

REPORT BY THE

RELEASED

Comptroller General

OF THE UNITED STATES

8863

The FBI Can Improve Its Management Control Over Operations By Providing Effective Internal Audit

The FBI could strengthen its internal audit operations by

- increasing the qualifications, independence, and permanence of its internal audit staff and
- improving the scope, planning, and coordination of audits.

Actions should be taken to improve these areas.

In the past, the FBI had not made effective use of internal audit in its management control system. Recently, it has made substantial strides toward improvement in this area.

The Subcommittee on Government Information and Individual Rights, House Committee on Government Operations asked GAO to make this review.



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GGD-78-93

JANUARY 17, 1979



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-179296

The Honorable Richardson Preyer
Chairman, Subcommittee on Government
Information and Individual Rights
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to a request by the former Chairwoman of your Subcommittee, we are reporting on the Federal Bureau of Investigation's (FBI's) management control over operations through its internal audit and inspection operations. We previously reported to you on the FBI's handling of allegations of impropriety--"FBI Has Improved Its System for Handling Allegations of Improprieties and Misconduct Against Its Employees" (GGD-78-92, Aug. 11, 1978). This report responds to the remainder of the original request for an overall review of the FBI's internal review activities.

Overall, the FBI has improved its management control over operations by redirecting the activities of its Office of Planning and Evaluation and the Office of Inspections. Many of the improvements noted in this report are attributable to the September 1976 reorganization of these operations and their subsequent evolution. While the improvements are substantial, we believe the FBI can further increase the effectiveness of its internal audit operations by staffing them with personnel who are better qualified, more independent, and permanently assigned to these duties. We also believe the FBI should conduct broad, program-oriented audits of its operations with particular attention to major investigative and priority areas. In carrying out these activities, we believe the FBI could better plan and coordinate its activities with the Department of Justice internal audit staff.

COMPTROLLER GENERAL'S REPORT TO
THE SUBCOMMITTEE ON GOVERNMENT
INFORMATION AND INDIVIDUAL RIGHTS
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

THE FBI CAN IMPROVE ITS
MANAGEMENT CONTROL OVER
OPERATIONS BY PROVIDING
EFFECTIVE INTERNAL AUDIT

D I G E S T

Although the FBI has corrected deficiencies in its management controls, all of the potential benefits have not yet been achieved because the FBI has failed to establish a stronger internal audit function. The problems of, and need for, such controls are particularly acute in the FBI because of the important and sensitive responsibilities carried out by its 19,000 employees among agency headquarters, over 550 other locations in the United States, and 13 offices overseas.

CONTROLS HAVE IMPROVED,
BUT MORE CAN BE DONE

In 1972, and again in 1976, the FBI made major organizational changes which improved its management controls.

Before 1972

Prior to 1972, the agency largely relied on periodic, cyclical inspections--essentially peer reviews--by teams of agents in the Inspection Division for indepth assessments of how well subordinate managers were fulfilling their responsibilities. These inspections obviously served a useful management purpose; however, they were not an adequate substitute for a properly designed internal audit function.

The inspections did not provide certain of the benefits achievable through internal audit: (1) independent, unbiased criticism,

Director. At the same time, steps were taken to improve the planning and execution of all these activities.

The reorganization has had positive results, but some of the earlier problems remain uncorrected.

--The internal audit staff is still composed of temporarily assigned agents, and the effect of this situation on independence persists. (See pp. 21 to 23.)

--The need for internal auditors to possess a different set of skills than agents has not been adequately recognized in staffing and training decisions. (See pp. 19 to 21.)

--The Office of Planning and Evaluation has still not conducted broad-based program results reviews of major investigative or priority programs. (See pp. 9 to 11.)

--Most internal audit efforts continue to be devoted to inspections. (See pp. 11 to 16.)

--The FBI's internal auditing needs have still not been adequately assessed or plans for their fulfillment set out. (See pp. 23 to 26.)

The Attorney General should direct the FBI to

--increase the qualifications, independence, and permanence of its internal audit staff;

--conduct indepth program results reviews of priority FBI programs;

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CHAPTER 1

INTRODUCTION

The Subcommittee on Government Information and Individual Rights, Committee on Government Operations, House of Representatives, requested that we review the operations of the Inspection Division of the Federal Bureau of Investigation (FBI) and the procedures the FBI uses in conducting investigations relating to allegations of impropriety or misconduct on the part of its employees.

In response to the latter portion of this request, we issued a report entitled "FBI Has Improved Its System for Handling Allegations of Improprieties and Misconduct Against Its Employees" (GGD-78-92, Aug. 11, 1978). In that report, we discussed how various allegations are inquired into currently by the FBI's Office of Professional Responsibility and previously by its Inspection Division. The functions of the Inspection Division were absorbed in 1976 by a Planning and Inspection Division which is responsible for all FBI internal audit operations. This report responds to the former portion of the request and discusses the effectiveness of the FBI's internal audit as a primary management control tool.

ORGANIZATION OF THE FBI

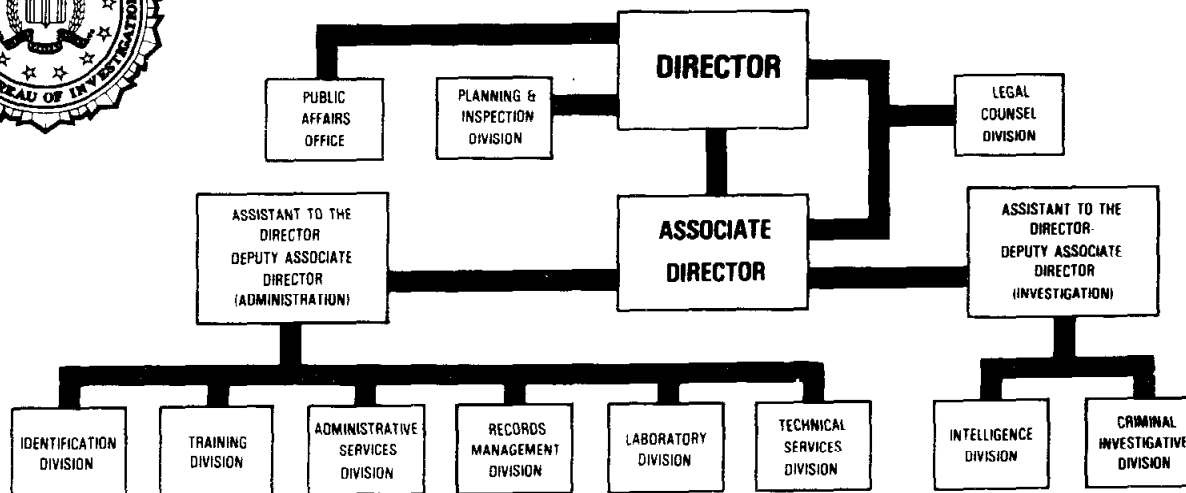
The FBI is the principal investigative arm of the Department of Justice and is responsible for numerous security, criminal, and selected Government applicant investigations. Investigations are carried out by about 8,000 special agents located in 59 field offices, 13 foreign liaison offices, and about 500 resident agencies (suboffices).

The FBI conducts investigations into organized crime, white-collar crime, and foreign counterintelligence; as well as civil rights, bank robbery, kidnapping, extortion, and other areas. Investigations and inquiries are divided into 204 classifications. As a result of its work, the FBI maintains about 6 million files, 59 million index cards, and 167 million fingerprint files.

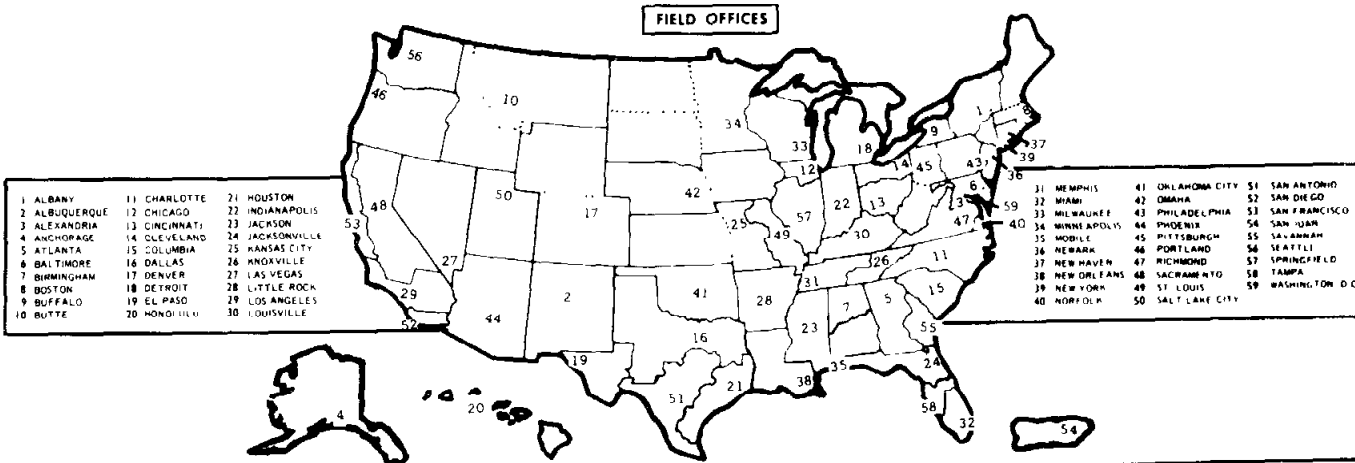
During fiscal year 1977, the FBI trained some 3,000 local, State, Federal, and foreign police officers in



ORGANIZATION OF THE FBI



FIELD OFFICES



basic criteria for conducting audits. It also requires these agencies to conduct financial and compliance reviews, economy and efficiency reviews, and program results reviews.

