



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

Accounting and Information  
Management Division

B-257423

June 7, 1994

Mr. Derek J. Vander Schaaf  
Deputy Inspector General  
Department of Defense  
400 Army Navy Drive  
Arlington, VA 22202-2884

Dear Mr. Vander Schaaf:

This letter documents the primary points discussed in our April 7, 1994, briefing to your staff on our review of certain audits conducted by your organization. Specifically, the briefing focused on our review of the fiscal year 1992 audits of the Air Force's consolidated financial statements (general and trust funds) and Air Force Defense Business Operations Fund (DBOF) activities' financial statements.

The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) mandated that the Department of Defense (DOD) Inspector General, or an independent external auditor selected by the DOD Inspector General, conduct and report on the results of those audits. While your office did not select an independent external auditor to conduct these audits, it arranged for the Air Force Audit Agency (AFAA) to perform the audit work on the Air Force's financial statements and conduct much of the audit work on the financial statements of Air Force-operated DBOF fund activities. We reviewed this audit work because one of our primary long-term goals is for the federal government to achieve significantly improved financial management through effective implementation of the CFO Act.

Because your office relied on AFAA's audit work in these audits, we reviewed your office's and AFAA's compliance with the audit provisions of the CFO Act and related professional audit standards, particularly those related to fieldwork and reporting when relying on the work of other auditors. We did not audit any accounts, line items, or disclosures in the financial statements of either the Air Force or DBOF. We are providing our observations on AFAA's compliance with

the CFO Act and audit standards in a separate letter to the Air Force Auditor General.<sup>1</sup>

Overall, we would like to commend your organization for its commitment to fulfill the objectives of the CFO Act. We were particularly impressed by the thoroughness and straightforward manner in which your office reported the results of financial audits of DBOF. We also identified opportunities for the DOD Inspector General to be more proactive on future CFO Act-mandated audits of military service general and trust funds.<sup>2</sup> Specifically, we suggest that the Inspector General provide greater oversight of AFAA during fieldwork. Professional audit standards require an auditor who relies on the work of another auditor to implement certain tests or other procedures to ensure that the other auditor's work met those standards. Rather than the specific fieldwork reviews contemplated by these standards, the DOD Inspector General relied on its general understanding of AFAA's work derived from the Inspector General's oversight of AFAA's activities and post-audit quality reviews.

Further, we suggest that the DOD Inspector General take a more pronounced role in reporting audit results. At the end of the Air Force general and trust funds audit, the Inspector General merely added a memorandum to the AFAA's audit report to transmit it to the Secretary of Defense.

We will continue to be interested in how the CFO Act audits of DOD organizations are conducted. In this respect, we would be pleased to work with you to provide any consultation or other assistance that would help you in your efforts to conduct these audits. We appreciate the courtesy and cooperation extended to us by your staff throughout our review. We hope our observations will be useful to you in planning and executing future financial audits.

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<sup>1</sup>Letter to Mr. Jackie R. Crawford (GAO/AIMD-94-125R, June 7, 1994).

<sup>2</sup>The CFO Act only required pilot audits of the Army and Air Force for fiscal year 1992. However, the Office of Management and Budget administratively extended the audit requirements for fiscal year 1993 financial statements for the Army and Air Force.

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Please contact me at (202) 512-9095 or Gerald W. Thomas at (202) 512-8841, should you wish to discuss these matters further.

Sincerely yours,

A handwritten signature in cursive script that reads "David M. Connor".

David M. Connor  
Director, Defense Financial Audits

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