

DOCUMENT RESUME

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Internal Audit Coverage of Financial Matters in the Department of Justice. FGMSD-77-28; B-160759. May 13, 1977. 6 pp. + appendices (14 pp.).

Report to Department of Justice: Office of the Attorney General; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

Issue Area: Internal Auditing Systems: Sufficiency of Federal Auditors and Coverage (201).

Contact: Financial and General Management Studies Div.

Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of Justice; Department of Justice: Internal Audit Staff.

Congressional Relevance: House Committee on the Judiciary; Senate Committee on the Judiciary.

A review of Justice Department audit operations concentrated on the Internal Audit Staff, one of three audit organizations in the Department. Findings/Conclusions: The staff's primary emphasis was on the Federal Prison System, although it represented only 14% of the Department's FY 1976 appropriations. Only 11 of 160 audit reports dealt with the Law Enforcement Assistance Administration and the Federal Bureau of Investigation, mainly because they have their own audit groups. Limited coverage was provided for other Department agencies. More coverage was thought to be needed for the Drug Enforcement Administration and for the Immigration and Naturalization Service. The Drug Enforcement Administration disclosed plans for forming its own audit group. GAO questioned the advisability of this move, citing the advantages of a centralized organization. Recommendations: The Attorney General was asked to consider whether a new audit organization was needed or whether additional personnel should be provided to increase coverage for the Drug Enforcement Administration. (HTW)

02178-7428



*UNITED STATES  
GENERAL ACCOUNTING OFFICE*

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**Internal Audit Coverage  
Of Financial Matters  
In The Department Of Justice**

In the Department of Justice the primary emphasis of the Internal Audit Staff, which has Department-wide audit responsibility, has been audits of the financial aspects of the Federal Prison System. Only limited financial audit coverage has been provided in the other program areas.

The Department has three audit groups, and a fourth is under consideration. GAO questions whether the new audit group is needed and suggests the Attorney General consider putting the additional staff contemplated for the new group into the centralized Internal Audit Staff.



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

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

B-160759

The Honorable  
The Attorney General

Dear Mr. Attorney General:

The Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each agency to establish and maintain systems of internal control, including appropriate internal audit, to provide effective control over and accountability for all funds, property, and other assets for which the agency is responsible. The act further contemplates that the heads of agencies will assure themselves of the adequacy of the staffing and scope of internal audit arrangements in their agencies.

The Justice Department has three audit organizations: (1) the Department's Internal Audit Staff, which has Department-wide audit responsibility; (2) the Office of Audit and Investigation of the Law Enforcement Assistance Administration (LEAA), which audits LEAA's grants and contracts; and (3) the Planning and Inspection Division of the Federal Bureau of Investigation (FBI), which audits the Bureau's operating and financial management activities.

We concentrated our efforts on the operations of the Internal Audit Staff for fiscal years 1974 through 1976 to determine the extent to which financial audits are made to insure that the Department is maintaining effective control over revenues, expenditures, assets, and liabilities. We were also concerned about whether the Department's financial reports to the Department of the Treasury contained accurate, reliable, and useful data. We did not consider whether internal audits of economy and efficiency of operations or effectiveness in achieving program objectives were being adequately performed. Appendix II lists the areas of audit concern included in the scope of our review.

Since we were concerned with internal audits of financial operations, we did not review the operations of the Office of Audit and Investigation of LEAA because it conducts "external" audits of grants and contracts. We also did

not review the audit operations of the Planning and Inspection Division of the FBI because these operations, including coordination between the Department of Justice and FBI audit groups, are currently under review by the General Government Division of our Office.

