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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Improving Interior's Internal Auditing And Investigating Activities-- Inspector General Faces Many Problems

AGC 00033

The Secretary of the Interior should provide the Inspector General with the necessary staff and budget to achieve the objectives stipulated by the Inspector General Act of 1978. Top management also should be instructed to be more responsive to audit findings and recommendations. The Inspector General should commence the shift from external to internal auditing; improve the audit planning, information, and followup systems; and give more emphasis to fraud detection.

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COMPTROLLER GENERAL OF THE UNITED STATES
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To the President of the Senate and the
Speaker of the House of Representatives

This report describes actions needed for effective implementation of the Inspector General Act of 1978 at the Department of the Interior.

We made this review because prior reviews which mentioned audit activities at Interior indicated that (1) management was not supporting the audit function and (2) perhaps audit resources were not being used effectively.

Copies of the report are being sent to the Director, Office of Management and Budget, and the Secretary of the Interior.

James B. Stealy
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPROVING INTERIOR'S INTERNAL
AUDITING AND INVESTIGATING
ACTIVITIES--INSPECTOR
GENERAL FACES MANY PROBLEMS

D I G E S T

The Department of the Interior's new Inspector General faces many problems in carrying out independent and effective audits and investigations, as required by law, because:

- Top management has not given adequate attention to Interior's auditors and investigators nor effectively responded to, or acted on, audit findings, conclusions, and recommendations.
- Appropriate staff and funds have not been allocated to audit and investigative activities to provide adequate coverage of Interior's programs and activities.
- Too many of the Inspector General's audit staff (60 percent) are used to audit grants and contracts which could be done by certified public accounting firms, the Defense Contract Audit Agency, or Interior's agencies.
- The Inspector General's office has not established the audit planning, monitoring, and followup systems necessary for an effective audit and investigative function.

RECOMMENDATIONS TO THE
SECRETARY OF THE INTERIOR

The Secretary ^{PI} should:

- Direct Interior managers at all levels to be more cooperative with the Inspector General and more responsive to audit findings and recommendations. / In this respect, the

"Departmental Manual" should be revised to define more clearly management's role and responsibilities for taking corrective actions on audit findings and recommendations. The revisions should require that time schedules be established for taking corrective actions; that records be maintained on actions taken; that top management be provided periodic reports on actions taken; and that an individual from each departmental agency be made responsible for ensuring that timely actions are taken on findings and recommendations. (See p. 18.)

- ✓--Revise Interior's budget so that the budget for the Inspector General can be considered independently of other departmental activities and set out as a separate appropriation. (See p. 18.)
- ✓--Allocate the resources necessary to implement the Inspector General Act. (See pp. 18 and 44.)
- ✓--Eliminate reimbursable funding of audit activities and find alternative ways to conduct external contract and grant audits and overhead rate negotiations so that more internal audits can be performed with available staff. (See p. 38.)
- ➔The Secretary of the Interior should also direct the Inspector General to:
 - ✓--Revise the audit planning process to ensure that periodic, independent assessments are made of all departmental programs and services to identify areas where potential for management weaknesses exists. An appropriate system for establishing audit priorities should also be developed in order to ensure that audit coverage is directed to the most critical issues on a reasonable audit cycle.
 - ✓--Establish an appropriate information and reporting system to provide meaningful, periodic reports which will keep all management levels informed of the status of

ongoing audits and actions needed or taken on report findings and recommendations.

- ✓--Strengthen its report followup procedures to ensure that audit report findings and recommendations are not closed out without appropriate assurances that management has taken action. (See pp. 38 and 39.)

TOP MANAGEMENT SUPPORT NEEDED

For years a more concerted effort has been needed by top management at all levels of the Department to ensure that audit and investigative activities are independent and effective.

In the past the Department has not allocated adequate staff and funds to audit activities in spite of overwhelming evidence that adequate audit and investigative coverage could not be provided with available resources. This problem is aggravated by the Department's budget process which requires that the Office of Inspector General's budget be included in the Office of the Secretary's budget.

Congressional cuts in the Secretarial accounts and the higher priority given to major Interior programs have prevented reasonable growth in the audit and investigative staffs. This occurs because audit and investigations must compete with other activities in the Office of the Secretary, which has not given audit and investigation necessary emphasis.

The Department also has not seen to it that its agencies take appropriate corrective actions on audit findings and recommendations. As a result, audit findings and recommendations, some involving substantial amounts of funds, remain unresolved for prolonged periods of time while others may be dropped by auditors without adequate assurances that corrective actions were taken. For example, as

of March 31, 1979, responses to over 100 audit reports involving millions of dollars were overdue, many in excess of 6 months. (See p. 16.)

STAFFING RESOURCES
SHOULD BE SHIFTED TO
INTERNAL AUDITING

Audit policies, procedures, and practices give priority to external contract and grant audits and overhead rate negotiations, most of which is done on a reimbursable basis at the request of Interior agencies. In fiscal year 1978 such audits accounted for about 93 percent of the reports issued by the Office of Inspector General and 62 percent of its professional audit resources.

As a result, the Office of Inspector General cannot make sufficient independent, self-initiated internal audits of Interior's programs and operations. Many internal audits that are performed are directed toward "firefighting" or are limited in scope so that some audit coverage can be given to each bureau and office. This situation erodes the effectiveness of internal audit coverage at Interior. (See pp. 20 to 26.)

The impact of limited resources and giving priority to external audits is dramatic. Audit officials estimate that 84 of the Department's 180 organizational components have not been audited in 5 or more years. Department records show that in the 3 years prior to preparation of the 1979 budget request audits were made of only 6 of 287 parks, 4 of 378 wildlife refuges, 1 of 20 wetland districts, and 4 of 89 fish hatcheries. As of March 31, 1978, program activities--involving approximately \$2.7 billion in fiscal year 1978--had either not been audited since 1973, or had not been audited at all. (See p. 25.)

AUDIT ACTIVITIES
COULD BE IMPROVED

Auditors have not done enough to encourage management resolution of audit findings and recommendations and to improve audit effectiveness.

--A management information system has not been developed to provide data needed to improve audit planning and to provide management with periodic status reports on ongoing audits and report findings and recommendations. (See pp. 34, 35, and 37.)

--Verification of corrective actions taken or promised by management is not always done before auditors close audit reports. Even minimum efforts to obtain and evaluate copies of all corrective actions involving written policies and procedures or agreements with contractors and grantees is not always done. (See pp. 32 and 33.)

MORE ATTENTION
NEEDS TO BE GIVEN
TO FRAUD DETECTION

The Department of the Interior collects about \$3.6 billion annually in revenues, pays salaries and program expenses of about \$3.7 billion, administers about \$2 billion in contracts and grants, and employs about 55,000 permanent, full-time employees and 23,000 other employees. However, before fiscal year 1979 the Department had devoted only six positions to investigative activities.

Further, in fiscal year 1979 the Department increased the investigative staff by only five positions. As a result, a concerted effort had not been made to detect fraud and abuse; instead, the Department relies primarily on complaints and allegations--a reactive approach. (See pp. 40 to 44.)

AGENCY COMMENTS

Officials of the Department of the Interior agreed that additional staff should be devoted to audits and investigations to provide better internal audit coverage and to make the improvements recommended in this report. However, the officials did not agree that a separate appropriation was necessary or that other ways should be found to conduct contract and grant audits and overhead rate negotiations.

