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**UNITED STATES  
GENERAL ACCOUNTING OFFICE**

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**Potential For Improvement  
Of Internal Audit Function**

**Department of the Interior**

The audit effort within the Department of the Interior is not providing adequate internal financial audit coverage of all assets, liabilities, expenses, and revenues of the Department.

The Department of the Interior needs to evaluate the audit function to determine what actions should be taken in the area of staffing to provide effective audit coverage and followup of the Department's internal financial operations.



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

B-160759

The Honorable  
The Secretary of the Interior

Dear Mr. Secretary:

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, in order 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 assure the adequacy of both staffing and the scope of internal audit arrangements in their agencies.

The Department of the Interior has established an Office of Audit and Investigation which conducts investigations of employee conduct, administers an ethics program, and performs audits of grants, contracts, and internal operations.

We reviewed the audit operations of the Office of Audit and Investigation for fiscal years 1974 through 1976 to determine the extent to which financial audits were being made of the Department's revenues, expenditures, assets, and liabilities. We did not consider whether internal audits of economy and efficiency of operations or effectiveness in achieving program objectives were being adequately performed. We also excluded external audits of grants and contracts from our review. Appendix II lists the financial areas of audit concern included in the scope of our review.

The Department of the Interior is concerned principally with the management, conservation, and development of natural resources and the effective use of recreation resources. The Department is also responsible for the collection of revenues from the sale of power; mineral, oil, and gas leasing; grazing lands; timber sales; and recreation fees. In fiscal year 1976 Interior's revenue collections totaled \$4.1 billion. Grants and contracts awarded by the Department amounted to \$2.2 billion, and salaries and other expenses totaled \$2 billion.

During fiscal years 1974 through 1976 Interior's Office of Audit and Investigation spent about half of its audit effort on grants and contracts and half on internal audits. There were 161 internal audits performed, including 59 of Interior's internal financial operations.

With the exception of the Bureau of Land Management and the Bureau of Reclamation, the 59 audits did not provide sufficient coverage to Interior's internal financial operations. Only limited coverage was provided to such major organizations as the National Park Service, Fish and Wildlife Service, Bureau of Mines, Mining Enforcement and Safety Administration, and Bureau of Indian Affairs. No financial audits were conducted by Interior of the Alaska, Southeastern, or Southwestern Power Administrations. Additional details on coverage are provided on page 8 of appendix I.

The Director of the Office of Audit and Investigation stated that the lack of coverage was the result of insufficient audit staff. He said this precluded his Office from auditing the financial operations of the organizations within the Department on a frequent basis and from following up on his report recommendations to assure that they were implemented.

We noted that a 1972 study by a major public accounting firm had concluded that Interior's audit organization was extremely understaffed and that lack of followup was a problem. At that time 122 auditor positions were authorized with 114 filled, and the accounting firm estimated that 233 were necessary to complete required audits on a 3-year cycle. In January 1977 Interior had 122 auditor positions filled, and 6 additional positions were authorized but not filled because of a temporary hiring restriction. The audit Director estimated that 200 would be required to provide minimal overall coverage.

The Office of Audit and Investigation is not fulfilling the internal audit requirements of the Accounting and Auditing Act of 1950 insofar as internal financial operations are concerned. Therefore, we believe changes should be made to provide additional internal audit coverage of the funds, property, and other assets for which Interior is responsible.

We recommend that you evaluate the audit function to determine what actions should be taken in the area of staffing to provide effective internal financial coverage and follow-up. Details of our review are included in appendix I.

B-160759

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 Interior, Committee on Appropriations; the Chairmen of the House and Senate Committees on the Budget; and the Director of the Office of Audit and Investigation, Department of the Interior.

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,



D. L. Scantlebury  
Director

POTENTIAL FOR IMPROVEMENT  
OF INTERNAL AUDIT FUNCTION

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 auditors should evaluate the adequacy of the agency's prescribed policies and procedures and the internal controls related to the agency's financial operations, including 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 of this report identifies specific financial areas that should be reviewed, as applicable, by an agency's internal audit staff.

ORGANIZATION OF INTERIOR

The Department of the Interior is concerned principally with the management, conservation, and development of natural resources and the effective use of recreation resources. Interior is responsible for over 550 million acres of Federal and Indian lands; conservation of minerals, water, fish, and wildlife; promotion of mining safety and efficiency; preservation of historic, scenic, and recreational areas; irrigation of arid lands and management of hydroelectric systems; develop-

ment of the territories of the United States; and administration of service programs for Indians.