The Internal Audit Staff's primary emphasis during the period reviewed has been on audits of the Federal Prison System, which represents only about 14 percent of the Department's fiscal year 1976 appropriation. The percentages of the Department's fiscal year 1976 appropriation for each of its activities and the number of audit reports issued by the Internal Audit Staff on those activities during fiscal years 1974-1976 were as follows:

| <u>Activity</u>                                | Fiscal year<br>1976 appropri-<br>ation (note a)<br><br>(millions) | <u>Funding<br/>percent</u> | <u>Number of<br/>audit<br/>reports</u> |
|------------------------------------------------|-------------------------------------------------------------------|----------------------------|----------------------------------------|
| Law Enforcement Assist-<br>ance Administration | \$ 310                                                            | 37                         | 9                                      |
| Federal Bureau of<br>Investigation             | 469                                                               | 21                         | 2                                      |
| Federal Prison System                          | <u>a/309</u>                                                      | 14                         | 93                                     |
| Legal Activities and<br>General Administration | 265                                                               | 12                         | 32                                     |
| Immigration and Naturali-<br>zation Service    | 208                                                               | 9                          | 10                                     |
| Drug Enforcement Adminis-<br>tration           | <u>150</u>                                                        | <u>7</u>                   | <u>14</u>                              |
| Totals                                         | <u>a/\$2,211</u>                                                  | <u>100</u>                 | <u>160</u>                             |

a/Includes Federal Prison Industries, Inc., revenues of \$78 million.

Only 11 of the 160 audit reports issued by the Internal Audit Staff pertained to LEAA and the FBI, which together receive 58 percent of Justice's funding, primarily because both have their own audit groups. In addition, until recently the Internal Audit Staff was restricted in its audits of FBI

operations. In October 1976, the FBI Director agreed to permit audits by the Internal Audit Staff, which then scheduled several surveys of FBI operations for fiscal year 1977.

The Internal Audit Staff has been performing most of its audits in the areas involving the 42 percent of Justice's funds represented in appropriations for Legal Activities and General Administration, the Federal Prison System, the Immigration and Naturalization Service, and the Drug Enforcement Administration, on the premise that the other 58 percent is being covered by LEAA and FBI auditors.

The Internal Audit Staff has provided extensive audit coverage of the Federal Prison System. Of the 160 reports issued during fiscal years 1974 through 1976, 93 reports were on either the Bureau of Prisons or the Federal Prison Industries, which comprise the bulk of the Federal Prison System funding.

These reviews included various aspects of cash, receivables, travel, property, liabilities, administrative control of funds, and financial reports, which are areas we consider to be among the most significant in our approval of accounting systems and our reviews of systems in operation. However, because the basic causes of the problems have not always been identified and reported to assist management in making timely and adequate corrective actions, the reviews appear to be disclosing the same or similar problems repeatedly.

Considerably fewer reports were issued and substantially less internal financial audit coverage was provided during fiscal years 1974 through 1976 in Justice's other agencies--the Drug Enforcement Administration (14 reports), the Immigration and Naturalization Service (10 reports), and Legal Activities and General Administration (32 reports). Some coverage of internal financial matters was provided to the Drug Enforcement Administration through audits of its payroll practices and procedures, controls over weapons and radio communications equipment, and payments for the purchase of evidence and information.

Financial audit work performed in the Immigration and Naturalization Service was limited to such areas as fees for services for special benefits to individuals, nonexpendable personal property and credentials, procurement and contracting activities, administratively uncontrollable overtime, and the use of excess foreign currencies held by the United States Government.

Reports issued on Legal Activities and General Administration involved administratively uncontrollable overtime, payroll practices and procedures, imprest funds, reimbursements for legal services, and payments of jail bills submitted by non-Federal facilities for housing Federal prisoners.

Based on the limited number of reports issued on the Drug Enforcement Administration and the Immigration and Naturalization Service, it appears that additional internal financial audit coverage for these two areas is needed. Drug Enforcement Administration officials advised us they were planning to create their own internal audit group because they believed many of their operations, particularly their imprest cash funds, were not receiving sufficient coverage. The officials estimated the new audit group initially would be staffed with from four to seven people.

The Director of the Internal Audit Staff said that considerable financial work had been performed by internal review groups within the Drug Enforcement Administration, and this had enabled him to provide less financial audit coverage to the Administration's operations. We agree that the work of internal review groups should be relied on whenever possible to reduce the scope of a given audit. However, such reviews cannot be considered a substitute for internal audit coverage.