GAO does not believe adequate emphasis and support will be given to the Office of Inspector General until it is provided a separate appropriation. The Inspector General should not have to compete with other activities in the Office of the Secretary to obtain adequate staff. GAO remains convinced that unless needed staffing resources are provided and alternatives for conducting contract and grant audits and overhead rate negotiations are used, effective internal audit coverage of Interior's programs and operations will not be provided. (See pp. 18, 39, and 45.)

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ABBREVIATIONS

CPA	certified public accountant
DCAA	Defense Contract Audit Agency
GAO	General Accounting Office
HCRS	Heritage Conservation and Recreation Service
HEW	Department of Health, Education, and Welfare
OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

Management control begins with delegated authority and planned operations and continues through performance and reporting on performance. A well-designed system of management control helps to ensure efficiency, economy, and achievement of planned results. Such a system includes providing carefully devised and frequently updated standards of comparison so that activities can be designed and carried on and so that their output can be measured.

The essence of management control is the action which adjusts operations to conform with prescribed or desired standards or requirements. To take this action management needs timely and adequate information on performance.

Management may get the information it needs from direct observation; from routine and periodic operating, accounting, statistical, and analytical reports; and from functional or staff reviews. Another important source of information is the internal audit organization, which conducts independent examinations and reports on its findings and appraisals of operations and performance. The internal audit function uniquely supplements routine management checks through its independent approach and methods of review. This function is one of the essential management tools complementing all other elements of management control.

The overall objective of internal auditing is to assist agency management in attaining its goals by furnishing information, analyses, appraisals, and recommendations pertinent to management's duties and objectives.

CONGRESSIONAL INTEREST IN INTERNAL AUDITING

The Congress recognized the role and usefulness of auditing when it passed the National Security Act Amendments of 1949 (Act of August 10, 1949, ch. 412, 63 Stat. 578) and the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 2 et seq.). Section 113 of the latter act placed responsibility for instituting this element of internal control on top agency management by stating that:

"The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide * * * effective control over and accountability for all funds, property, and other assets for which the agency is responsible, including appropriate internal audit * * *."

More recently the Congress passed the Inspector General Act of 1978 (Public Law 95-452, 92 Stat. 1011). In passing this act, which was approved on October 12, 1978, the Senate Committee on Governmental Affairs stated in its Report No. 95-1071 that

"Passage of this legislation will upgrade the auditing and investigative functions in the executive agencies by making it clear that Congress takes the problem and responsibilities seriously."

The act establishes an Office of Inspector General in 12 Federal departments and agencies, including the Department of the Interior, to create independent and objective audit and investigative units to

- conduct and supervise audits and investigations relating to programs and operations;
- provide leadership and coordination and recommend policies to promote economy and efficiency and to prevent and detect fraud and abuse in programs and operations; and
- provide a means for keeping agency heads and the Congress fully informed about problems and deficiencies in such programs and operations and the need for and progress of corrective action.

GAO ROLE IN INTERNAL AUDITING IN FEDERAL AGENCIES

Under the Budget and Accounting Procedures Act of 1950, the Comptroller General is required to prescribe principles, procedures, rules, and regulations for internal audit work, giving

"* * * due regard to generally accepted principles of auditing, including consideration of the effectiveness of * * * internal audit and control, and related administrative practices of the respective agencies."

We issued statements of basic principles and concepts of internal auditing for Federal agencies in 1957 and 1968 to assist in carrying out the act and to provide guidance to agencies in developing internal audit organizations and procedures. In 1972, we published a comprehensive statement of standards for audit of governmental organizations, programs, activities, and functions. This statement is applicable to internal auditing in governmental organizations--Federal, State, and local--as well as to external and contract auditing conducted by or for governmental entities.

Because of the standards' general applicability to auditing of Government programs and activities, we integrated them into a revised statement of basic principles, standards, and concepts of internal auditing in Federal agencies. In August 1974, we published the statement in a booklet entitled "Internal Auditing in Federal Agencies."

FEDERAL AGENCY INTERNAL AUDIT RESPONSIBILITIES

As part of the internal controls required by the Budget and Accounting Procedures Act of 1950, Federal agencies are required to establish and maintain appropriate internal audit systems to ensure effective control over funds, property, and other assets. Office of Management and Budget (OMB) Circular No. A-73 (revised Mar. 15, 1978) sets forth the policies and procedures Federal agencies are to follow in auditing Federal operations and programs. It states the following:

"Policies and procedures. Agencies are responsible for providing adequate audit coverage of their programs as an aid in determining whether funds have been applied efficiently, economically, effectively, and in a manner that is consistent with related laws, program objectives, and underlying agreements. The audit standards [issued by GAO] will be the basic criteria on which audit coverage and operations are based. Agencies administering Federal grant, contract, and loan programs will encourage the appropriate application of these standards by non-Federal audit staffs involved in the audit of organizations administering Federal programs. Each agency will implement the policies set forth in this Circular by issuing policies, plans, and procedures for the guidance of its auditors."

ORGANIZATION OF THE DEPARTMENT OF THE 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; preservation of historic, scenic, and recreational areas; irrigation of arid lands and management of hydroelectric systems; development of the territories of the United States; and administration of service programs for Indians. Interior is also responsible for collecting revenues from the sale of power; mineral, oil, and gas royalties; grazing lands; timber sales; and recreation fees.

Office of Inspector General

Before April 1979, the Director, Office of Audit and Investigation, served as principal advisor on audit and investigative matters to the Secretary and other top Interior officials. The Director reported to the Assistant Secretary, Policy, Budget, and Administration. The Office was responsible for (1) developing and implementing a comprehensive plan for the audit of the Department of the Interior (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 had three functional areas--investigation, ethics, and audit. In addition to a headquarters office, it had three regional audit offices located in Arlington, Virginia; Denver, Colorado; and Sacramento, California; with suboffices in Albuquerque, New Mexico; Portland, Oregon; and Anchorage, Alaska. The Office's mission included performing internal and external audits.

The internal audit function deals primarily with Interior's operations and its purpose is to give management objective appraisals of its programs and functions. Such appraisals should address the economy, efficiency, and effectiveness of programs and activities.

The external audit function deals with financial matters of public and private organizations that receive funds from Interior. The external audit examines documentation in support of grants, claims, costs, cost proposals, and cost pricing data of grantees and contractors. Overhead rate negotiations are also conducted with Indian tribes and States.

Interior auditors also arrange for external audits to be performed by other Federal agencies, State and local auditors, and independent public accountants.

On April 5, 1979, pursuant to the requirements of the Inspector General Act of 1978, the Secretary of the Interior abolished the Office of Audit and Investigation and established the Office of Inspector General. The Inspector General reports directly to the Secretary or, in the event the Secretary is unavailable, to the Under Secretary. The Office of Inspector General conducts audits and investigations relating to Interior, except for the audits conducted by the comptrollers' offices in the territories.

PRIOR GAO REPORTS CONCERNING INTERNAL
AUDITING IN THE DEPARTMENT OF THE INTERIOR

In May 1977, we issued a report entitled "Potential For Improvement Of Internal Audit Function" (FGMSD-77-26) concerning the Department of the Interior. This report concluded that Interior's audit effort was not providing adequate internal financial audit coverage of all Department assets, liabilities, expenses, and revenues. The report recommended that Interior evaluate the audit function to determine if additional staff were needed to provide effective internal audit coverage and followup of Interior's internal financial operations. This report discusses Interior's efforts to increase its audit staff.