FBI INTERNAL AUDIT OPERATIONS

The FBI has traditionally relied on periodic, compliance-oriented inspections as its primary management-control and internal-review tool. In the past, inspections were conducted annually by teams of aides and inspectors temporarily assigned to the former Inspection Division.

In 1972 the acting Director of the FBI created the Office of Planning and Evaluation (OPE) to provide him with an additional management-control tool. This division-level organization provided the Director with an independent staff for conducting long-range planning, studies, and special projects. As OPE evolved, it also assumed the responsibility for conducting program results reviews.

While inspections performed by the Inspection Division provided management with useful information on whether criminal investigations or intelligence operations were conducted according to specific rules or regulations, they did not provide management with a balanced internal audit activity. The inspections did not provide benefits which can be achieved through internal audit such as (1) obtaining independent, unbiased criticism, (2) questioning the very premises on which activities are based, and (3) obtaining a horizontal, as well as a vertical look at Bureau operations.

As a relatively new organization, OPE acted as a resource for top management. Its personnel were assigned responsibility for assisting the Director in developing new managerial operations including new personnel and administrative programs. OPE did not conduct economy and efficiency or program results audits but conducted general studies of personnel or administrative areas.

The conduct of activities by these two organizations did not generally comply with our audit standards or with Office of Management and Budget Circular No. A-73.

In November 1976, the FBI Director said he created the Planning and Inspection Division as a result of considerable changes made during his tenure. These changes included the creation of a new career development program, the implementation of a participatory management program, and the redirecting of investigative resources toward "quality" investigations rather than "quantity" or volume of investigations. He also said his actions were prompted by recent congressional inquiries, our reviews, and extensive internal investigations, including those involving surreptitious entries and allegations of impropriety.

The reorganization corrected some of the problems, however, many of these problems remained because the FBI viewed short-term inspection assignments as necessary training in the career development of agents. Chapter 2 discusses the reorganized internal audit operations as well as the need for further improvements. Appendix I contains an organization chart of FBI internal audit operations prior to September 1976, and appendix II includes a detailed discussion of FBI inspection activities prior to the reorganization.

- Financial and compliance reviews to determine if financial operations are properly conducted, if financial reports are fairly presented, and if the organization under review has complied with applicable laws and regulations.

- Economy and efficiency reviews to determine if the organization under review is managing or utilizing resources (personnel, property, etc.) in an economical and efficient manner, and to determine the cause of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structure.

- Program results reviews to determine if desired results or benefits are being achieved, whether the objectives established by legislation or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost.

The audit standards emphasize the value of the three types of audits, stressing that while the needs to the users of the reports must be considered in developing a full audit program, the three types of audits together provide the greatest benefit to the users.

Limited emphasis on economy and efficiency, and program results reviews

Although the FBI has improved the scope of its internal audit efforts by developing a more meaningful inspection system and by initiating OPE program results reviews, it still does not fully conform to audit standards. The great majority of FBI internal audit efforts are still inspection- or compliance-oriented. While inspection reports provide the Director with a great deal of information on how an individual office or division is functioning, their scope is narrow, and little information is provided on the overall effectiveness of FBI operations. Also, inspections continue to report on and emphasize minor administrative areas and routine operations.

In the past, the vast majority of OPE evaluations were concerned with personnel or administrative areas rather than

While OPE actually conducted only two evaluations during calendar year 1977, it was involved in many other limited studies or projects.

Inspections improved, but minor areas are emphasized

The FBI's inspection process fulfills the need for financial and compliance reviews, but does not satisfy the need for conducting economy and efficiency, or program results reviews.

The reorganization improved the inspection process by (1) redirecting inspections to ascertain if appropriate priorities and programs were developed and carried out, (2) creating an operational evaluation team to improve the conduct of inspections and to ensure that they were conducted thoroughly, and (3) creating a special audit staff to conduct all financial aspects of routine inspections and more broadly based financial reviews.

The major purposes of the inspection process in the past were to (1) conduct independent assessments of field offices, foreign liaison offices, and headquarters divisions and (2) provide career development training for inspectors and their aides. With the advent of a new managerial philosophy and the reluctance of some offices and headquarters divisions to fully embrace this philosophy, the inspection staff added a third purpose for conducting inspections--to ensure that the management by objective program 1/ and the quality over quantity program 2/ had been implemented.

1/This program encompasses a management approach in which investigative programs and priorities are developed at FBI headquarters and field offices. Milestones and target cases are selected to ensure that funds and personnel are focused on high-level investigative priorities.

2/This program was implemented in August 1975 to give priority to those investigations deemed most important. Under this program, investigative resources are to be placed in areas having the greatest impact on crime.

The number of authorized positions also indicates the FBI's priority on inspections. The following table shows the number of authorized positions in the Inspection Division/Office of Inspections and the Office of Planning and Evaluation during calendar years 1973 to 1977.

Number of Authorized Positions
During Calendar Years 1973 to 1977

<u>Calendar year</u>	<u>Inspection Division/Office of Inspections</u>	<u>Office of Planning and Evaluation</u>
1973	41	7
1974	47	11
1975	48	15
1976	42	17
1977	49	18

According to the Office of Inspections, the average cost of a field office inspection, including salaries, travel expenses, and per diem rose from \$19,493 to \$31,423 between calendar years 1974 and 1977. While inflationary cost increases account for a portion of the rise, most of the increase is attributable to a larger number of staff days spent on each inspection. In 1974 inspection teams averaged 107 staff days during a field office inspection, while in 1977, the average doubled to the equivalent of 213 staff days.

Comparative costs are not available for reviews conducted by the Office of Planning and Evaluation, since that Office did not record staff days used in conducting reviews prior to September 1976.

Our review of inspections conducted by the Office of Inspections since the reorganization showed that more than one-half, and in some cases two-thirds, of each report was devoted to noninvestigative, administrative, or support areas even though no major problems in these areas were anticipated or found.

Our review also showed that the inspection report's observations and recommendations varied widely in number, scope, and importance. The majority of these observations and recommendations are minor. Some of the recommendations, accomplishments, and observations resulting from an inspection of a medium-sized field office are listed below.

14. Include a narcotics orientation session in the next semi-annual agents' conference.
15. Close 18 of 1,853 investigative cases reviewed.
16. Reassign territory covered by a resident agency to another field office.

The following is another listing of various observations, suggestions, or recommendations included in other field office inspection reports.

1. Open a control file to record declinations of U.S. attorneys in marginal interstate transportation of stolen motor vehicle cases.
2. Squad supervisor should closely analyze agents' workloads to ensure each is fully utilized and handling matters commensurate with grade and level of experience.
3. Reduce resident agency complement from four to three special agents.
4. Close resident agency and assign the territory to another resident agency.
5. Closely monitor a priority bank fraud and embezzlement case at a resident agency to ensure that resources are being directed toward defined objectives.
6. Dispose of marginal interstate transportation of stolen motor vehicle investigative matters in a resident agency as rapidly as practicable.
7. Expand informant coverage in theft from interstate shipment and interstate transportation of stolen motor vehicle commercial theft operations.

Based on inspections made during its first 9 months, the Office of Inspections developed and communicated to all field offices information on 13 problem areas and other

The standards further provide that the audit staff should be knowledgeable in

"auditing theory and procedures, statistical techniques--including sampling--computer operations and applications, management information systems, economics, operations research, government organization and operations, and other facets of modern management practices."

These skills do not need to be possessed by each individual member of the audit organization as long as members of the audit staff collectively have the skills or the organization can acquire the skills through contracts.