The Director of the Internal Audit Staff stated that his office's concentration on Federal Prison System audits stemmed from the fact that for the first 4 years of its existence (fiscal years 1970-73) his office had to depend almost entirely on reimbursement from the groups it audited to fund its operations. About 65 percent of its reports were on the Federal Prison System, which provided the largest share of the reimbursement during that period.

The Director also stated that this extensive audit coverage of the Federal Prison System has enabled GAO to reduce the scope of its annual audits of the Federal Prison Industries, Inc. we agree that this internal audit coverage has been of assistance to us; however, we do not believe that Federal Prison System audit coverage should be so extensive as to preclude the Internal Audit Staff from providing adequate financial audit coverage to the other significant areas noted in this report.

Audit reports involving the Federal Prison System have been reduced to about 58 percent of the total reports in the past 3 fiscal years, and the Internal Audit Staff is gradually shifting into other areas of Departmental activity. The shift in emphasis to more audits outside the Federal Prison System

combined with the pending creation of an internal audit group within the Drug Enforcement Administration should help to extend adequate financial audit coverage to all entities within the Department of Justice. However, we question whether having four separate audit groups within the Department would be a desirable means of achieving internal control.

Our statements of basic principles and concepts, as set forth in our publication, "Internal Auditing in Federal Agencies," have suggested the establishment of a single internal audit organization in each agency because this provides greater independence, a broader viewpoint on the interrelationship of organizations and functions within an agency, and more systematic evaluations of all agency programs, activities, and operations.

There are instances in which the needs of management or the size and nature of a bureau's activities justify a separate audit staff of sufficient size to attract and retain qualified personnel and make possible the productive and flexible use of staff resources. In our opinion, however, one centralized audit organization is preferable to several organizations dispersed throughout a department or agency.

#### RECOMMENDATION

We recommend that you consider whether a new audit organization in the Drug Enforcement Administration is needed, or whether, in the interest of preventing further fragmentation of the Department's audit capability, additional personnel should be provided to the Internal Audit Staff to increase the Drug Enforcement Administration's audit coverage.

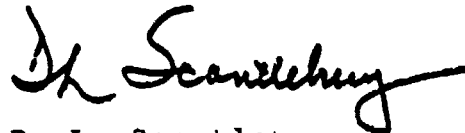
As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after 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 would appreciate receiving copies of these statements.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen of the House Committee on Government Operations and the Senate Committee on Governmental Affairs; the Chairmen of the House Committee

on Appropriations and the Senate Subcommittee on State, Justice, Commerce and Judiciary, Committee on Appropriations; the Chairmen of the House and Senate Committees on the Budget; the Chairmen of the House and Senate Judiciary Legislative Committees; the Chairman of the House Appropriations Subcommittee on State, Justice, Commerce, and Judiciary; the Assistant Attorney General--Administration; and the Director of Internal Audit Staff, Justice Department.

We appreciate the courtesies and cooperation extended to our representatives during our review. We are looking forward to receiving your comments concerning matters discussed in this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. L. Scantlebury". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

D. L. Scantlebury  
Director



INTERNAL AUDIT COVERAGE  
OF INTERNAL FINANCIAL OPERATIONS

CRITERIA FOR AUDIT COVERAGE OF  
INTERNAL FINANCIAL OPERATIONS

Our statements of basic principles and concepts regarding internal audits of financial operations provide that the internal auditor should examine financial transactions to the extent necessary to determine whether:

- The agency is maintaining effective control over revenues, expenditures, assets, and liabilities.
- The agency is properly accounting for its resources, liabilities, and operations.
- The agency's financial reports contain accurate, reliable, and useful financial data and are fairly presented.
- The agency is complying with the requirements of applicable laws and regulations.

Our statements provide that, in carrying out this work, the internal auditor should evaluate the adequacy of the agency's prescribed policies and procedures and the internal controls related to the agency's financial operations, including the accounting and financial reporting. In addition, our Policy and Procedures Manual for Guidance of Federal Agencies provides a basis for each agency to properly plan its internal audit operations to insure adequate coverage.