In October 1978, we issued a report entitled "More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected Or Saved" (FGMSD-79-3). The report, which referred to the Department of the Interior's audit follow-up procedures, concluded that the failure of Federal agencies to establish good systems for resolving auditors' findings could be costing the Government hundreds of millions annually--most of which grantees and contractors are keeping although they are not entitled to them under applicable laws and regulations. This report discusses Interior's efforts to improve its followup practices.

PURPOSE AND SCOPE
OF THIS REVIEW

A comprehensive evaluation had not been made of the effectiveness of the Department of the Interior's audit activities since Interior centralized these functions in 1966. The need for such an evaluation is demonstrated by increasing congressional concern over mismanagement and fraud and abuse in Federal agencies. Also, our prior reports which mentioned audit activities at Interior indicated that (1) management may not be supporting the audit function and (2) perhaps audit resources were not being utilized effectively. Therefore, we reviewed audit and investigative policies, procedures, and practices used by Interior's Office of Inspector General. We made our review at Interior headquarters in Washington, D.C., and at the Inspector General's regional offices in Arlington, Virginia; Denver, Colorado; and Sacramento, California.

In making our review, we interviewed Interior officials in the Office of the Secretary as well as several Interior agencies. We reviewed Interior's organization, operations, and audit activities in relation to the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" and OMB Circular No. A-73, "Audit of Federal Operations and Programs." We also reviewed annual audit plans, reports, guidelines, and workpapers and interviewed audit and investigative staff at headquarters and regional offices.

CHAPTER 2
MANAGEMENT NEEDS TO GIVE
MORE EMPHASIS TO AUDIT
AND INVESTIGATIVE ACTIVITIES

For years a more concerted effort has been needed by top management at all levels of the Department of the Interior to ensure that audit and investigative activities are independent and effective. However, Interior has not provided auditors and investigators with the resources and backing needed to maximize their potential for identifying operational problems, program mismanagement, and fraud and abuse. As a result the Office of Inspector General has not been able to provide adequate audit and investigative coverage of the Department's expanding programs and activities.

The overall objective of internal auditing is to assist agency management in attaining its goals and objectives by furnishing information, analyses, appraisals, and recommendations pertinent to management's duties and objectives. To be effective, however, internal auditing needs management guidance and support on the one hand and necessary resources, independence, and cooperation from it on the other.

The purpose of the Inspector General Act of 1978 is to create independent and objective units to (1) conduct and supervise audits and investigations, (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse, and (3) provide a means for keeping agency heads and the Congress informed of problems and progress of corrective actions.

Because Interior's management has not provided the necessary support and resources, cooperation, and timely responses to audit findings and recommendations, the Inspector General may be unable to accomplish the objectives of the act. Consequently, the act may not bring about needed improvements at Interior without strong congressional oversight and a change in management attitudes about audits and investigations.

MANAGEMENT NEEDS TO SUPPORT
AUDIT ACTIVITIES

On April 1, 1966, Interior issued Secretarial Order No. 2894, consolidating internal auditing, which had been concentrated at agency levels, in a departmental audit staff attached to the Office of Survey and Review under the Assistant Secretary for Administration. Immediately before the time internal audit activities were centralized in fiscal year 1966, 104 professional auditors were assigned to audit a departmental budget consisting of:

(Fiscal year 1966)

Authorized spending level	\$1,435,000,000
Revenues (note a)	785,000,000
Expenditures	1,331,000,000

a/From sale of power; mineral, oil, and gas royalties; grazing lands; timber sales; recreation fees; etc.

In an August 30, 1967, memorandum to heads of bureaus and offices, the Assistant Secretary for Administration stated that the Department planned for the consolidated audit staff to concentrate its attention upon internal auditing as defined by modern audit authorities including the Comptroller General. He pointed out further that directives from the Under Secretary sharpened the emphasis upon internal audit. He also stated that the Secretarial Order consolidating audit functions dealt with contract auditing only to the extent that

"* * * such activities (1) would be coordinated by the Office of Survey and Review and (2) by specific reference to those agencies theretofore relying upon others for contract audit services. Concession audits centered mainly in the National Park Service, were separately considered. Grant auditing was also separately treated."

In his August 30, 1967, memorandum, the Assistant Secretary for Administration stated that, contrary to the Department's intent at the time of consolidation, it had become apparent that several agencies had been using the internal audit function for contract audit purposes. He pointed out that, "as a factual matter," the only funds and positions specifically identified with contract auditing in the process of consolidation were derived from the Office of Coal Research and the Office of Saline Water.

He stated that

"Notwithstanding the fact, several Bureaus and Offices have made multiple requests for audits to service various needs of contracting officers and to carry on traditional diversions of internal audit staff. While the Department auditors have serviced a number of such requests, we have not been and are not now in a position to discharge the full workload nor is the problem immediately soluble by requests for more staff. Adding greatly to the weight of the problem is the sizable growth in the volume of cost-type contracts in which Interior agencies now engage." (Underscoring added.)

As a result of its concern about auditing cost-type contracts, Interior established a policy providing that costs of contract auditing would be handled on a reimbursable basis and such audits would be arranged by Audit Operations. As discussed on pages 20 to 26, this policy, coupled with Interior's continued failure to provide the resources needed to ensure effective audit coverage of its operations, programs, and services, has created a situation which prevented effective internal audit coverage of Interior's programs and operations.

As shown in the table below, although Interior's budget tripled since fiscal year 1966, its professional audit staff, including the headquarters staff, increased by only 10 as of fiscal year 1978. In addition to internal audits, auditors now make contract and grant audits and conduct overhead rate negotiations.

	Fiscal year <u>1966</u>	Fiscal year <u>1978</u>
Professional audit staff	104	114
Authorized spending level	\$1,435,000,000	\$4,428,000,000
Revenues (note a)	\$ 785,000,000	\$3,624,000,000
Expenditures	\$1,331,000,000	\$3,678,000,000

a/From sale of power; mineral, oil, and gas royalties; grazing lands; timber sales; recreation fees; etc.

Interior has never given serious attention to providing adequate resources for audit and investigations. For example, in 1972 a certified public accounting firm issued a report to the Deputy Assistant Secretary, Office of Management and Budget, pointing out a serious lack of resources to provide effective audit coverage at Interior. The report concluded that a professional audit staff of 276 was needed to provide adequate audit coverage at Interior. In 1972, there were 121 budgeted positions--155 less than needed. Interior's budget at the time amounted to about \$1.7 billion. The report also pointed out that communication and coordination had been minimal among Audit Operations, the Secretariat, and heads of program offices and bureaus in reaching audit allocation decisions.

An Interior official told us that the study was done because of Audit Operation's constant complaints that it needed more staff. The official stated that the results of the study were ignored because it did not tell management what it wanted to hear--that resources were adequate to ensure effective audit coverage at Interior.

This situation has resulted in audit efforts being directed toward "firefighting" instead of a planned approach to auditing Interior's programs and services. In this respect, the Director, Office of Audit and Investigations, stated in his budget submission for fiscal year 1979:

"* * * because of the firefighting application of most of our internal audit activity, we have made relatively little contribution to improving the fundamental accounting and stewardship of the Department, or detecting and preventing problems before they reach the critical stage."

A major impediment to increasing audit and investigative staff is the budgetary process at Interior. Presently, the Inspector General's budget is included as part of the Office of the Secretary's budget. Congressional cuts in the Office of the Secretary's budget and the higher priority given to major Interior programs have prevented reasonable growth in the audit and investigative staff. This occurs because audit and investigation activities must compete with numerous other activities carried out by the Office of Secretary, which has not given audit and investigations the necessary emphasis.