The Federal auditing standards concerning qualifications were created to ensure that the agency obtained maximum benefits from its internal audit staff. Overall, the FBI does not fill its internal audit positions according to these standards. All inspector and inspector aides positions are filled on a temporary basis as a means of preparing individuals for future executive positions. Little consideration is given to the individuals' qualifications even though the inspection process is designed to determine the organizations' efficiency and economy of operations. Similarly, individuals are assigned to OPE by the FBI's career board without consideration of specific auditing, management, training, or experience. In addition, individuals assigned to these positions have little time to develop auditing expertise while on the job and, until recently, were not provided internal or external training to increase their qualifications.

Audit standards not considered in
assigning staff to OPE

Assignments to the OPE staff are controlled by the FBI's Career Board. The current staffing policy (1) lists field office personnel in the career path and meeting promotional criteria and (2) states that agents assigned to FBI headquarters are eligible for OPE assignments. Selections are based on individuals' academic achievements, criminal or security investigative experience, supervisory experience, length of service, and special disciplines.

Limited emphasis on audit standards
in assigning staff to the Office
of Inspections

Individuals are assigned to the inspection staff as an integral part of the FBI's Career Development Program based on their experience, performance, and potential for advancement. The positions are not viewed as long-term positions requiring specific expertise; rather, they are viewed as necessary short-term assignments to qualify staff for future executive positions.

Aides assigned to the inspection team continuously rotate between inspection of headquarters divisions, foreign liaison offices, and field offices. The FBI tries to ensure that all aides have a complete familiarity with all office operations by rotating each aide to different inspection areas on each assignment. Because these inspections only last 2 or 3 weeks, they have little time to develop their qualifications or expertise while on the job.

Individuals considered for inspectors' aide positions must have (1) 2 years' experience as a headquarters supervisor, (2) 7 years' total experience with the FBI, (3) a minimum performance rating of excellent, and (4) an evaluation by an Assistant Director indicating that the individual has potential for advancement. Aides are usually transferred to the inspection staff from headquarters divisions at the GS-14 or GS-15 level. Inspectors, on the other hand, may be selected from individuals serving as deputy section chiefs or ASACs, but since the reorganization, all inspector positions have been filled by ASACs.

The only individuals specifically required to have accounting or auditing experience or training are individuals assigned to the special audit staff. The special audit staff is responsible for the financial aspects of inspections. According to the FBI's staffing policy, all agents and non-agents assigned to the special audit staff must have either a 4-year college degree in accounting or be qualified as an accountant for civil service purposes. As of February 1978, all individuals assigned to the staff met this requirement, and in addition, agent personnel were either certified public accountants or had auditing experience prior to joining the FBI.

In January 1978, the FBI again revised the assignment policy by allowing aides to rotate before completing the required eight inspections. Aides were still required to complete eight inspections in order to be certified as completing the inspection requirement; however, they were allowed to complete additional inspections after rotating to a new position. The aides were required to participate in one inspection during each of the following quarters until they had participated in eight inspections.

In February 1978, assignment requirements for aides were again revised, and the earlier policy of continuous 6- to 12-month assignments was reinstated. FBI headquarters officials anticipate, however, that aides will only rotate after 12 months.

Various FBI officials said that shorter tours and early rotation of aides were caused primarily by an increased need to staff upper-level positions vacated as a result of the mandatory retirement act for law enforcement officials. This act required all agents 55 years of age or older to retire on or before January 31, 1978.

ORGANIZATIONAL ALINEMENT HAS IMPROVED,
BUT INDEPENDENCE IS STILL A PROBLEM

The audit standards state that the audit organization and individual auditors should maintain an independent attitude. They stress that it is not only important that auditors be impartial and independent, but it is equally important that nothing exists which might lead others to question their independence. If true independence does not exist, the auditors' opinions, conclusions, and judgments may be questioned, and therefore, the value of the audit report minimized.

Organizationally, the realignment of the FBI's internal audit activities into a single division reporting directly to the Director and the elimination of certain managerial responsibilities has strengthened its independence. However, the staff is still not totally independent from the functions or personnel under review and is still performing certain managerial functions.

In the past, OPE was responsible for designing and reviewing the implementation of the management by objective

aides and inspectors are not precluded from (1) reviewing programs for which they may have had a managerial responsibility, personal preferences, or preconceived ideas concerning the objectives and quality of activities and (2) reviewing programs implemented by individuals with whom they may have personal or professional relationships. Consequently, inspectors and aides may limit either consciously or unconsciously, the extent or character of the inquiry. According to a previous OPE Assistant Director, OPE staff members were often selected to work on specific reviews because they were knowledgeable about the area. For example, organized crime specialists were on inspection teams if organized crime problems were anticipated, and individuals with backgrounds on the objectives and methods of carrying out the FBI's equal employment opportunity program were on inspection teams visiting field offices with anticipated problems in the equal employment opportunity program.

Additionally, in one case an inspector was advised that upon completion of his current assignment, he would be transferred to the Division he was inspecting. Thus, some inspection personnel involved in auditing programs were likely to have been or would be involved in managing those same programs. Under such circumstances, an objective analysis is difficult, and independence may be adversely affected.

AUDIT PLANS FAIL TO MEET AUDIT STANDARDS

Office of Management and Budget Circular No. A-73 and our audit standards state each agency should develop an annual audit plan to determine which programs, operations, and areas should be reviewed. According to the standards, agencies are responsible for providing adequate audit coverage of all agency programs and activities. They further state that procedures should be established to ensure that the annual audit plan takes into consideration newness, sensitivity or dollar magnitude of programs, adequacy of financial management systems and control, legislative requirements, and results of other evaluations. When implemented, the plan would ensure that (1) there is sufficient need for each audit and (2) the combined scope of the audits is reasonable and would provide sufficient coverage for management.

According to the plan, program evaluations of major activities were not conducted in the past because OPE was

--involved in implementing the management-by-objective program,

--allowing a certain amount of start-up time for divisions to implement the newly organized programs, and

--reviewing minor areas so its staff could develop expertise before conducting larger reviews.

The plan also indicated that only 4 of 12 OPE staff members would be available during the 6-month period to carry out evaluations. Of the remaining eight staff members, four would be on loan to other projects, three would be assigned to long-range planning and one--the Deputy Assistant Director--was assigned overall responsibility for all OPE activity.

The 4 staff members assigned to evaluations were allotted 516 of the total 2,985 staff days projected. The plan estimated the remaining 2,469 staff days would be provided by other divisions.

In October 1977, OPE developed a second 6-month plan. Although the staff had increased to 18, 6 staff members were to be assigned outside OPE, and 1 had overall supervision of the entire office. The plan did not specify how many of the remaining 11 staff members would be responsible for conducting evaluations, planning, or other projects.

The October 1977 plan listed 16 evaluations and studies. The majority of these involved noninvestigative areas such as records management, use of coordinators in field offices, legal attache programs, general and special correspondence, and the use of mailing lists. Only four of the evaluations involved investigative areas (1) review of the fugitive programs (unlawful flight to avoid prosecution and the fugitive indexes), (2) review of a specific foreign counterintelligence program activity, (3) review of the effectiveness of bank robbery investigations, and (4) review of potential bombing suspects.

of completed inspections or OPE reviews. This does not comply with our standards which require close coordination between audit groups working in the same areas to ensure full coverage of agency programs and activities and to avoid duplication.

Our audit standards and Office of Management and Budget Circular No. A-73 recognize the existence of multiple audit organizations within the Government as well as within departments and the need for their coordination. The circular instructs agencies to coordinate and cooperate with each other in developing and carrying out their individual audit plans. Such actions should include continuous liaison, the exchange of audit techniques, objectives, and plans, particularly between audit staffs at different levels within the same department.

Justice's Office of Management and Finance audit staff has overall responsibility for audit activity within the Department, including the FBI. The internal audit staff is a separate unit, organizationally located in the Office of Management and Finance and directly responsible to the Assistant Attorney General for Administration. Since June 1970, the staff has had responsibility to (1) perform independent and comprehensive audits of all organizations, programs, and functions of Justice and (2) report the findings of these audits and appropriate recommendations to the Attorney General.

Prior to the reorganization, Justice's audit staff only included the FBI in limited Department-wide audits. Justice's audit staff has not audited any major FBI programs or activities except for a review of the Inspection Division and OPE. That review, however, was curtailed because of continuing problems over access to records and because we had initiated this review.

After the September 1976 reorganization, the FBI and Justice reached agreement on the extent of access to FBI records by Department auditors. The agreement guarantees the right of the auditors to conduct self-initiated audits of FBI operations or reviews requested by Justice officials but limits the auditors' access to certain information contained in FBI investigative files to ensure that the identity of FBI informants and confidential sources is not disclosed.

conducting reviews to not only inform auditing staff and officials of the scope, objectives and background of a specific review, but also to ensure that staff members at various locations are conducting the audit in a consistent manner and utilizing the same procedures and definitions. The audit program is designed to be written after basic background information is gathered and criteria is developed for evaluating activities.