Appendix II to this report identifies specific financial areas that should be reviewed, as applicable, by an agency's internal audit staff.

CRITERIA FOR ORGANIZATION  
OF INTERNAL AUDIT FUNCTION

Our statements of basic principles and concepts, as set forth in our publication, "Internal Auditing in Federal Agencies," have advocated the establishment of a single internal audit organization in each agency. There are instances in which the needs of management or the size and nature of a bureau's activities are such as to justify a separate audit staff of sufficient size to attract

and retain qualified personnel and make possible the productive and flexible use of staff resources. Generally, however, one centralized audit organization is preferable to several audit organizations dispersed throughout a department or agency.

A single audit organization

- provides greater independence;
- fosters a broad viewpoint on the interrelationship of organizations and functions within an agency; and
- places the internal auditor in a better position to make systematic and independent evaluations of and reports on all agency programs, activities, and operations.

#### ORGANIZATION AND FUNDING OF THE JUSTICE DEPARTMENT

The chief purposes of the Department of Justice are to provide means for the enforcement of the Federal laws, to furnish legal counsel in Federal cases, and to construe the laws under which other departments of the Government act. These responsibilities are executed by various offices, divisions, boards, and bureaus within the Department. Work is accomplished in its central office in Washington, D.C., and in regional offices.

Fiscal year 1976 legislation authorized funding in excess of \$2 billion. The classification of the authorized funding is shown in the table on the following page.

#### INTERNAL AUDIT

There are three audit groups in the Department of Justice:

1. The Department's Internal Audit Staff is responsible for audits of all organizations within the Department of Justice.
2. The Office of Audit and Investigation of LEAA audits LEAA's grants and contracts.
3. The Planning and Inspection Division of the FBI audits the Bureau's operating and financial management activities.

Our review was limited to the operations of the Internal Audit Staff. We did not review the operations of LEAA's Office of Audit and Investigation because its audits are "external" reviews of grants and contracts. We also did not review the audit operations of the FBI's Planning and Inspection Division because these operations, including coordination between the Department of Justice and FBI audit groups, are currently under review by the General Government Division of our Office.

CLASSIFICATION OF REPORTS ISSUED

| <u>Classification</u>                       | <u>Prior years</u> | <u>Fiscal year</u> |             |             | <u>3 years</u> | <u>Totals</u>      |  |
|---------------------------------------------|--------------------|--------------------|-------------|-------------|----------------|--------------------|--|
|                                             |                    | <u>1974</u>        | <u>1975</u> | <u>1976</u> |                | <u>Accumulated</u> |  |
| Law Enforcement Assistance Administration   | 16                 | 4                  | 3           | 2           | 9              | 25                 |  |
| Federal Bureau of Investigation             | -                  | 1                  | 1           | -           | 2              | 2                  |  |
| Legal Activities and General Administration | 25                 | 4                  | 10          | 18          | 32             | 57                 |  |
| Federal Prison System:                      |                    |                    |             |             |                |                    |  |
| Bureau of Prisons                           | 77                 | 19                 | 26          | 3           | 48             | 126                |  |
| Federal Prison Industries, Inc.             | 40                 | 11                 | 15          | 19          | 45             | 85                 |  |
| Immigration and Naturalization Service      | 9                  | 5                  | 2           | 3           | 10             | 19                 |  |
| Drug Enforcement Administration             | <u>13</u>          | <u>3</u>           | <u>3</u>    | <u>8</u>    | <u>14</u>      | <u>27</u>          |  |
| Totals                                      | <u>180</u>         | <u>47</u>          | <u>60</u>   | <u>53</u>   | <u>160</u>     | <u>340</u>         |  |

OPERATIONS OF THE  
INTERNAL AUDIT STAFF

In March 1967, a central audit organization known as the Office of Management Inspection and Audit was established under the Assistant Attorney General for Administration. However, the Department's requests for funds to staff the audit organization were not acted upon favorably by the Congress.