SOME AGENCIES PERFORM
THEIR OWN AUDITS

In consolidating its audit activities in 1966, Interior intended for internal and contract audits to be made or arranged by the centralized audit group. However, several Interior agencies have assigned staff to perform such audits rather than cooperating with the Office of Inspector General (formerly the Office of Audits and Investigations) to obtain such audits.

An official in Interior's Bureau of Land Management told us that after audit functions were consolidated in 1967, the centralized audit staff was unable to cover the Bureau sufficiently to ensure that receipts (amounting to several billion dollars a year) were being controlled properly. The official stated that the Bureau hired its own auditors to audit the receipt and control of these funds but were told by Audit Operations (now the Office of Inspector General) that such positions would have to be transferred to the centralized audit group if the Bureau insisted on calling them auditors. He stated that, as a result, the Bureau reclassified the auditors as program evaluators and through the years they had performed various types of reviews. He also stated that these reviews could be made by the Office of Inspector General if sufficient staff were available.

The Bureau of Reclamation has established an Office of Contract Oversight and Policy at headquarters to oversee contract activity in the Bureau and to perform contract audits in addition to those made by the Inspector General. A Bureau official stated this was done to obtain information needed to make management decisions about contract oversight. He said that the Office had about 5,000 ongoing contracts awarded by various contract officers with no one overseeing the total contract picture. A field office of this same Bureau also hired three auditors to make contract audits in its area because of inadequate audit coverage by the Office of Inspector General. All three auditors were hired from the Inspector General's Central Region. After the Office of the Inspector General informed the field offices that it could not hire its own auditors, the field office reclassified the auditors as contract price analysts.

Officials of the Heritage Conservation and Recreation Service (HCRS) complained that although they did not get the contract and grant audit coverage they needed, they

relied on the Office of Inspector General for these audits on a reimbursable basis. The officials stated however, that they did not request audits of their own programs from the Office of Inspector General; rather, they assigned their own program staff to make such reviews when necessary.

The Inspector General stated that the Geological Survey has established audit positions in its field offices and proposes to establish its own external audit unit to audit mineral lessees. It has been variously estimated that 60 to 100 positions are involved. The Inspector General also stated that the Bureau of Indian Affairs has about 10 accounting positions which include some audit responsibilities and specific authority was recently given to the Juneau Area Office to perform its own contract audits. Also, the Bureau has requested a review of its internal audit requirements, with consideration being given to whether or not it should expand bureau audit capability.

MANAGEMENT SHOULD BE MORE
RESPONSIVE TO AUDIT FINDINGS
AND RECOMMENDATIONS

Management at the Department of the Interior does not appear to take audit findings and recommendations seriously. Management has not implemented effective policies and procedures for ensuring that timely, appropriate corrective actions are taken on audit findings. In fact, in some cases management does not respond to audit report recommendations, does not respond timely, or simply ignores auditors' advice. Such attitudes weaken audit effectiveness and result in decisions that could permit improper expenditure of funds.

For example, on January 17, 1979, the Director, HCRS, on behalf of the Secretary of the Interior, approved an amendment to a grant to assist in the acquisition and development of a 40,000-square-foot downtown city block (known as Pioneer Courthouse Square) in Portland, Oregon. The amendment reduced the project from 40,000 to 30,000 square feet and increased the appraised value from \$62 to \$90 a square foot. The Director approved the amendment even though the Office of Inspector General had pointed out that such approval would be an abuse of HCRS granting authority. The Office of Secretary had been informed of the Inspector General's position as early as December 21, 1978, in a memo addressed to him from the HCRS Director. The memo advised the Secretary as follows:

"The Program Audit Manager, Office of the Inspector General, felt strongly that amending the existing grant agreement to allow a donation based on a new option agreement would be an abuse of the Service's granting authority. The simple fact is that the city can exercise the current option at a mutually agreed to price that was established over a year ago. To accept a proposal to needlessly inflate the amount of Federal reimbursement provided could, therefore, be considered improper action on the Service's part subject to audit challenge." (Underscoring added.)

On January 4, 1979, the Office of Inspector General advised the Deputy Assistant Secretary for Policy, Budget, and Administration that the proposed amendment was unacceptable because a purchase/sales agreement existed which gives the city the right to buy the property at \$62 per square foot through June 30, 1979. The Office of Inspector General explained its position as follows:

"We believe that terminating the existing purchase and sales agreement for land acquisition at \$62 a square foot in order to renegotiate a new agreement at \$90 a square foot represents an abuse of granting officer authority for two reasons (1) increased project costs of \$420,000 can be avoided and (2) the seller may decrease a future tax liability anywhere from \$840,000 to \$1,120,000 depending upon the handling of the donation for tax purposes."

In spite of his own oppositon and that of the Office of Inspector General, the HCRS Director approved the amendment on behalf of the Secretary on January 17, 1979. In approving the amendment, he stated the following:

"This matter has been before the Secretary twice. His instructions were to proceed per the project as documented here. I am so doing."

The next day, January 18, 1979, the Acting Deputy Inspector General reported to the Secretary that allowing the city to increase the value of the land to be acquired from \$62 to \$90 per square foot was neither reasonable nor necessary. The Acting Deputy Inspector General also requested that, in accordance with Section 5(d) of Public Law 95-452 (Inspector General Act of 1978), the Secretary send copies of the report to the appropriate congressional committees and subcommittees.

On January 22, 1979, the Director, Western Field Office, Office of the Secretary, advised the Mayor of Portland of the Acting Deputy Inspector General's report and stated the following:

"I am sorry to have to inform you of this problem but, at the same time, it is fair to point out once again that the Department has not created this problem - the congressional agent has. As a Department, we intend to fight this action to the best of our ability."

As required by Section 5(d) of the Inspector General Act of 1978, the Secretary forwarded the Acting Deputy Inspector General's report along with his response to appropriate congressional committees on January 25, 1979. In the response the Secretary stated that "after a careful review of the changes requested by the Mayor of Portland it appears that this has clearly become a policy call."

Several Members of Congress expressed strong displeasure at the Secretary's actions. One member stated that the tone of the January 22, 1979, letter to the Mayor of Portland indicates a hostility and disregard for the Office of Inspector General. As a result of congressional concern about the propriety of the amendment, on February 2, 1979, the Mayor of Portland withdrew his request for reappraisal and refinancing.

We fully agree with the congressional concern about the Secretary's actions in approving the amendment. However, we believe the problem goes beyond this particular project. The Secretary's action in this case illustrates serious problems with management attitudes toward Interior's auditors which could prevent the objectives of the Inspector General Act from being met.

Departmental agencies should establish formal systems for ensuring appropriate corrective actions on audit findings and recommendations

The essence of management control is the action which adjusts operations to conform with prescribed or desired standards or requirements. To take this action, management needs timely and adequate information on performance. When management fails to consider seriously information on deficiencies which point to a need to improve performance,

it jeopardizes effective management control and, as a result, the prescribed or desired standards or requirements may not be met. This lack of action on management's part can also result in improper expenditures of Federal funds.

Primary responsibility for action and followup on audit findings and recommendations rests with management. A good control system will include procedures under which management officials evaluate the effectiveness of actions taken on audit findings and recommendations. A desirable procedure is to have responsible officials prepare regular status reports for management officials and internal auditors on actions taken on audit findings and recommendations. Also, provision should be made for regular inquiry into whether proposed corrective actions have actually been taken and what their effect has been. Management officials are responsible for such followup, but auditors should participate. We did not find that such a procedure existed at Interior.

