest for delayed payments, the report noted that goodwill with the vendors was adversely affected. The internal review staff reported that the lack of timeliness was caused by processing delays due to personnel turnover, the lack of trained

staff, and understaffing, as well as late submissions of documentation and poor communication between field staff and vendors.

The report recommended establishing a team to help recognize and process potential late and delayed payments. In addition, several ways to improve communication and transmission of documentation were recommended, including the use of (1) electronic transmission, (2) standardized messages in conveying the results of government acceptance of contractor-provided goods, and (3) a toll-free number to provide assistance to field staff and vendors in handling problems and questions. At the time of our review, the internal review staff had not received management's response.

Another DLA internal review evaluated the controls over U.S. postage money counts and express mail. A review of postage meter and express mail utilization showed that while controls were adequate, one postage meter, leased at a yearly cost of \$228, was not being utilized. The report recommended that the meter be replaced with \$25 worth of postage stamps, resulting in annual savings of \$203. Management agreed.

NATIONAL GUARD BUREAU

One recent review of travel management by the headquarters National Guard internal review staff showed that because travel was not centrally managed, excessive nonmission travel expenses had been incurred. The staff found that there was a lack of published guidance on travel approval and travel authorizing procedures, and approval officials had not been designated. The reviewers reported that about 45 percent of the trips reviewed were nonessential and that over one-third of field activity travel sampled was approved or authorized by individuals not having appropriate authority. The report recommended that management of the travel program be assigned to a single office, adequate guidance on travel be published, and travel monitoring procedures be established. According to the report, management agreed to take these actions.

Another National Guard Bureau internal review assessed the effectiveness of management controls over the handling, storage, transportation, and disposition of toxic and hazardous materials and waste. The reviewers concluded that the potential risk of serious injury or legal liability was much higher than acceptable because of control or procedural weaknesses in environmental planning, hazard communications, training, and transportation. The reviewers recommended several actions to correct these problems, including establishing greater oversight over state

programs, developing improved guidance and training, and placing a greater emphasis on safety. According to the report, senior National Guard officials generally agreed with the recommendations and had initiated corrective actions.

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