The Internal Audit Staff was established in March 1970. During fiscal years 1971 through 1973, between 75 and 82 percent of the staff funding was provided on a reimbursable basis from Justice Department organizations that were audited. During that period, audits were made primarily in the Bureau of Prisons and Federal Prison Industries, which provided the bulk of the Internal Audit Staff's funding through reimbursement.

Commencing with fiscal year 1974, the audit group received its own funding, and thus has had more flexibility in determining where to apply its resources. Audits of Federal Prison Industries remain on a reimbursable basis, because it is a Government-chartered corporation and thus required to pay for its audits.

The following schedule shows the authorized positions of the Internal Audit Staff from its inception through fiscal year 1977 and its source of funds.

AUTHORIZED POSITIONS

| <u>Fiscal year</u> | <u>Funding</u> |                |                     |                | <u>Totals</u> |
|--------------------|----------------|----------------|---------------------|----------------|---------------|
|                    | <u>Direct</u>  | <u>Percent</u> | <u>Reimbursable</u> | <u>Percent</u> |               |
| 1970               | 9              | 100            | -                   | -              | 9             |
| 1971               | 9              | 25             | 27                  | 75             | 36            |
| 1972               | 9              | 20             | 36                  | 80             | 45            |
| 1973               | 9              | 18             | 41                  | 82             | 50            |
| 1974               | 53             | 87             | 8                   | 13             | 61            |
| 1975               | 41             | 82             | 9                   | 18             | 50            |
| 1976               | 47             | 89             | 6                   | 11             | 53            |
| 1977               | 51             | 89             | 6                   | 11             | 57            |

The Assistant Attorney General for Administration is responsible for conducting and directing the audit function in and for the Department of Justice. This includes internal audits of all organizational units, programs, and functions of the Department and audits of third-party records and performance under grants and contracts awarded by all organizational

units, except LEAA. The Director of the Internal Audit Staff is responsible for execution of the above functions and reports directly to the Assistant Attorney General for Administration, except that the results of internal audits of programs and functions of the Office of Management and Finance are reported to the Deputy Attorney General.

### INTERNAL AUDIT COVERAGE

From the creation of the Internal Audit Staff in March 1970 through September 1976, 340 reports were issued, of which 160 were issued during fiscal years 1974-76, the period of our review. Of the 160 reports, 21 were basically financial reports, and the remaining 139 contained some elements of internal financial coverage. The composition of the reports by departmental audit entity was as follows:

| <u>SUMMARY OF</u>                                  |                |                        |
|----------------------------------------------------|----------------|------------------------|
| <u>FISCAL YEAR 1976 APPROPRIATIONS</u>             |                |                        |
|                                                    | <u>Percent</u> |                        |
| LAW ENFORCEMENT ASSISTANCE ADMINISTRATION:         |                |                        |
| Grants and contracts                               |                | \$ 758,638,000         |
| Salaries and expenses                              |                | <u>51,000,000</u>      |
|                                                    | 37             | <u>809,638,000</u>     |
| FEDERAL BUREAU OF INVESTIGATION:                   |                |                        |
| Salaries and expenses                              | 21             | <u>468,700,000</u>     |
| FEDERAL PRISON SYSTEM:                             |                |                        |
| Salaries and expenses--Bureau of Prisons           |                | 186,200,000            |
| Buildings and facilities                           |                | 12,560,000             |
| Support of U.S. prisoners                          |                | 31,875,000             |
| Federal Prison Industries, Inc.                    |                | <u>78,154,000</u>      |
|                                                    | 14             | <u>308,789,000</u>     |
| LEGAL ACTIVITIES:                                  |                |                        |
| Salaries and expenses--general legal activities    |                | 60,220,000             |
| Salaries and expenses--Anti-Trust Division         |                | 21,595,000             |
| Salaries and expenses--U.S. attorneys and marshals |                | 142,300,000            |
| fees and expenses of witnesses                     |                | 16,480,000             |
| Salaries and expenses--community relations service |                | <u>3,940,000</u>       |
|                                                    | 11             | <u>244,535,000</u>     |
| IMMIGRATION and NATURALIZATION SERVICE:            |                |                        |
| Salaries and expenses                              | 9              | <u>208,000,000</u>     |
| DRUG ENFORCEMENT ADMINISTRATION:                   |                |                        |
| salaries and expenses                              | 7              | <u>149,859,000</u>     |
| GENERAL ADMINISTRATION:                            |                |                        |
| salaries and expenses                              | <u>1</u>       | <u>21,048,000</u>      |
| Totals                                             | 100            | <u>\$2,210,569,000</u> |