With respect to audit followup, OMB Circular A-73 requires agencies to establish policies for following up on audit recommendations. Such policies must provide for

- maintaining a record of actions taken,
- designating time schedules for responding to and acting on audit recommendations,
- submitting periodic reports to management on recommendations and actions taken, and
- designating persons to follow up on audit recommendations.

Interior's policy for audit followup, as found in part 360 of the "Departmental Manual" is very general. Although the policy does establish time schedules for responding to audit reports, it does not clearly define individual bureau, service, and office responsibility for establishing systems for ensuring that timely corrective actions are taken and reported to the Office of Inspector General. It also does not require (1) time schedules for taking corrective actions, (2) records of actions taken, or (3) periodic reports to management on actions taken. Finally, the policy does not even require that bureaus and offices designate persons responsible for following up on audit findings and recommendations.

In March 1976, Interior issued part 362 of the "Departmental Manual," establishing an audit committee for keeping its key officials advised of the results of sensitive audits and the progress of corrective actions on audits conducted by the Inspector General, GAO, Government Comptrollers, and others. Interior's records indicate that the committee was initially successful in reducing overdue responses to audit reports; however, the committee has not functioned since September 1977, and the number of overdue responses has since increased.

For several years, management at Interior has not responded promptly or adequately to audit report findings and recommendations. Many responses are not received until a year or more after the report is issued, and even then many are inadequate or include only promises of corrective actions. In some cases, responses are never received, resulting in the Office of Inspector General's closing out the reports without adequate assurance of corrective actions. As of March 31, 1979, responses to over 100 audit reports involving millions of dollars were overdue, many in excess of 6 months. Since most of these reports involve questionable costs on contracts and grants, substantial loss to the Government can occur if audit findings are not resolved promptly. For example, in March 1978, the Inspector General quit trying to resolve questionable costs on 11 grants because HCRS' failure to take timely action made it impossible to determine whether the costs were justified. The Office of Inspector General had initially questioned about \$1.2 million on the 11 grants.

We wanted to determine how these costs had been resolved, so we contacted an HCRS official who showed documentation indicating that about \$534,000 questioned by the auditors had been allowed. In one case, \$56,000 in costs incurred after a project expiration date was allowed on the basis that it would have been approved if a project amendment had been requested. In another case involving a prior audit of one of the grants, \$87,000 was allowed because HCRS believed it would be unreasonable for the grantee to reconstruct supporting documentation. The costs involved claims for donated and personal services.

In situations where agencies determine that erroneous payments occurred, such expenditures become debts due the United States and are subject to recovery under the Claims Collection Acts, 31 U.S.C. 951 et seq. Agencies are required to take "aggressive action" to collect amounts due under these claims before submitting the claim to the

General Accounting Office or the Department of Justice for further collection action. When written demands for payment fail, an agency's responsibilities may include setting off the debt against other Federal funds the debtor may receive.

A principal reason why audit findings are not resolved adequately is that Interior agencies have not established effective systems for ensuring that timely and appropriate corrective actions are taken on audit findings and recommendations. Officials at several agencies stated that they did not have formal systems and in many cases they were unaware of report recommendations and overdue responses until the Office of Inspector General notified them that responses were long overdue. They stated that they did not receive periodic status reports from responsible officials in their agencies or the Office of Inspector General.

Officials at the Bureau of Indian Affairs stated that they realized that they had been quite delinquent in taking corrective actions and responding to audit reports. For example, as of March 1979, the Bureau was overdue in responding to 42 contract and grant audit reports involving questionable costs of about \$2.6 million. Also, responses to eight internal audit reports were overdue for periods ranging from 5 to 30 months. The Bureau officials stated that an individual had been assigned to coordinate responses to all audit reports, but Bureau officials did not always keep him advised of audit reports received or actions taken. They said they realized the system was not working.

The Bureau of Reclamation assigned monitoring duties to a secretary, who merely logged in internal audit reports as part of her regular duties. She did not keep any records on contract and grant audit reports. HCRS had not monitored reports, but officials there said they were developing a tracking system.

CONCLUSIONS

Audit activities at Interior could be more effective if management would give more emphasis to audit needs and be more responsive to audit findings and recommendations. In the past, Interior has not allocated adequate resources to audit activities in spite of overwhelming evidence that adequate audit coverage could not be provided with available resources. The Office of Inspector General's budget is included in the Office of the Secretary's budget. For that reason, reasonable growth in audit resources has been impossible because of other priorities and congressional cuts in the Office of the Secretary's budget.

Interior has not implemented effective policies and procedures to ensure that bureaus and offices take timely, appropriate corrective actions on audit findings. As a result, in some cases management has not responded to audit findings and recommendations, has not responded promptly, or simply has ignored auditors' advice. Such attitudes impede audit effectiveness and results in questionable decisions that could permit improper expenditures of funds.

RECOMMENDATIONS

We recommend that the Secretary of the Interior direct management at all levels to be more cooperative with the Inspector General and to be more responsive to audit findings and recommendations. The Secretary should revise the "Departmental Manual" to define more clearly management's responsibilities for taking corrective actions on audit findings and recommendations. The revisions should require that time schedules be established for taking corrective actions; records of actions taken be maintained; top management be provided periodic reports on actions taken; and an individual from each bureau, service, and office be made responsible for ensuring that timely actions are taken on findings and recommendations.

We also recommend that the Secretary revise Interior's budget so that the budget for the Inspector General can be considered independently of other Interior activities and set out as a separate appropriation. Further, the Secretary should allocate the resources necessary to implement the Inspector General Act.

AGENCY COMMENTS

Department of the Interior officials stated that the Secretary had already advised management to cooperate with the Inspector General and that they would review the "Departmental Manual" to determine what changes were needed to define clearly management's responsibilities for taking corrective actions on audit findings and recommendations. It was also pointed out that the Inspector General was participating in the Secretary's staff meetings which had elevated the status of audit and investigations.

An Interior official stated that a separate appropriation was not needed for the Inspector General to justify its annual budget request and that such actions were not consistent with OMB and Appropriation Committee policy to consolidate budget functions to improve accountability.

Further, Interior was pursuing the Inspector General's staff needs with the administration and that appropriate resources would be provided in relationship to Interior's other needs and the requirements of the Inspector General Act of 1978.

The action taken by the Secretary to involve the Inspector General in staff meetings is excellent; however, it is not sufficient to ensure that management is more responsive to audit findings and recommendations. We still believe that the Office of Inspector General should have a separate appropriation, as is done for the Office of the Solicitor, to eliminate the budgetary constraints it has encountered in the Office of the Secretary. The importance of this action is highlighted by the Interior official's own comment that the Office of the Secretary does not have the constituency other Department activities, such as the Bureau of Indian Affairs, have and as a result it is extremely difficult to obtain increases in staff positions. We do not believe the Office of Inspector General should have to compete with other activities in the Office of the Secretary to obtain needed resources.

CHAPTER 3

CHANGES NEEDED IN AUDIT OPERATIONS

Interior's audit function is neither completely independent nor effective in providing audit coverage for Departmental programs and services. This situation exists primarily because of the emphasis given to external contract and grant audits and overhead rate negotiations. Such audits, which account for about 60 percent of audit resources, are usually performed at the request of Interior's agencies. This seriously hampers audit planning and prevents adequate internal audit coverage of Interior programs and services. Further, auditors do not adequately follow up on their reports to encourage management to take appropriate corrective actions.