The Department is also responsible for the collection of revenues from the sale of power; mineral, oil, and gas royalties; grazing lands; timber sales; and recreation fees.

In fiscal year 1976 Interior had \$4.2 billion in obligations and \$4.1 billion in revenues as follows:

Salaries and other obligations	\$2,046,271,000
Contract and grant obligations	2,196,594,000
Revenues	<u>4,070,168,000</u>
Total	<u>\$8,313,033,000</u>

#### INTERNAL AUDIT

The Office of Audit and Investigation is headed by a director who serves as the principal advisor to the Secretary and other departmental officials on audit, investigation, and employee conduct matters. The Office is responsible for (1) developing and implementing a comprehensive plan for the audit of the Department (except for the territories of Guam, the Virgin Islands, and the Trust Territories of the Pacific) and its grantees and contractors, (2) conducting investigations of misconduct or other factfinding studies requested by the Secretary, and (3) developing and monitoring a program for employee conduct.

The Office is segregated into three functional areas: Investigation, Ethics, and Audit. In addition to a headquarters office it has three regional audit offices located in Washington, D.C., Denver, Colorado, and Sacramento, California with suboffices in Albuquerque, New Mexico, Portland, Oregon, and Anchorage, Alaska.

There were 1,928 audits of Interior's operations conducted during fiscal years 1974 through 1976. Of these, 1,767 were of grants and contracts, including 957 external audits conducted primarily by Defense Contract Audit Agency and Health, Education, and Welfare auditors. Interior auditors conducted 971 internal and contract and grant audits as follows:

## APPENDIX I

## APPENDIX I

<u>Year</u>	<u>Internal</u>	<u>Contract and grant</u>	<u>Total</u>
1974	42	237	279
1975	48	287	335
1976	<u>71</u>	<u>286</u>	<u>357</u>
Total	<u>161</u>	<u>810</u>	<u>971</u>

Interior's auditors spent about half of their staff-years on the 161 internal audits and half on the 810 external grant and contract audits.

FINANCIAL AUDIT COVERAGE  
AND FOLLOWUP NOT ADEQUATE

We limited our review to internal financial audit coverage; we did not consider the external coverage provided audits of contracts and grants nor did we consider the internal audits concerned with economy and efficiency of operations or effectiveness in achieving program objectives.

Fifty-nine of the internal audits conducted by the Office of Audit and Investigation were financial. As shown by the table that follows, with the exception of the Bureau of Land Management and the Bureau of Reclamation, these 59 audits did not provide sufficient internal financial coverage of all assets, liabilities, expenses and revenues of the Department. Since we were concerned only with internal financial coverage, the schedule does not include the \$2.2 billion in fiscal year 1976 for grants and contracts.

FISCAL YEAR 1976 REVENUES,  
SALARY AND OTHER OBLIGATIONS, AND FISCAL  
YEARS 1974-76 FINANCIAL AUDITS COMPLETED

<u>Area/organizations</u>	<u>Salary and other obligations</u>	<u>Revenues</u>	<u>Audits completed</u>
	(000 omitted)		
Land and water resources:			
Land Management	3 164,481	\$3,022,191	12
Reclamation	240,827	476,283	10
Water Research and Technology	2,780	0	1
Fish, wildlife, and parks:			
Outdoor Recreation	24,096	0	a/0
Fish and wildlife	136,368	20,244	2
National Park	272,264	21,388	4
Energy and minerals:			
Geological Survey	295,412	3,976	5
Mining Enforcement and Safety	75,369	9,251	1
Mines	77,327	676	1
Alaska Power	1,370	2,273	0
Bonneville Power	131,751	137,470	3
Southeastern Power	774	44,003	0
Southwestern Power	4,573	35,395	0
Indian affairs	527,437	266,057	6
Secretary	91,442	30,956	b/14
Total	<u>\$2,046,271</u>	<u>\$4,073,168</u>	<u>59</u>

a/Audits of 5 of 8 regions were in process or completed after the June 30, 1976, cutoff date.

b/Includes multiprogram audit of Alaska pipeline and 10 reimbursable Job Corps audits.



Only limited coverage was provided to such major organizations as the National Park Service, Fish and Wildlife Service, Bureau of Mines, Mining Enforcement and Safety Administration, and Bureau of Indian Affairs. During the 3-year period covered by our review:

--Only four audits were made of the National Park Service, which provided coverage to 6 of 287 parks. Two involved payroll, one involved support services provided the American Revolution Bicentennial Commission, and one was a survey of the programing and financial management system.