The OPE Project Management Manual, which summarized OPE's administrative and operational procedures, provided brief administrative information on the policies, procedures, and general principles of research and summarized the study procedures to be used in developing OPE work products. However, the Project Management Manual does not fulfill the needs of an internal audit manual because it does not discuss in detail the authority, responsibility, or objectives of OPE or the overall standards to be used in conducting reviews and does not distinguish the OPE mission from the inspection mission.

Audit programs

Specific audit programs are essential for conducting reviews. These programs are designed to (1) inform supervisors and direct auditors by communicating the objectives of the audit and (2) provide a permanent record on how each phase of the audit was conducted. They are generally written after basic information on an entity's operations or practice has been obtained through a preaudit survey.

Our audit standards state that audit programs should contain the following information:

- Purpose and scope of the review.
- Background on the legal authority, funding, and locations of the audit activity so auditors can understand the objectives and characteristics of the program or activity.
- Definition of terms used.
- Objectives of the audit indicating why the inquiry is conducted, what specifically is expected from the inquiry, a clear statement

Preinspection profile

The Office of Inspections does not prepare audit programs indicating the audit purpose, scope, background, objectives, procedures, or reporting format, and is therefore not in compliance with auditing standards. Since the reorganization, however, it has begun preparing pre-inspection profiles of field offices under review. The profiles are based on an analysis by the inspections' operational evaluation team of data provided to them by

--FBI headquarters divisions on the specific office's administrative or investigative efforts since the last inspection and

--the office under review concerning its priorities, programs and target cases as outlined in its management by objectives program, as well as monthly reports concerning actual workload efforts, staff time expenditures, and additional information on office operations.

The above information is provided to aides and inspectors conducting the review. The operational evaluation team's analysis of the information and specific questions, comments, or observations on the information are included in the profile. Each question is assigned to the aide reviewing the pertinent investigative or administrative area and is required to be completed during his/her analysis.

The profile is a good start toward developing an audit program, since it points out potential problem areas and provides necessary background for conducting a review. However, the analysis falls short of fulfilling requirements for audit programs. For example, the profile is only concerned with exceptions, excesses, or apparent minimal office efforts that become apparent to operational evaluation team members preparing the profile. Furthermore, the questions prepared for special analysis and included in the profile, as with all other inspection areas, assume inspectors and aides know how to conduct their analysis. Therefore, the objectives for each segment of the inspection and the auditing steps necessary to determine if they are meeting the objectives are not indicated in the profile.

- assigning the team responsibility for developing preinspection information and identifying potential problem areas for each inspection, and
- creating a separate special audit staff for conducting all financial reviews.

However, the FBI continues to view internal audit positions as necessary, short-term qualifying assignments for future executives, and assigns staff to the positions without regard to their auditing backgrounds. Aides are assigned to the inspection staff for a 6 to 12 month period and continuously rotate between 2 to 3 week inspection assignments. Thus, aides have little time to develop their qualifications while on the job. Furthermore, internal audit staff members who had previous managerial responsibility over areas under review cannot be considered fully independent.

Audit plans initiated by the Office of Planning and Evaluation do not fully comply with Office of Management and Budget Circular No. A-73. Audit programs used by OPE generally contain the type of information desired in an audit plan; however, the plans have not always been completed, and when they have been completed, they were too brief to provide the staff with a step-by-step approach for conducting the review.

Since the reorganization, Justice's audit staff and the FBI have developed a written agreement concerning departmental access to FBI documents. Under this agreement, the departmental audit staff has initiated audits of FBI operations. However, the FBI and Justice audit staffs have not routinely coordinated planning of future reviews or exchanged audit reports. According to the Assistant Attorney General for Administration, Department audit reports are available to the FBI, but FBI reports are not available to the Department.

RECOMMENDATIONS

We recommend the Attorney General direct the Director of the FBI to:

- Increase the qualifications, independence, and permanence of its internal audit staff.

CHAPTER 3

SCOPE OF REVIEW

Our findings and conclusions are based primarily on work done at FBI headquarters in Washington, D.C. We also observed inspections conducted in three FBI field offices and met with officials of the Justice Department internal audit staff. The review, conducted from March 1977 through February 1978, covered selected aspects of the FBI's internal audit activities before and after the September 1976 reorganization.

We reviewed the organization and operations of the FBI internal audit activities in relation to our audit standards and the General Services Administration's Office of Management and Budget Circular No. A-73 requirements, which set forth policies to be followed in auditing Federal operations and programs.

FBI INTERNAL AUDITOPERATIONS PRIOR TO 1976CONDUCT OF INSPECTIONS
PRIOR TO REORGANIZATION

The FBI Inspection Division's primary function was to conduct detailed annual inspections of all headquarters divisions and field offices and periodic inspections of foreign liaison offices. FBI officials said the primary and equally important purposes of annual inspections in the past were to provide (1) the Director with independent information on operations of field offices, headquarters divisions, and foreign liaison offices and (2) training for inspectors and aides so they could see first-hand how various field offices operate and in the future rely on that training when they assume management positions.

The FBI Annual Report for 1975 stated the Inspection Division

"* * * serves as an essential management tool to insure all FBI operations are being conducted in compliance with statutory authority in an efficient, effective and economical manner."

FBI headquarters' top and middle management placed strong reliance on the inspection process because it provided them with an assessment of field office operations. FBI headquarters personnel particularly relied on inspectors' assessments of field offices, since they did not generally visit field offices and, therefore, did not observe first-hand how investigative or administrative operations were conducted.

Annual inspections of FBI field offices involved an indepth examination of all financial, administrative, and investigative operations. They were compliance-oriented and conducted to determine if FBI rules, regulations, and instructions were adhered to and if investigations were conducted logically and completely. The inspections involved an analysis of virtually every activity at the field office, headquarters division, or

Their inquiries were supplemented by (1) interviewing agents and their supervisors and (2) reviewing accomplishment reports and policy files, and if appropriate, a large sample of investigative cases.

Prior to the September 1976 reorganization, FBI criminal investigations were case oriented rather than program oriented and as a result, large numbers of investigative files were selected for review. The Inspection Manual advised the staff that no other area of the inspection was more important than the review of investigative matters. The manual required a review of at least 25 percent of each agents' pending cases and 10 percent of each agents' closed cases. A review of all pending kidnapping, extortion, civil rights, espionage, and bank robbery cases and any case pending for more than 1 year was also required.

Results of inspections

At the conclusion of each inspection, the chief inspector prepared a 3- to 5-page report summarizing the inspection results. The inspector also rated each of the five review areas within the field office or division as excellent, very good, good, fair, or unsatisfactory. The report and original copy of each aide's analysis of investigative or administrative areas was provided to the Director and Associate Director. A copy of the aide's analysis was also sent to headquarters personnel responsible for the specific administrative or investigative area.

In the past, a great deal of emphasis was placed on uncovering "substantive errors" within investigative cases. Substantive errors included various administrative or investigative deficiencies, such as missed reporting dates and lack of thoroughness in interviews. Substantive errors were discussed with the appropriate agent, his supervisor, and the SAC. For such errors, agents usually received letters of censure and, if the errors were very serious or numerous, their supervisors were also censured.

INSPECTION RESPONSIBILITIES UNRELATED TO INTERNAL REVIEW

Prior to the reorganization, the Inspection Division also had responsibility for (1) conducting "special" inspections relating to allegations of impropriety on the part

Review of headquarters or field office equipment requests	13
Other requests (included commenting on areas they might be experts in, physical or security matters, internal inspection procedures, and previous inspections)	<u>101</u>
Total	<u><u>639</u></u>

While many of these inquiries were extensive, a considerable number accounted for relatively little time or effort. The 160 interviews of clerks for agent positions were usually conducted by the inspector during an annual inspection. Requests for additional staff or other resources were referred to the division to ascertain if past productivity levels justified the additional resources. If it appeared the requesting field office would be inspected in the near future, the Inspection Division could recommend the request be held in abeyance until a specific analysis was made during the next inspection.

OFFICE OF PLANNING AND EVALUATION--DESIGNED TO SERVE AS AN ADVISOR TO THE DIRECTOR

In June 1972, the acting FBI Director created the Office of Planning and Evaluation as a division-level organization

"* * * to conduct comprehensive studies of various FBI policies, procedures, and general operations and to make recommendations to the Director regarding policy changes and long-range planning."

The FBI's 1976 Annual Report noted that OPE served in an advisory capacity to the Director and had the function of recommending whether a given practice or policy should be retained, modified, or eliminated.

A past OPE Assistant Director characterized the office as "the Director's division" since (1) it provided the Director and other top FBI management with analyses outside the regular managerial lines and (2) the vast majority of work was conducted at either the Director's request or approval.