REIMBURSABLE AUDITS SHOULD BE CURTAILED

Contrary to Interior's intent at the time it consolidated its audit activities in 1966, about 93 percent of the audit reports issued in fiscal year 1978 were based on the results of contract and grant audits and overhead rate negotiations requested by departmental agencies. About 62 percent of its professional audit resources were allocated for these audits. Further, some of the remaining 7 percent of reports issued were based on agencies' requests without sufficient evidence to support doing such audits in lieu of others. As a result, less than 7 percent of reports issued in 1978 involved audits selected by the Office of the Inspector General. This situation seriously erodes the effectiveness of internal audit coverage at Interior.

As discussed in chapter 2 (see pp. 8 to 10), the consolidated audit staff was supposed to concentrate its attention on internal auditing. However, shortly after centralizing its audit activities, Interior officials realized that substantial amounts of internal audit resources were being used to respond to multiple requests for contract audits to meet the needs of contracting officers. In order to perform these audits, Interior established the following policies and procedures in August 1967:

- All contract audit activities were the responsibility of Audit Operations.

- Contract audits, unless specifically identified with contract auditing transferred in the consolidation, were to be funded on a reimbursable basis.
- All bureaus and offices were to give Audit Operations a list of all contracts and keep the list current by submitting quarterly reports.
- After receiving the list, Audit Operations, in conjunction with the bureau or office, was to select contracts to be audited, schedule the audits, and notify the bureau or office of the audit arrangements.

At the time these policies and procedures were established, Interior intended to decrease funding contract audits through reimbursement from the affected agency by funding Audit Operations through the appropriation process. However, this never occurred. Instead, audit positions funded through reimbursement have increased from 22 positions in 1966 to 31 in fiscal year 1978. In addition, Interior purchased the equivalent of 42 positions from other Federal agencies, State auditors, and certified public accountants (CPAs). Allowing for indirect time and operating ceiling constraints, the Office of Inspector General had the equivalent of 148 staff-years of audit effort--92 for contract and grant and 56 for internal audit --during fiscal year 1978.

As shown in the following table, less than 7 percent of Interior's fiscal year 1978 audit reports resulted from self-initiated internal audits. Further, less than 40 percent of available professional staff time was used for internal audit and much of that was spent responding to various requests.

Fiscal Year 1978 Audit Reports

	Inspector General audits	State and CPA audits	DCAA and HEW audits (note a)	Total	Percent
Internal	54	-	-	54	6.8
Contracts	193	-	296	489	62.0
Grants	8	31	b/ 14	53	6.7
Indirect cost proposals	<u>193</u>	<u>-</u>	<u>-</u>	<u>193</u>	24.5
Total	<u>448</u>	<u>31</u>	<u>310</u>	<u>789</u>	

a/Defense Contract Audit Agency and Health, Education, and Welfare.

b/Includes one grant audit by the Bureau of Indian Affairs.

The seriousness of this situation is highlighted in the following quote taken from the Inspector General's files.

- "1. Audit is placed at the mercy of the client-bureau in terms of being able to direct audit effort where it is most needed. In the past year we have had two serious incidents where bureaus tried to refuse funding of necessary audit work. This situation quite obviously impacts on the independence of Audit.
- "2. Existing reimbursement arrangements create extensive and unnecessary administrative costs. Within Audit we estimate that more than the equivalent of one position is required to develop, assemble and prepare necessary information for billings by the Office of Fiscal Services. They have added bookkeeping and accounting costs as do the bureaus. In some instances we are required by the bureaus to break these billings down into an audit-by-audit detail by geographic location so that they in turn can pass the billings on to their appropriate field offices for reimbursement."

The policies and procedures Interior established in 1967 for conducting contract audits were not followed. Instead, the following practices exist:

- Departmental agencies do not give the Office of Inspector General lists of contracts.
- The Office of Inspector General does not determine which contracts should be audited. Rather, audits are made at the request of numerous contracting officers, and reports are issued directly to the requestor. In effect, the auditors are serving as an extension of the contracting officers. As shown in the preceeding table, 62 percent of all audits were in this category.
- Funding of contracts, and more recently grant audits, continues to be on a reimbursable basis and has increased instead of being discontinued.
- As pointed out in chapter 2 (see pp. 11 and 12), all contract audits are not made or arranged by the Office of Inspector General.

In addition to contract and grant audits, in recent years, Interior's auditors have been required to review indirect cost proposals for Indian tribes and States and to negotiate overhead rates to be used in applying costs on Federal contracts. As shown in the table on page 22, this accounted for almost 25 percent of the Office of Inspector General's output in fiscal year 1978. Indirect costs are those which are: (1) incurred for a common or joint operation benefiting more than one Federal program function or contract and (2) not readily assignable to the programs or contracts receiving the benefit. Indirect costs are usually collected in one or more pools and later assigned to the benefiting functions or contracts in a way that will distribute them fairly according to the benefits received from the common or joint operations. Although indirect costs are reimbursable under a contract, the agreement to pay such costs must be included in the contract document.

We understand that HEW no longer uses auditors for overhead rate negotiations. Interior needs to take similar alternative actions to increase its internal audit coverage.

AUDIT COVERAGE NEEDS TO BE IMPROVED

Federal agencies are responsible for providing adequate audit coverage of their programs to determine whether funds have been applied efficiently, economically, effectively, and in accordance with related laws and program objectives. Interior's failure to provide adequate resources, coupled with the magnitude of contract and grant audits and overhead rate negotiations, prevent the Inspector General from providing adequate audit coverage of Interior's funds, programs, and functions. Effective audit coverage is further diluted by the Inspector General's need to provide audit service to all major Interior organizations. Consequently, many audits are limited in scope because too few staff are spread over too many program areas.

Interior records show that audit strength is significantly less than what is needed to maintain a minimal level of oversight on the many diverse and increasingly complex programs and activities. According to data supporting the Inspector General's 1978 budget request, the continuing decline in internal audit capability has occurred because of increased contract and grant audits coupled with ceiling reductions and diversion of audit resources to other missions. The data also points out that resources allowed in the 1978 budget will not meet the cyclical internal audit requirements deemed necessary to maintain or improve the general level of stewardship, accountability, and efficiency. Available resources will only provide the "firefighting" capability necessary to react to priority audit needs and to address known problem areas.

The problem of inadequate internal audit coverage was pointed out during a 1972 study of Audit Operations by a certified public accountant. The report to the Deputy Assistant Secretary, Office of Management and Budget, stated:

"* * * the discretionary audit resources (45 to 50 man-years) are inadequate to provide minimal coverage on any reasonable cyclical basis." (Under-scoring added.)

We found no evidence of improvement since 1972. Further, internal audit coverage will continue to erode because of increasing demands made on the Office of Inspector General, including fraud and abuse investigations, increasing demands for contract and grant audits, and indirect cost rate negotiations.

The impact of limited resources and performing external audits is dramatic. Audit officials estimate that approximately 84 of Interior's 180 major organizational components have not been audited for 5 or more years. Major components consist of headquarters, divisions and offices, regions, area offices, and service centers. Excluded are the hundreds of State offices, Bureau of Indian Affairs agencies, refuges, parks, and other components. While the Office of Inspector General has not developed detailed statistics on audit frequency for these components, data included in the fiscal year 1979 budget submission to Interior indicated that in the last 3 years, audits were made of only 6 of 287 parks, 4 of 378 wildlife refuges, 1 of 20 wetland districts, and 4 of 89 fish hatcheries. It is further estimated that about 63 of Interior's 105 programs have not been audited in 5 or more years. As of March 31, 1978, program activities involving about \$2.7 billion annually had either not been audited since 1973, or had never been audited.