Note: Includes revenues of about \$78 million generated by the Federal Prison Industries, Inc., a federally chartered corporation with no appropriations in fiscal year 1976.

The primary reason that only 11 of 160 audit reports issued by the Internal Audit Staff during fiscal years 1974 through 1976 pertained to LEAA and the FBI, which together received 58 percent of Justice's funding, is that both have their own audit groups. In addition, until recently the Internal Audit Staff was restricted in its audits of FBI operations. In October 1976, the FBI Director agreed to permit such audits, and several surveys of FBI operations by the Internal Audit Staff have been scheduled for fiscal year 1977.

As the schedule of reports issued shows, 93 of the 160 reports were on various aspects of the Federal Prison System. The Prison System represents about 14 percent of Justice's funding. Total resources available to the Federal Prison System during fiscal year 1976 approximated \$309 million. This represented \$231 million of appropriated funds for the Bureau of Prisons and about \$78 million of revenues produced by the Federal Prison Industries, a federally chartered corporation.

Our review of the basic audit programs and a sample of the reports issued and supporting workpapers showed that the Internal Audit Staff audited a wide range of financial areas during their reviews of the Bureau of Prisons and Federal Prison Industries, including some that we consider among the most significant in our approval of accounting systems and our review of systems in operation. These areas include various aspects of cash, receivables, travel, property, liabilities, administrative control of funds, and reports.

Considerably fewer reports were issued and less internal financial audit coverage was provided during fiscal years 1974 through 1976 in Justice's other groups--the Drug Enforcement Administration, Immigration and Naturalization Service, and Legal Activities and General Administration.

The Internal Audit Staff issued 14 reports on various aspects of the Drug Enforcement Administration operations. Reviews were made of the payroll practices and procedures, the controls over weapons and radio communications equipment, and payments for the purchase of evidence and information.

During fiscal years 1974-1976 the Internal Audit Staff issued 10 reports on various aspects of the operations of the Immigration and Naturalization Service, such as fees for services for special benefits to individuals, nonexpendable personal property and credentials, procurement and contracting

activities, policies and practices relating to the use of administratively uncontrollable overtime, and the use of excess foreign currencies held by the United States Government.

A few of the major problem areas reviewed by the Internal Audit Staff in its reviews of Legal Activities and General Administration included the use of administratively uncontrollable overtime, payroll practices and procedures, imprest funds, reimbursements for legal services, and payment of bills submitted by non-Federal facilities for housing Federal prisoners.

Drug Enforcement Administration officials advised us they were planning to create their own internal audit group because they believed their operations, particularly their imprest cash funds, were not receiving sufficient audit coverage. The officials estimated the new audit group initially would be staffed with from four to seven people.

GREATER AUDIT COVERAGE AND CONTROL  
OVER FINANCIAL AREAS IS NEEDED

The financial areas reviewed in the Bureau of Prisons and Federal Prison Industries appear to be disclosing the same or similar problems on a repetitive basis. This may result from the fact that the basic causes of the problems noted have not always been identified and reported to assist management in taking timely and adequate corrective actions.

One recurring problem we noted involved the failure of the Bureau of Prisons to record obligations on a timely basis to insure that it did not exceed its funds limitations. Data contained in the supporting workpapers of selected Bureau of Prisons audit reports we reviewed indicated that in some instances obligations were not recorded specifically to avoid the disclosure of an overobligation.

We believe that in all instances where irregularities have been found the auditors should disclose the problem and determine the causes of it. In the case of overobligations, audit work should be undertaken to determine whether the Department is complying with the provisions of section 1311 of the Supplemental Appropriation Act of 1955, which defines valid obligations and establishes requirements for reporting, certifying, and restricting expenditures.