UNITED STATES DEPARTMENT OF JUSTICE

WASHINGTON, D.C. 20530

Address Reply to the
Division Indicated
and Refer to Initials and Number

1078

Mr. Allen R. Voss
Assistant Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Voss:

The Department of Justice is pleased to respond to your request for comments on the draft report entitled "The FBI can Further Improve Its Management Control over Operations by Providing Effective Internal Audit."

The Department is aware that the GAO audit has been in process for more than 2 years and recognizes the need for the time expended and resources devoted to this project. The draft report, as a result of this effort, reflects a thorough understanding of the development of the internal audit role within the Department and the FBI.

While the Department basically concurs with the findings, conclusions, and recommendations, we believe that there are some inherent problems in their implementation. For example, the FBI has a formal program of career development for its professional staff. This program does not, without modification, fully accommodate the objectives of enhancing staff qualifications, independence, and permanence. These objectives, to be fully met, require an interruption in the career development track which might have an adverse impact on highly qualified agents. To achieve the goals of the recommendations while retaining the demonstrated advantages of the career development program is a difficult management problem.



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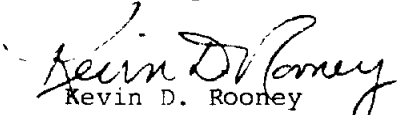
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- 2 -

There are a few areas in the draft report where we believe corrections or amplifications are desirable. These are enclosed as an appendix.

We appreciate this opportunity to express our views on the draft report. Should you desire any additional information, please feel free to contact us.

Sincerely,


Kevin D. Rooney
Assistant Attorney General
for Administration

Enclosure

GAO note: Appendix deleted; however, the detailed comments have been considered in the report.

(18430)

In practice, OPE's functions generally consisted of (1) conducting studies or evaluations, (2) responding to the Director's requests for information, or (3) performing other functions outside the normal scope of an internal review staff, such as implementing the quality versus quantity program and revising the FBI management information system. Prior to the September 1976 reorganization, OPE devoted all of its resources to these efforts--no substantial resources were committed to overall short- or long-range planning.

OPE did not routinely document the amount of resources allocated to each of the above areas. However, a former Assistant Director of the Office estimated approximately 15 percent of the OPE staff was involved in performing research or directly assisting the Director; another 15 percent was involved in management functions such as implementing programs or operations; and 70 percent was involved in conducting studies, evaluations, or audits.

The vast majority of past OPE efforts were not audits but studies requested by the Director. They were not generally conducted of major FBI program areas but rather concerned administrative or personnel areas and were designed to obtain information on the operation of a current activity or the feasibility of initiating a new policy or activity.

The following illustrate the subject matter of OPE studies:

- Allocation of supergrade positions at FBI headquarters.
- Bureau policy regarding polygraph matters.
- Clerical hiring in field offices.
- Feasibility of discontinuing daily reports.
- Executive mobility.
- Legal guidance in field offices.

of FBI employees or to problems with the administration of field offices and (2) handling a number of other surveys, tasks, or miscellaneous inquiries such as reviewing suggestions submitted by FBI employees, commenting on requests for changes in staff resources, and interviewing clerical employees applying for special agent positions.

According to the FBI's Annual Report for fiscal year 1975, the Inspection Division was involved in 639 special inspections, surveys, and miscellaneous inquiries. According to the former Assistant Director of the division, comparable statistics were not kept after 1975. He said in the past it was felt that the information was needed to show how often division personnel were involved in activities unrelated to the formal inspection process, but more recently it was felt that the statistics could be misinterpreted because the amount of time needed to handle specific requests varied considerably. In some instances, agents spent only a few minutes on a request, while in other instances, several weeks were required.

The following is a listing of the 639 matters unrelated to inspections handled by the Inspection Division during fiscal year 1975.

Interviews of clerks for agent positions	160
Various requests relating to inquiry into former FBI Director J. Edgar Hoover's official and confidential files	138
Review of suggestions affecting policy and operations	107
Congressional and/or GAO inquiries	49
Inquiries involving allegations of misconduct or personal matters	31
Review of requests for changes in headquarters personnel strength	22
Review of requests for changes in field office or resident agency (suboffice) territories or positions	18

foreign liaison office from a page-by-page review of up to 88 percent of the pending investigations to an indepth analysis of vehicle repair and safety records.

All inspections were divided into five areas of inquiry:

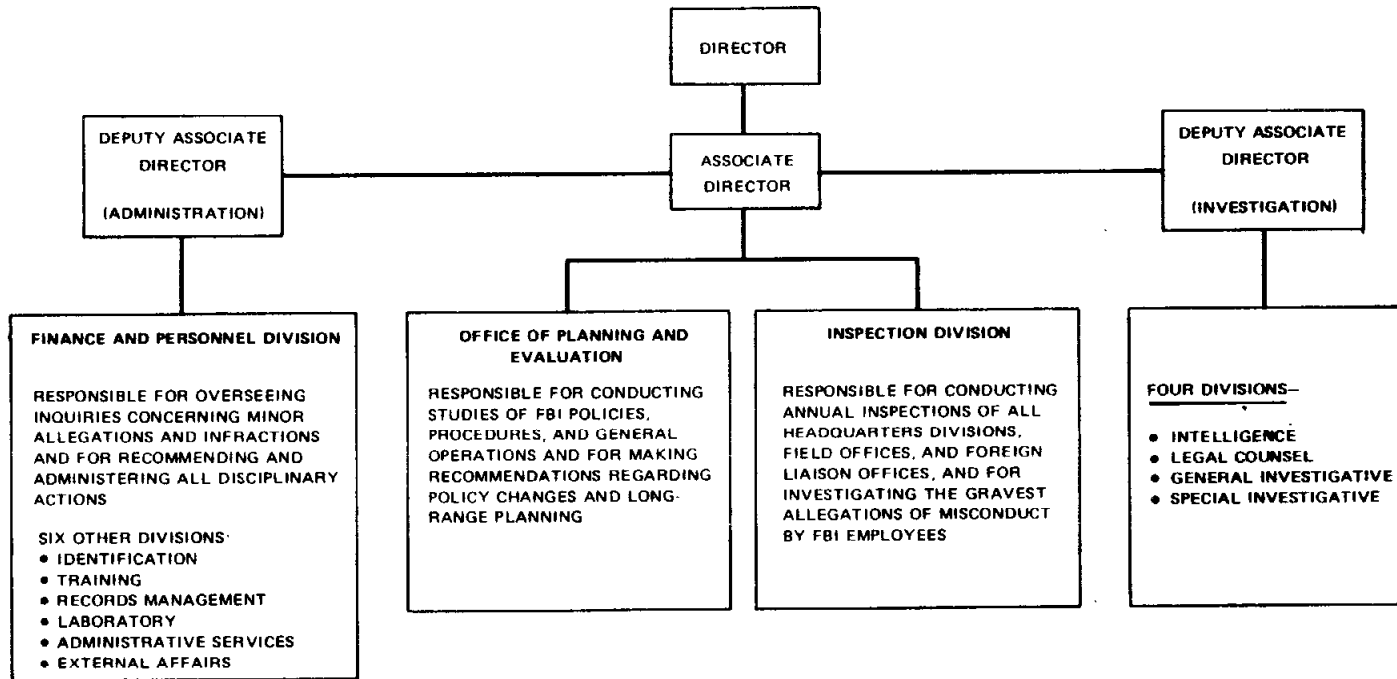
1. Physical condition and maintenance of property
2. Investigative operations
3. Administrative operations
4. Personnel matters
5. Contacts (external working relationships)

Staffing of inspection teams

The FBI's career development program requires agents who expect to advance to management positions within the Bureau to serve two tours of duty on the inspection staff-- first as inspectors' aides and later in their careers as full inspectors just prior to their assignment as headquarters section chiefs or as Special Agent in Charge of an FBI field office. Inspectors are generally special agents at the GS-15 level who have previously served as Assistant Special Agents in Charge of an FBI field office and are ready to assume SAC positions. Inspectors' aides are generally special agents at either the GS-14 or GS-15 level who have served as FBI headquarters supervisors for at least the last 2 years and previously served as squad supervisors or temporary supervisors in a field office.

Inspection teams were generally made up of 1 or 2 inspectors and 6 to 10 inspectors' aides. One inspector was designated as the chief inspector and had overall responsibility for the conduct of the inspection. Aides were assigned responsibility for inspecting a specific investigative or administrative area and reporting the results of their inspection to the inspector. Aides conducted their inspection by initially reviewing standard preprinted questionnaires completed by the office under inspection just prior to the arrival of the inspection team.