Another area that had not been audited adequately involves the collection of royalties on minerals taken from Federal lands. The Geological Survey is responsible for collecting approximately \$1.5 billion annually in royalties, much of which is on oil taken from Federal lands. The Geological Survey advised the Office of Inspector General of its concern that the records of companies submitting royalties are not being audited to insure that the Federal Government is receiving the proper amount. A Geological Survey official stated that the Office of Inspector General advised them that such audits could not be done because of limited audit resources. Examples of functional areas such as payroll, travel, procurement, property and personnel management receiving little or no audit attention are listed below.

Bureau of Mines:

\$131 million--annual expenditures

\$44 million--real property

\$2 million--annual travel expenditures

Heritage Conservation & Recreation Service:

\$335 million--annual expenditures

\$3 million--annual procurement expenditures

Fish and Wildlife Service:

\$64 million--personal property

\$116 million--payroll

\$20 million--annual collections

\$8 million--annual travel expenditures

Geological Survey:

\$14 million--annual travel expenditures

\$4 million--printing and publications expenditures

2,700 vehicles

It should be noted that some programs credited as having been audited did not receive comprehensive audits because of inadequate resources.

Officials have estimated that the audit cycle frequency is about 10 years and perhaps as high as 20. A former Director of Audit and Investigation stated in the fiscal year 1979 budget submission that:

"All we can say for certain is that in 11 years of existence there are many areas which have not yet been audited. Further, the 5 year statistics * * * show less than 50 percent coverage in the 5 year period."

Furthermore, as pointed out in the 1972 study of Audit Operations, records are required to be kept for only 3 years after the submission of accounts by accountable officers and 3 years after final payment under a contract or grant. Therefore, any decision to audit on a cycle in excess of 3 years may not fully protect the Government's interest. In the Department especially, the accounts of accountable offices should be of paramount concern since the Department exercises so many complex trustee, fiduciary, and cashier-type functions.

Because most Interior programs and activities are not receiving adequate audit coverage, the integrity of its financial operations and the efficiency and effectiveness of its programs are not assured.

AUDIT PLANNING NEEDS
TO BE STRENGTHENED

The Office of Inspector General's audit planning process does not use available resources as effectively as it could, which hinders audit coverage and audit performance. Further, the current planning process will not enable the Inspector General to promote economy, efficiency, and effectiveness within Interior's programs and operations because:

- It gives priority to reimbursable external audit work at the expense of internal, non-reimbursable audit work.
- An audit cycle has not been defined or established to permit sufficient audit coverage.
- It emphasizes narrow-scope, internal audits and provides for few multioffice audits.
- Guidance provided to auditors on individual assignments is insufficient.

The Inspector General's plan to meet the responsibilities of the Inspector General Act states the following:

"Any attempt to audit Department organizations, programs and functions on a cyclical basis has been abandoned. First priority is given to urgent external audit requirements but adequate service cannot be provided. Use of CPA firms and state auditors has been increased even though that is not, in all cases, the preferred method of accommodating the requirement. Internal audits have been increasingly reactive to unforeseen special requirements. Audit planning requirements of OMB Circular A-73 cannot be fully accommodated."
(Underscoring added.)

Planning guidance has been provided by Circular A-73, which requires each agency to prepare an audit plan at least annually reflecting the

- audit universe (all programs and operations subject to audit);
- programs and operations selected for audit, with priorities and specific reasons for selection;

- audit organization that will conduct the audit;
- audit cycle or frequency, the locations to be audited, and the reasons for choosing them;
- scope of audit coverage to be provided and the reasons for them; and
- anticipated benefits of performing the audits.

Internal audit groups are also required to determine the coverage frequency and priority of audit required for each individual program and operation within the agency, considering

- newness, changed conditions, or sensitivity of the organization, program, activity, or function;
- dollar magnitude and duration;
- extent of Federal participation;
- management needs to be met;
- prior audit experience, including adequacy of the financial management system and controls;
- timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants;
- results of other evaluations; for example, inspections, program reviews, etc.;
- mandatory requirements of legislation or other congressional recommendations; and
- availability of audit resources.

Interior's diversity and size dictate that a sufficient audit planning process be used to ensure adequate audit coverage and efficient audit performance. Auditing functions should provide information on whether programs and operations are achieving authorized purposes economically and efficiently and are complying with applicable laws and regulations. "Standards For Audit Of Governmental Organizations, Programs, Activities and Functions," issued by the

Comptroller General in 1972, states that "The first examination and evaluation standard for governmental auditing is: Work is to be adequately planned."

Interior's major audit planning document is the annual fiscal year audit work plan. This annual plan places too much emphasis on external audits at the expense of internal audits. The annual plan cites the internal audits to be performed during the fiscal year and allocates staff time for performing external audits. External audits, which are made at the request of contract officers or other agency officials, are considered mandatory while internal audits are discretionary and may be cancelled when new priorities arise. The annual plan, therefore, begins with an estimate of staff time necessary to perform external audit work with the remainder being staff time available for internal audit work.

For fiscal year 1979, the annual plan estimated 184 staff-years as the total available. Of this amount, 116 staff-years, or 63 percent, was planned for external audits and only 68 staff years, or 37 percent, was planned for internal audits. However, about 11 staff-years have been applied to complete carryover audits from previous plans, resulting in only 57 staff-years, or 31 percent of the total staff resources, devoted to new internal audits. The 57 staff-years are to be applied to 51 new internal audits.

In developing the annual plan, the Office of Inspector General formally requests suggestions for internal audits from departmental agencies. The Office of Inspector General requests as much information as possible regarding the following factors:

- Scope. What specific aspects of the program function or activity should be addressed? Is the concern primarily with (1) financial accountability, (2) compliance, (3) efficiency and economy of operations, (4) effects or accomplishments, or (5) some combination of the foregoing? Are there specific organizational units or geographical areas that should be emphasized?
- Background. Why is the audit being suggested? Are there specific inquiries, studies, internal or external criticisms, or other reference material we should be aware of? Who should we talk with to obtain further information?

- Timing. Is there a date by which audit results are needed in order to facilitate impact on operations, management decisions, or the like?
- Relations to other studies. Are there other reviews or related activities with which the audit efforts should be coordinated? Who is the contact point for these other studies?
- Priority. Since not all audit requests can be accommodated due to limited resources, indicate the priority for each suggestion.

Internal audits suggested by departmental agencies do not always include such information. However, these audits are sometimes included in the annual plan. For example, a request to audit a payroll personnel system indicated only that the office did not have sufficient resources to monitor implementation of the system and did not provide information in the format requested. This audit was subsequently included in the annual audit plan. Additionally, the Office of Inspector General does not document the basis on which programs and operations are selected for internal audit or eliminated from consideration. As a result, the relative importance of audits not included in the plan cannot be related to those audits that are included.

The effect external audits have on planning is illustrated by the impact on regional office audits. For example, during fiscal year 1977, about 50 percent of the total central region direct audit staff time was devoted to external audit work. For the period from fiscal year 1973 through December 16, 1978, 45 percent of the region's professional staff time was used for external audits. The regional audit manager stated that reimbursable (external) audits have higher priority than planned internal audits, which are not reimbursable, and inhibit the region's discretion and control over what audit work to conduct. According to the regional audit manager, this creates a situation in which bureaus and offices can control the audit workload. He said that the region should be devoting much more effort to internal reviews of Interior's financial activities but the large amount of reimbursable, external audit work precludes such work. The adverse impact of the large amount of uncontrollable external audits is demonstrated by the fact that the central region stopped using a formal internal planning schedule to plan assignments within the region due to the inordinate amount of uncontrollable, external audit work within the region.