This is particularly important in view of the provision of section 4240.50 of the Treasury Department's Fiscal Requirements Manual for Guidance of Departments and Agencies. This

section in essence requires that an agency's annual status of funds report be certified, that the amounts shown in the report are correct, and that all known transactions complying with the criteria of section 1311 have been obligated and are so reported. Compliance with the Anti-Deficiency Act, which restricts the rate of expenditure of appropriations to the period for which they are appropriated, should also be determined periodically.

Another area for consideration is the need to evaluate the Financial Management Systems from the highest level of management downward to the lowest level of operations. Our Office has approved 7 of the Department's accounting and financial systems; however, to date these systems, except for payroll, have not been reviewed to assure that they have been implemented and operate as approved. However in October 1976 internal audits of the Bureau of Prisons and LEAA's system were started.

Many of the other areas which deserve consideration in conducting future audits of financial operations are listed in appendix II. Although it may not be feasible for the Director to provide audit coverage in each of the areas, in view of operational audit requirements and present staffing levels, the appendix provides a framework for future consideration of audits of financial operations.

COMMENTS OF DIRECTOR,  
INTERNAL AUDIT STAFF,  
AND OUR EVALUATION

The Director of the Internal Audit Staff said that considerable financial work had been performed by internal review groups within the Drug Enforcement Administration, and this had enabled him to provide less financial audit coverage to the Drug Enforcement Administration's operations. We agree that the work of internal review groups should be relied on whenever possible to reduce the scope of a given audit. However, such reviews cannot be considered a substitute for internal audit coverage.

The Director of the Internal Audit Staff stated that his office's concentration on Federal Prison System audits stemmed from the fact that for the first 4 years of its existence (fiscal years 1970-73) his office had to depend almost entirely on reimbursement from the groups it audited to fund its operations. About 65 percent of its reports were on the Federal Prison System, which provided the largest share of the reimbursement during that period.



The Director also stated that this extensive audit coverage of the Federal Prison System has enabled GAO to reduce the scope of its annual audits of the Federal Prison Industries, Inc. We agree that this internal audit coverage has been of assistance to us; however, we do not believe that Federal Prison System audit coverage should be so extensive as to preclude the Internal Audit Staff from providing adequate financial audit coverage to the other significant areas noted in this report.

### CONCLUSION

Audit reports involving the Federal Prison System have been reduced to about 58 percent of the total reports in the past 3 fiscal years, and the Internal Audit Staff is gradually shifting into other areas of Departmental activity.

The shift in emphasis by the Internal Audit Service to more audits outside the Federal Prison System combined with the pending creation of an internal audit group within the Drug Enforcement Administration should help to extend adequate financial audit coverage to all entities within the Department of Justice. However, we question whether having four separate audit groups within the Department is a desirable means of achieving internal control.

while there are instances where the needs of management or the size and nature of a bureau's activities are such as to justify a separate audit staff of sufficient size to attract and retain qualified personnel and make possible the productive and flexible use of staff resources, our position has been that one centralized audit organization is preferable to several audit organizations dispersed throughout a department or agency.

### RECOMMENDATION

We recommend that you consider whether a new audit organization in the Drug Enforcement Administration is needed, or whether, in the interest of preventing further fragmentation of the Department's audit capability, additional personnel should be provided to the Internal Audit Staff to increase the Drug Enforcement Administration's audit coverage.