ORGANIZATION OF FBI'S INTERNAL AUDIT OPERATIONS PRIOR TO SEPTEMBER 1976



- Conduct indepth program results reviews of major FBI programs. These reviews should be conducted on priority programs and should be conducted simultaneously at headquarters and at field offices involved in the specific program.
- Place more emphasis on investigative programs during its inspection process and less emphasis on administrative areas.
- Develop audit plans and programs for reviewing FBI activities in compliance with Office of Management and Budget Circular No. A-73. Audits selected should emphasize major FBI programs as measured by priority, funding, staffing levels, newness of activity, sensitivity, or results of prior audits and inspections.
- Closely coordinate reviews in process and the planning of future reviews with Justice's internal audit staff.

AGENCY COMMENTS AND OUR EVALUATION

The Department of Justice basically concurred with our findings, conclusions, and recommendations. (See app. III.) The Department believes, however, that there are inherent problems in their implementation because the FBI's career development program, without modification, does not fully accommodate the objectives of enhancing staff qualifications, independence, and permanence. These objectives, to be fully met, require an interruption in the career development track which might have an adverse impact on highly qualified agents.

It noted that it is a difficult management problem to achieve the goals of the recommendations while retaining the demonstrated advantages of the career development program. Based on our discussions with Department officials, we are satisfied that attempts will be made to solve this management problem.

In addition, the current policy does not require that the operational evaluation team member who developed the profile participated in the inspection or even review the inspection report or questionnaires when completed. Therefore, there is no assurance that questions were fully answered within the context in which they were framed.

Financial audit programs

In contrast, the financial audit programs prepared by the Office of Inspections' special audit staff are generally in compliance with the auditing standards. These programs cover all FBI financial funds as well as accountability reviews of equipment and supplies. The programs indicate, in a step-by-step fashion, how and why certain auditing procedures should be carried out.

CONCLUSIONS

While internal audit activities within the FBI have improved in many areas, the OPE and inspection functions still need further improvement in order to conform to Government standards and to provide maximum benefits to FBI management.

The FBI concentrates the vast majority of its internal review resources on conducting compliance-oriented inspections of field offices, foreign liaison offices, and headquarters divisions. This does not satisfy the internal audit standards, which require Federal agencies to develop a full audit program. OPE has recently initiated broad-based program results reviews which have the potential of providing information on the overall operations of FBI programs. However, to date, these reviews have not addressed major FBI programs or priorities.

The reorganization of FBI's internal audit activities improved its operations by consolidating all internal audit functions into one division which reports directly to the Director. The reorganization also substantially improved the inspection process by

--creating an operational evaluation team to assist in controlling ongoing inspections,

on the issues the auditor is expected to reach conclusions on, and in program results reviews, the specific criteria for evaluating program effectiveness.

--Procedures, including the specific steps necessary for carrying out the inquiry and for achieving the auditor's objectives.

--The general format to be followed in the auditor's report and a general discussion of the type of information desired in the report.

The audit program should also designate, wherever possible, the relative priorities of various inquiries to ensure that the most important aspects of the review are emphasized.

The audit program is an important tool for ensuring that all work is conducted completely and that unnecessary inquiries are held to a minimum. It becomes even more important when staff conducting reviews lack auditing experience, since it lays out the steps necessary for carrying out reviews. The individual steps, however, should not be written in such a way that individual initiative, imagination, or resourcefulness is limited.

OPE study/evaluation plan

The revised OPE project management manual retained the same study/evaluation plan format used in the prior project management manual. Until recently, OPE staff did not generally develop a study/evaluation plan prior to initiating an evaluation, even though such a plan was required by the project manual. When the plan was developed, it did not fulfill the auditing requirements because of its brevity and because it did not show the specific steps and procedures to be used for carrying out inquiries.

The Deputy Assistant Director, OPE, said that in the future, study plans will be written prior to initiating evaluations. According to the October 1977 audit plan, OPE planned to allocate 40 staff days to develop an extensive audit program for conducting its first major review of a Bureau program.

Since agreeing, Justice has (1) assigned a staff of three or four auditors, and obtained office space within the FBI building, (2) conducted, at the request of the Justice's Office of Professional Responsibility, a brief inquiry to verify FBI data provided to the Department, and (3) conducted an audit of the adequacy and effectiveness of the FBI's management controls over the development and progress of the Automated Identification Division System and its Fingerprint Reader Subsystem. However, OPE and the Inspection Division have never formally met with Justice's audit staff to discuss and coordinate anticipated reviews and only rarely meet to coordinate specific reviews in process. Also, OPE and the Inspection Division do not advise the departmental audit staff when reviews are initiated or completed and do not systematically provide them with copies or synopses of reports.

INSPECTION PROFILE AND OPE STUDY PLAN ARE IMPROVEMENTS, BUT ARE NOT SUBSTITUTES FOR AUDIT MANUALS AND PROGRAMS

Since the reorganization, the FBI has revised its audit manuals and programs. The Office of Inspections has substituted a working guide for previous inspection manuals. It also developed a preinspection profile for collecting and analyzing information prior to initiating an inspection. The working guide and profile, however, are not appropriate substitutes for audit manuals and programs.

OPE improved its manuals, but the manuals are still not in compliance with the auditing standards. Although an OPE official stated that program evaluation plans will be prepared in the future, these study plans, as currently designed, are not a substitute for audit programs.

Inadequate audit manuals

Audit manuals and programs serve to guide internal audit efforts and provide a means for audit managers to exercise control. Audit manuals are designed to provide staff members with information on the (1) overall objectives of the internal auditing group, (2) general policies to be followed in conducting audits, (3) general scope of the work to be performed, (4) standards of performance, and (5) means of reporting results of the audits. Detailed audit programs, on the other hand, are written by staff members

All evaluations, studies, and other projects were estimated to involve 1,745 staff days of which OPE was to provide 1,100. An additional 40 staff days were scheduled for the development of an "actual work plan for the first evaluation of a major program under this activity cycle."

The audit plans did not take into adequate consideration major FBI programs or activities according to staffing or funding levels, newness, changes, conditions, or sensitivity. It also did not allocate staff time for work which the Director might request.

An OPE official stated that future evaluations will be conducted on major FBI programs such as organized crime, white-collar crime, and foreign counterintelligence. The official also said that audit plans will be based upon the funding levels and priorities of the 22 major FBI programs.

Office of Inspections

The Office of Inspections does not have a formal written audit plan. Instead, the Office schedules inspections based upon the length of time since the last inspection and the proximity of the office to other offices under inspection. In addition, such factors as the need for followup inspections, major problems anticipated in the office, or other priorities may affect the date of inspection. All field offices, headquarters divisions, and foreign liaison offices are to be inspected every 18 to 24 months.

Under the revised inspection process, 55 of the 59 field offices were inspected during the first 14 months. The first headquarters division review did not take place until February 1978. Office of Inspections officials said that they concentrated on field offices in order to expedite implementation of the management by objective program.

COORDINATION AND COOPERATION WITH DEPARTMENT OF JUSTICE AUDIT STAFF NEEDS IMPROVEMENT

The relationship between the internal audit staffs of the FBI and the Department of Justice has improved since the reorganization but needs further improvement. The Planning and Inspection Division does not formally coordinate its reviews with Justice's internal audit staff, nor does it provide Justice, on a continuing basis, with copies or synopses

The Planning and Inspection Division, however, did not develop an audit plan in accordance with the above standard. Until recently, OPE did not formally plan future work but made up informal lists of areas it would like to review. Since the reorganization, OPE has initiated two semi-annual plans outlining proposed evaluations to be conducted. While the plans do not meet our standards or the requirements of Office of Management and Budget Circular No. A-73, they are a step in the right direction.

The Office of Inspections does not formally plan future work but schedules, on a 18 to 24 month cyclical basis, inspections of offices which have not been inspected for the longest period of time. Inspections of financial areas within field offices are conducted by the special audit staff on an annual basis and whenever a field office SAC changes.

OPE is beginning to initiate
audit plans

In the past, OPE did not formally develop annual audit plans but retained informal lists of various areas it would like to review. A division official said a formal audit plan was not developed because reviews were not normally self-initiated, but initiated at the Director's request.

In March 1977, OPE developed and the Director approved a plan for conducting evaluations during the following 6-month period. The plan was OPE's first attempt at projecting its workload and staffing, and it identified 27 evaluations, studies, and projects to be conducted. The majority of planned efforts were evaluations of administrative or support areas and involved one or two OPE staff members and less than 50 staff days per study.

The remaining evaluations, however, involved widely varying efforts. One study, concerning dissemination of organized crime intelligence data, was estimated to involve one OPE staff member for 7 days. Another study, concerning the rewriting of all FBI manuals, involved a 32-member task force (2 from OPE) and a planned commitment of 1,280 staff days.

program. According to Planning and Inspection Division personnel, this responsibility had been assigned to OPE by the Director in order to expedite the program's implementation and because the responsibilities did not logically fall under any other office or division.