--Only two audits of the Fish and Wildlife Service were made. One was a payroll audit and the other was a review of administrative activities that provided coverage to only

--4 of 378 wildlife refuges,  
--1 of 20 wetlands districts, and  
--5 of 89 fish hatcheries.

--Only one audit of the Bureau of Mines was made, which covered the area of property management.

--Only one audit was made of the Mining Enforcement and Safety Administration; it was a review of the collection of civil penalties assessed under the Federal Coal Mine Health and Safety Act of 1969.

--No audits were conducted of the Bureau of Indian Affairs payroll operation.

We also noted that no financial audits of the Southeastern, Southwestern, or Alaska Power Administrations were conducted by Interior.

With regard to revenues, we noted that the major royalty accounting systems were being audited during the period of our review; however, these were the first reported overall audits of the systems in 9 years. The audits were conducted because of serious reported problems within the systems. The audits of mineral, oil, and gas royalties identified over \$1 million in uncollected royalties and even larger potential losses if corrective actions were not taken.

The director stated that many significant findings identified in the reports could have been detected earlier and corrected if more auditors had been available. He also stated that if such auditors had been available, more follow-up audits could have been made to assure that reported corrections of previous audit recommendations were actually made. In two recent audits (National Park Service payroll and Bureau of Land Management cost allocations), the findings had already been identified in earlier audit reports and supposedly had been corrected, but were not.

The audit director advised us that it would take 200 auditors to provide minimal coverage. He stated that the Office of Audit and Investigation's internal financial audit cycle was in excess of 10 years.

The director's estimate is supported by a 1972 analysis of the Office of Audit and Investigation by a major public accounting firm. The study concluded that 233 auditors would be required to provide adequate coverage on a 3-year cycle. At that time there were 122 auditors authorized and 114 were filled. In January 1977 there were 128 auditor positions authorized and 122 filled. The analysis further stated that followup measures by the audit organization were limited and usually were not done until a subsequent audit of the same location, which could be years later because of the extended audit cycle.

The director stated that requests had been made for additional audit positions; however, they were rejected by either the Department of the Interior or the Office of Management and Budget until 10 positions were authorized by the Congress in fiscal year 1977. Four of the positions were allocated prior to January 1977, and the remaining six are to be allocated after the lifting of a temporary restriction on hiring imposed by the President in the second quarter of fiscal year 1977.

#### CONCLUSION

The Office of Audit and Investigation is not fulfilling the internal audit requirements of the Accounting and Auditing Act of 1950 insofar as internal financial operations are concerned. We believe changes should be made to provide additional internal audit coverage of the funds, property, and other assets for which Interior is responsible.

RECOMMENDATION

We recommend that you evaluate the audit function to determine what actions should be taken in the area of staffing to provide effective internal financial coverage and followup.

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:

- a) Interagency/fund
- b) External

## Price established on documentation for:

- a) Actual cost
- b) 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:

- a) Furniture/fixtures
- b) Equipment
- c) Plant and equipment
- d) On assignment--to others
- e) On assignment--from others
- f) Supplies and materials

Property valuation established on documentation for:

- a) Cost
- b) Estimated
- c) Salvage

Property (cont.)

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

Depreciation/obsolescence

Evaluation of maintenance costs and economic value

Liabilities

Internal control procedures

Account classification:

a) Accounts payable

b) Contract provisions

c) Accruals

d) Intergovernmental/fund

e) Advance payments

f) Contingencies

g) Unfunded

h) 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:

a) Apportionment

b) Subdivision of funds

c) Obligations

d) Disbursements

e) Reporting

Compliance with laws/regulations

Incurrence of obligations:

a) Authority

b) Availability of funds:

Precertification

Commitment accounting

Administrative control of funds (cont.)

c) Compliance with 1311 criteria  
 d) Timely recording  
 Policy and procedures  
 Liquidation and recoupment of excess obligations  
 Use of "M" accounts  
 Reprograming/transfer of funds  
 Accounting for proceeds  
 Status of funds reports

Revenues

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

Costs

Internal control procedures  
 Timely recording in accounts  
 Separation of costs:  
 a) Pay and allowance  
 b) Direct  
 c) Indirect  
 d) Depreciation  
 e) Contracts/grantees  
 f) Unfunded  
 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

Reports (cont.)

Supported by accounting system  
Usefulness to management  
Timeliness of reports  
Accurate, reliable, truthful  
Comparison of budgeted/programed costs with actual  
Footnoted as required

Other

Approved systems implemented  
Followup on prior recommendations