SUMMARY OF MAJOR AREAS  
OF FINANCIAL INTEREST FOR REVIEW AND  
EVALUATION BY AGENCY INTERNAL AUDIT ORGANIZATIONS

Cash

General

Internal control procedures  
 Adequacy of records and procedures  
 Cash accounts identified by appropriation and/or fund  
 Periodic or surprise cash counts  
 Reconciliation of cash with the Treasury Department  
 fund balances  
 Compliance with laws and regulations  
 Reports

Collections

Physical control  
 Cash recorded immediately after receipt  
 Timely deposit of cash receipts  
 Excessive funds on hand  
 Cash in transit--cutoff dates

Disbursements

Preaudit prior to approval for disbursement  
 Disbursement recorded promptly in records  
 Disbursement in transit at time of cutoff

Imprest Funds

Compliance with fund restrictions  
 Advances  
 Reimbursements--service provided  
 Adequacy of invested capital

Other

Investments

Receivables

Internal control procedures  
 Compliance with laws and regulations  
 Receivables identified by appropriation and/or fund

Receivables (cont.)

Classification of receivables:  
 Interagency/fund  
 External  
 Price established on documentation for:  
 Actual cost  
 Estimated cost  
 Accounts reviewed, delinquent accounts identified  
 Provisions for doubtful accounts  
 Control--adjustments and writeoffs  
 Collection and liquidation of receivables

AdvancesTravel

Internal control procedures  
 Administrative control over travel  
 Compliance with travel regulations  
 Control over Government travel regulations  
 Timely settlement of employees' travel advances  
 Authorized expenses

Contractors

Liquidation--services provided/returned

Grantees

Liquidation--services provided/returned

Property

Internal control procedures  
 Policy, procedures, and recordkeeping  
 Integrated property and financial records  
 Account classification:  
 Furniture/fixtures  
 Equipment  
 Plant and equipment  
 On assignment--to others  
 On assignment--from others  
 Supplies and materials

Property (cont.)

Property valuation established on documentation for:  
 Cost  
 Estimated  
 Salvage  
 Compliance with laws and regulations  
 Physical control:  
 Acquisition  
 Removal  
 Utilization of property  
 Excess property  
 Identification  
 Timely recording in the property/financial records  
 Control over loss/writeoffs  
 Reconciliation of physical inventories with property  
 records/financial records  
 Depreciation/obsolescence  
 Evaluation of maintenance costs and economic value

Liabilities

Internal control procedures  
 Account classification:  
 Accounts payable  
 Contract provisions  
 Accruals  
 Intergovernmental/fund  
 Advance payments  
 Contingencies  
 Unfunded  
 Long-term debts  
 Timely recording of liabilities  
 Accounts identified by appropriation/fund  
 Liquidation of liabilities  
 Support/pricing of liabilities

Administrative control of funds

Internal control procedures  
 Separation of accounts by appropriation/fund:  
 Apportionment  
 Subdivision of funds  
 Obligations  
 Disbursements  
 Reporting

Administrative control of funds (cont.)

Compliance with laws/regulations  
 Incurrence of obligations:  
     Authority  
     Availability of funds:  
         Precertification  
         Commitment accounting  
         Compliance with section 1311 criteria  
         Timely recording  
 Policy and procedures  
 Liquidation and recoument of excess obligations  
 Use of "M" accounts  
 Reprograming/transferring of funds  
 Accounting for proceeds  
 Status of funds reports

Revenues

Internal control procedures  
 Revenue accounts identified by appropriation/fund:  
     Fees, fines  
     Reimbursements to appropriation  
 Authorized services  
 Established fees:  
     Total costs--supported by accounting records  
     Estimated/negotiated  
     Statutory  
 Timely recording of billings  
 Adjustments/writeoffs  
 Compliance with laws and regulations  
 Comparison amounts billed/cost of services provided

Costs

Internal control procedures  
 Timely recording in accounts  
 Separation of costs:  
     Pay and allowance  
     Direct  
     Indirect  
     Depreciation  
     Contracts/grantees  
     Unfunded

Costs (cont.)

System integrated with financial records  
Basis for costs  
Cost reports--full disclosure and useful to management  
Comparison of costs to standards of measurements  
Compliance with laws and regulations  
Allocation of costs

Reports

Full disclosure of financial condition  
Compliance with laws and regulations  
Supported by accounting system  
Usefulness to management  
Timeliness of reports  
Accurate, reliable, truthful  
Comparison of budgeted/programmed costs with actual costs  
Footnoted as required

Other

Approved systems implemented  
Followup of prior recommendations