In March 1978, responsibility for overall management of the quality versus quantity program and the management by objective program was transferred to a newly created group within the Office of the Deputy Associate Director for Investigations. Previous OPE functions were combined with additional responsibilities to give the new group central managerial control over investigative areas. From a management standpoint, this action lays the groundwork for a management information system to analyze FBI programs. From an auditing standpoint, it ensures that the OPE staff will become more independent by eliminating at least some managerial responsibilities.

OPE has used staff from other headquarters divisions to assist in audits of various programs. These individuals were temporarily assigned to OPE by the headquarters division under review, and upon completion of their assignments, were transferred back to their division. An OPE official indicated that this practice will be used judiciously in the future to ensure complete independence.

To ensure that the management by objective program was carried out fully and properly, the inspection process was charged with verifying that target cases and priority areas had been identified by field offices and that personnel levels were appropriate. In practice, according to inspection staff personnel, they assisted field offices in getting "online" with the quality versus quantity program. They said they were instructed to avoid confrontations by assisting field office implementation during the first inspection cycle, instead of coming down hard on offices which had not fully implemented the programs. It was intended that during future inspections, the review process would return to a more disciplined approach with an attitude of accepting fewer excuses for not having fully implemented the management by objective program.

The Office of Inspections has not taken certain necessary steps to achieve independence. For example,

In the past, the Inspection Division attempted to ensure that its staff was qualified to conduct compliance-oriented inspections by selecting a specific number of inspectors' aides from each headquarters division. Each division was allocated a specific number of positions, and personnel within each division competed for available positions on the inspection staff. This was to ensure that the inspection staff was comprised of individuals knowledgeable of the various administrative or investigative areas under inspection.

An Inspection official said the practice was revised during the reorganization to give everyone an equal opportunity to compete for available inspection positions. He said the past practice of limiting the number of positions available from each division may have unfairly delayed qualified personnel from joining the staff.

The FBI did not revise its selection procedures for aides or inspectors to ensure that they have a full appreciation and understanding of the management by objective and quality versus quantity programs, even though such an understanding is critical for carrying out current inspections.

Turnover within the inspection staff increased at a more rapid pace since the reorganization and consequently, the inspection staff is less permanent today than it was previously. This is primarily due to filling a large number of recently vacated executive positions with staff who have completed inspection assignments.

In the past, the FBI policy was to assign aides to the inspection staff for 1-year tours and inspectors for various tours depending on the availability of SAC positions. When the Planning and Inspection Division was established, inspection assignment policy was revised and aides were required to serve 6 to 12 months on the staff. No change was made in inspectors assignments. We found, however, that although aide assignments varied from 3 to 12 months, the vast majority of aides rotated from the staff after about 6-1/2 months. In December 1977, the Office changed the policy and required aides to conduct a minimum of eight inspections, regardless of the time spent on the staff.

An FBI career board official said the board is not required to determine if potential staff members are familiar with auditing theory or procedures, or if they have management backgrounds.

According to a May 1977 memorandum concerning selection procedures, field personnel selected for OPE assignments may be assigned to OPE for 3 years (the equivalent of a normal headquarters assignment). Staff already assigned to FBI headquarters may be transferred to OPE for the remainder of the 3-year headquarters tour. No restrictions exist requiring personnel to serve minimum OPE tours. Therefore, an individual who has served 2 years on another headquarters staff may only be required to serve 1 year on the OPE staff.

Although OPE staff members' qualifications did not generally meet Federal audit standards, OPE did not develop a formal internal training program. Recently, however, it began sending staff to various external auditing and management training courses to develop its qualifications and to expose its personnel to other agencies' auditing programs and operations.

In the past, assignments to OPE were completely separate from inspection assignments. Staff members assigned to OPE still had to serve on the inspection staff in order to qualify for Assistant Special Agent in Charge (ASAC) positions. Shortly after the reorganization, the Assistant Director, Planning and Inspection Division, was given the flexibility to temporarily transfer OPE staff members to the inspection staff so these individuals could obtain career development credit for completing an inspection tour while still assigned to the OPE staff.

For the type of work performed to-date by OPE and the inspections staff, the limited consideration given to auditing qualifications has not posed significant problems. However, if the FBI is to achieve maximum benefits from its internal audit function, it must not only increase the scope of internal audit efforts as discussed previously, but also give more consideration to the auditing qualifications, training, and tenure of its staff.

matters believed to have broad application. Some of the problem areas identified were:

1. Sending official mail in sealed envelopes addressed to the personal attention of employees other than the Special Agent in Charge (SAC).
2. Recurring errors detected in the administration of field office funds, inventory cards, and time and attendance records.
3. Failing to use informants' symbol number in field support account.
4. Failing to transport evidence from resident agencies directly to FBI headquarters.
5. Failing to perform supervisory reviews of agents' investigative files.
6. Failing to appropriately record evidence turned over to U.S. Marshals.

NEED FOR MORE QUALIFIED AND PERMANENT STAFF

Audit standards relating to qualifications provide that auditors should collectively possess adequate professional proficiency for tasks required. The degree to which internal auditing can aid management is proportionate to the capabilities of the audit staff and the freedom with which it operates.

The internal audit standards do not require that individual auditors possess a background in a specific discipline. They provide, however, that because auditing responsibilities are broad, the staff should be well informed on the agency's purpose, objectives, programs, policies, operations, activities, and related legislation. They should also be familiar with the budget, fiscal and accounting procedures, legal and regulatory requirements, and management practices.

1. Reduce by 4 the authorized complement of special agents (5 percent of total agent complement).
2. Reduce by 1 the authorized complement of personnel support and service (3 percent of total support and service complement).
3. Identified four substantive errors in investigative cases (two involved administrative errors in handling of cases; one involved failure to modify a request to the National Crime Information Center; one involved failure to notify another office that a fugitive was armed and dangerous).
4. Reduce the automotive fleet by 1 vehicle.
5. Correct tab system used in closed file section.
6. Destroy duplicate copies of communications in policy files.
7. Institute procedures for validating indexes in order to reduce number of misfiled cards.
8. Established a system to ensure the rotation of newly assigned agents every 6 months.
9. Conduct an analysis to determine if it would be more effective and efficient to have a special clerk at a resident agency handle record checks presently handled by an agent.
10. Install alarms in various locations.
11. Maintain certain index cards in a locked cabinet.
12. Establish a procedure for including in a control file all communications authorizing or denying various requests.
13. Obtain photos of violent drug dealers operating in field office territory from Drug Enforcement Administration and make available to investigative personnel.

To carry out this third purpose, the inspection staff completely revised the inspection procedures and manuals. It eliminated the inspectors manuals, as well as a number of preprinted questionnaires used to direct inspectors' aides inquiries. The inspection staff combined or restructured other questionnaires and developed an overall staff utilization summary for the sole purpose of determining if personnel in the specific office under inspection were fully productive.

The operational evaluation team strengthened and added stability to the inspection process. The team's primary responsibility is to develop a unique preinspection profile of the entity to be inspected. The profile is designed to provide the inspection team with available background information on that entity's specific operations prior to initiating the inspection and to direct the inspection staff to potential problem areas. In the past, field office inspections were more standardized, background information was not automatically made available to the inspection team, and potential problem areas were not identified to the inspection team.

The creation of the Office of Inspection's special audit staff also improved the scope of inspection activities by separating financial aspects of inspections from other inspection areas. Fully qualified accountants and/or auditors are assigned to this staff for 3 years to conduct annual financial reviews of all field and headquarters operations (all other operations are reviewed every 18 months) and to initiate more comprehensive financial reviews.

Despite these improvements, the inspection process is still a limited internal control tool because it involves a large commitment of resources to minor areas. In conducting inspections, aides are required to inquire into peripheral areas such as agent and clerical training programs, automobile pools, radio equipment, intra-office mail flow procedures, stenographic pools, work assignments and productivity, file maintenance and the physical conditions, maintenance and security of the field office, and each resident agency. Furthermore, because most inspections concentrate on individual field offices, it is not possible to obtain a true horizontal or vertical look at a specific program or activity on a Bureau-wide basis.

audits or reviews of ongoing operations to determine their economy, efficiency, and effectiveness. Since the reorganization, OPE has continued to concentrate its resources in administrative and personnel areas but has begun to develop program evaluation expertise by initiating limited program reviews. To date, these reviews have been directed at minor activities or at selected aspects of major programs, such as the Ten Most Wanted Fugitive Program and FBI Headquarters Tour Program. No reviews have been conducted of any priority investigative areas such as foreign counterintelligence, organized crime, white-collar crime, antitrust, or civil rights.

Planning and Inspection Division officials said they have purposely initiated reviews of minor activities in order to develop necessary expertise. They stated they are also somewhat reluctant to initiate full program results reviews of major FBI programs because headquarters divisions responsible for carrying out these activities have only recently been assigned responsibility for broad programs, rather than narrow investigative areas. Planning and Inspection Division officials said in the future, OPE will undertake audits of major FBI programs and activities.

The following table indicates the heavy reliance on inspections as the primary FBI internal audit activity.

Number and Type of Inspections or OPE Evaluation,
Calendar Years 1974 to 1977

Calendar year	Inspections			Separate financial audit (note a)	Total	OPE evaluations	Total internal audit efforts
	Foreign liaison offices	Field offices	Headquarters divisions				
1974	1	59	10 of 10	2	72	3	75
1975	15	55	9 of 13	4	83	6	89
1976	1	46	4 of 12	3	54	10	64
1977	0	51	0 of 12	20	71	2	73

a/Includes inspections and reinspections of field offices.

CHAPTER 2

REORGANIZATION OF INTERNAL AUDIT ACTIVITIES HAS IMPROVED OPERATIONS, BUT FURTHER CHANGES ARE NEEDED

The reorganization of the FBI's internal review functions improved operations by consolidating all internal review functions into one division that reports directly to the FBI Director. Along with the reorganization, the FBI attempted to bring the audit process more in line with our standards and with Office of Management and Budget Circular No. A-73 by

- developing plans for program results reviews of major FBI programs,
- assigning a more permanent and qualified staff for financial audits,
- establishing an operational evaluation team to monitor and coordinate inspections,
- developing preinspection profiles for conducting inspections of specific offices, and
- eliminating certain managerial functions from the inspection process.

Although the reorganization has had positive results and corrected some of the earlier problems, additional improvements are still needed. Specifically, the FBI needs to strengthen its internal review operations by

- increasing the qualifications, independence, and permanence of its internal review staff and
- improving the scope, planning, and coordination of reviews.

SCOPE OF INTERNAL AUDIT EFFORT IS LIMITED

The standards for conducting reviews as stated by the Comptroller General in June 1972 and as directed by Office of Management and Budget Circular No. A-73 require all Federal agencies to conduct:

In September 1976, the FBI reorganized its internal audit operations by creating the Planning and Inspection Division. The division reports directly to the FBI Director and is composed of three separate offices assigned the following responsibilities:

1. Office of Inspections--responsible for routine inspections of all headquarters divisions, foreign liaison offices, and field offices. Previous inspections were compliance-oriented and carried out by the Inspection Division. The reorganization expanded the scope of inspections so that they are now concerned with examinations of a specific office's or division's investigative and administrative operations to determine whether (1) financial operations are properly conducted, (2) financial reports are presented accurately and fairly, (3) applicable laws, regulations, and policies have been complied with, (4) resources are managed and used in an effective manner, and (5) desired results and objectives are achieved in an efficient manner.
2. Office of Planning and Evaluation--retained the responsibilities previously assigned to it as a division-level Office of Planning and Evaluation. It acts as an advisor to management on matters involving changes in policy and long-range planning. It also conducts surveys, studies, and program audits to determine whether existing policies, procedures, and operations (1) meet present and anticipated requirements, (2) comply with required standards, and (3) are efficient, effective, and economical. These reviews are broader based and generally involve two or more offices or divisions.
3. Office of Professional Responsibility--responsible for certain functions previously carried out by both the Inspection Division and the Finance and Personnel Division. It is responsible for supervising and/or investigating all allegations of criminality, moral turpitude, or serious misconduct on the part of FBI employees. The Office also oversees all disciplinary actions taken against Bureau employees.

--the improvements made in developing more complete and reliable data on various accomplishments resulting from the criminal investigations, and

--the progress made through implementing a "quality" rather than a "quantity" approach to investigative areas--a concentration of investigative resources on the most important crime problems in an area--instead of using volume of investigations as an indicator of priorities.

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a) requires the head of each agency to establish and maintain effective systems of accounting and internal control for all funds, property, and other assets for which the agency is responsible. An integral part of such a system is internal auditing, which supplements routine management controls by providing independent and objective information, analysis, and recommendations for improving agency operations.

In 1972 the Comptroller General issued a booklet entitled "Standards for Audit of Government Organizations, Programs, Activities and Functions." The standards widened the scope of governmental auditing so that it is no longer a function concerned primarily with financial operations but also with whether organizations are

--achieving the purposes for which programs were authorized and funds were made available,

--operating economically and efficiently, and

--complying with applicable laws and regulations.

In 1974 the standards were included in a revised statement entitled "Internal Auditing in Federal Agencies." In September 1973, the General Services Administration issued Federal Management Circular 73-2, which sets forth policies to be followed by agencies in auditing Federal operations and programs. The circular was slightly revised in March 1978 and released as Office of Management and Budget Circular No. A-73. It requires Federal agencies to use the Comptroller General's audit standards as the

seminars at the FBI Academy, conducted over 440,000 scientific examinations through the FBI laboratory, and responded to over 18,000 requests for information under the Freedom of Information and Privacy Acts.

As of December 31, 1977, the FBI had about 18,800 employees and about 90,800 pending investigative matters. In fiscal year 1977, its operations cost approximately \$517 million. The FBI's fiscal year 1979 budget requested about \$557 million and 19,105 (7,791 agents and 11,314 clerks).

The chart on page 3 identifies the 10 headquarters divisions which are responsible for directing and coordinating all FBI operations, and its 59 field offices.

MANAGEMENT CONTROL

Management of such a varied and complex organization requires a management control system which is both complete and reliable. In the past, management control tools utilized by top FBI management included:

1. Routine monthly reports concerning field office caseloads and accomplishments (statistics on convictions, fines, savings and recoveries, and fugitive locations).
2. Review of selected individual investigative reports indicating the progress of specific criminal investigations.
3. Periodic compliance-oriented inspections of FBI field offices, foreign liaison offices, and headquarters divisions.

Our report concerning the FBI's use of its resources ("The FBI's System for Managing Investigative Resources and Measuring Results--Improvements Are Being Made," GGD-78-1, Feb. 15, 1978) noted the FBI's recent advances in developing a management-reporting system. The report stressed

--the advances the FBI has made by implementing a system whereby top headquarters and field office officials have more complete data on the nature and importance of criminal investigations,

ABBREVIATIONS

ASAC	Assistant Special Agent in Charge
FBI	Federal Bureau of Investigation
GAO	General Accounting Office
OPE	Office of Planning and Evaluation
SAC	Special Agent in Charge

- place more emphasis on investigative programs during its inspection process and less emphasis on administrative areas;
- develop audit plans and programs for reviewing FBI activities, emphasizing major programs as measured by priority, funding, staffing levels, newness of activity, sensitivity, or results of prior audits and inspections; and
- closely coordinate reviews in process and the planning of future reviews with the Department of Justice internal audit staff.

AGENCY COMMENTS

The Department of Justice basically concurred with GAO's findings, conclusions, and recommendations. (See p. 34 and app. III.) The Department believes, however, that there are inherent problems in carrying them out because the FBI's career development program, without modification, does not fully accommodate the objectives of improving staff qualifications, independence, and permanence. It noted that it is a difficult management problem to achieve the goals of the recommendations while retaining the demonstrated advantages of the career development program.

Based on discussions with Department officials, GAO is satisfied that attempts will be made to solve this management problem.

(2) a willingness to question the very premises on which an activity is based, and
(3) a horizontal, as well as vertical look at agency operations.

Independence suffered because agents were evaluating agents. In-depth knowledge of operations obviously facilitates the inspection process, but in GAO's view, the inspectors' awareness of their past and future involvement with these same activities and people would not provide the typical objective criticism that could be obtained from truly independent observers.

In the same manner, because the inspectors were, first of all, agents trained to accept and follow the regulations and instructions of higher management, the iconoclasm of the independent critic--the person who would raise the question "not how, but why" something is being done--would be missing.

Finally, because of its emphasis on individual offices and individual managers, the inspection system did not provide for cross-agency, horizontal evaluations of agency activities.

1972 to present

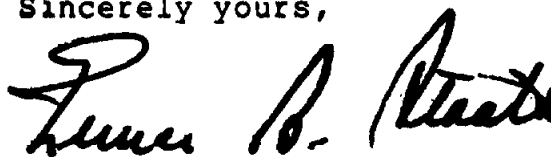
In recognition of the need for an internal audit function in addition to the inspection process, the FBI established the Office of Planning and Evaluation in 1972, separate from the Inspection Division. This group was intended to address some of the broad and basic issues not covered in the past.

In 1976 the FBI took further action to strengthen its internal management by combining the Inspection Division, Office of Planning and Evaluation, and a new Office of Professional Responsibility within a single division reporting directly to the

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As arranged with your Subcommittee, we will provide one copy of this report to the Attorney General and one copy to the FBI Director with the stipulation that they not disseminate the report for 30 days or until released by you. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of the report. We will then send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Stewart".

Comptroller General
of the United States

RELEASD