A second major weakness of the audit planning process is that an audit cycle has not been defined or established for Interior programs and operations. The planning process is based on needs as indicated by the Interior Assistant Secretaries and bureau, service, and office chiefs and as supplemented by the Office of Inspector General. This does not permit sufficient emphasis on independent, self-initiated audits of Interior programs or operations and, as a result, adversely affects the independence and objectivity of the Inspector General's planning.

Another weakness of the planning process is the limited number of multioffice audits and the narrow scope of most of the planned internal audits. Guidance provided for developing the fiscal year 1978 plan stated that high priority should be given to audits which are moderately complex or less and that only a limited number of complex audits could be undertaken. The fiscal year 1979 annual plan lists only one internal audit assignment in the multioffice audit section. This assignment, a review of compliance with a pollution abatement program, is very narrow in scope. A regional audit manager stated that most of the planned internal audits are narrow in scope and include a review of only one Interior agency per assignment.

A fourth planning weakness is the format in which headquarters provides information to the regions to perform audit work. The basic document provided to the regions is the audit data sheet included in each year's annual plan. This document contains only minimal information relating to the audit, such as audit title, a very brief description of the audit, and administrative data. In addition, the documents do not assign priorities to the various audits or provide tentative start or completion dates. Since the performing region may not have any experience or survey work pertaining to the audit, initial survey work to determine what type of audit can be "bought" in the allotted staff-days must be performed by the region during the assignment.

AUDITORS CAN DO MORE TO ENCOURAGE PROMPT
RESOLUTION OF AUDIT FINDINGS AND RECOMMENDATIONS

The Inspector General's instruction for inventorying and monitoring audit report responses and significant audit findings until open issues are satisfactorily resolved has not been effective in ensuring corrective action. A primary reason for its failure can be attributed to management's failure to establish effective systems at the bureaus and

offices for ensuring that timely, appropriate corrective actions are taken. Although we did not observe any deficiencies in individual audit reports, auditors need to improve their followup efforts in several areas to encourage management to be more responsive.

The "GAO Policy and Procedures Manual for Guidance of Federal Agencies" states that internal auditors should participate in followup activities to ascertain whether their findings have received serious management consideration and whether satisfactory corrective action has been taken. GAO's publication "Internal Auditing in Federal Agencies" also states that reporting a finding or recommendation should not end the auditor's concern. Regardless of how well internal auditing is done, it is useless unless prompt and effective action is taken to correct the deficiencies. Thus, the true measure of internal auditing effectiveness is its success in bringing about needed improvements. We do not believe internal auditing has been effective at Interior because it has not been able to stimulate management to take timely and appropriate corrective actions. The Office of Inspector General does not:

- Verify bureaus' and offices' reported corrections to determine whether such actions fully resolve the audit findings and recommendations.
- Submit periodic reports to management on overdue responses or inadequate responses.
- Maintain an adequate record of audit findings and recommendations and corrective actions taken or that need to be taken by the bureaus and offices.

Verification of corrective actions
needs to be strengthened

The Office of Inspector General conducts very few actual followup audits because of limited resources. Also, corrective action reported by departmental agencies is not always verified. Consequently, it is not always known whether improvements are actually made.

The Office of Inspector General's instruction establishing a system for monitoring audit report responses does not provide guidance or criteria concerning the acceptability of

responses to internal audit findings and recommendations. The acceptability of responses is discretionary on the part of the cognizant audit official. As a result, audit findings and recommendations are being dropped without adequate assurance that corrective action has actually been taken. For example, one report recommended a change in bureau policy concerning annual leave. The bureau indicated that the policy would be changed and a revision reflecting this change would be made to the bureau's manual. There was no evidence in the Office of Inspector General's records to indicate that such a change had been made. The official responsible for the followup did not know if a change had actually been made.

Another audit report contained several findings regarding a procurement activity which included inadequate procurement planning and the absence of controls needed to ensure the integrity of the procurement process. It was the auditor's opinion that waste and inefficiency existed in the procurement process and that lack of controls rendered the activity vulnerable to a variety of procurement frauds. The audited organization indicated that policy changes, instructions, and administrative guidelines would be forthcoming to correct the deficiencies. However, no evidence in the audit records indicated that the corrective actions had actually been taken. The cognizant audit official was unaware of the status of the promised actions.

A third report involved the administration of a reimbursable program with an estimated work backlog of \$2 million. Audit records indicated that the report was closed even though corrective action on several recommendations had not been taken. Another report contained a finding concerning eligibility for loans. The audit found that certain parties had been unfairly excluded from eligibility. The bureau indicated that it would seek a legislative change to correct the problem. There was no evidence in the audit records to indicate whether any action had been taken. The cognizant audit official was unaware of the bureau's actions.

A fifth report questioned several costs incurred under a program to aid Indians. The report was closed even though the administrator of the funds disagreed with the audit findings. Another report involved recovery of costs by a bureau. The audit found that cost recovery procedures did not allow for maximum recovery of costs. In fiscal year 1976, at least \$336,000 of valid costs were not recovered. Audit records indicate the report was closed even though two significant findings were still under study by the bureau.

Periodic followup reports should be provided to management

The Inspector General does not have a systematic method for inquiring into the disposition of significant audit findings and recommendations and for informing management in a timely manner of overdue or inadequate responses. An audit committee was created in 1976 to resolve a growing backlog of audit recommendations which were going unaddressed in some bureaus and offices. The committee was chaired by the Under Secretary of the Interior and consisted of two Assistant Secretaries and two other key officials. The Inspector General's followup procedures require a monthly report to the audit committee. Records indicated that as a result of the information provided to the audit committee, the number of audit reports with significant findings was reduced from 104 in March 1976 to about 10 by January 1977. The status reports are no longer prepared since the audit committee ceased functioning in September 1977. Since that time, the number of overdue responses to audits has grown substantially. For example, as discussed on page 16, responses to over 100 audit reports were outstanding as of March 1979.

OMB Circular A-73 requires periodic reports to management on actions taken. However, the Office of Inspector General's internal instruction does not provide for periodic reports or inquiries concerning the disposition of audit recommendations. As a result, departmental management is not being systematically advised of overdue or inadequate responses to audit recommendations. Some evidence was available which indicated that inquiries on overdue responses are made; however, these are made randomly. Bureau and office officials stated that the Office of Inspector General did not give them periodic reports on the status of audit recommendations. They stated that, as a result, they were unaware of many overdue responses to reports addressed to officials in their bureau or office.

GAO's publication "Internal Auditing in Federal Agencies" states that a mechanism should be established to reconcile differences or to call for a decision at a higher level when operating officials disagree with the internal auditor's recommendations. An audit official stated that the Under Secretary was available to reconcile differences. However, the Office of Inspector General has seldom requested assistance from the Under Secretary. Moreover, intervention by the Under Secretary may not always ensure timely resolution of outstanding audit recommendations. For example,

in February 1978, the Under Secretary requested four Assistant Secretaries to provide a status report on outstanding responses within 60 days. Three reports were not provided within the 60-day period. By June 20, 1978, 52 days after the required reporting period ended, the Under Secretary had to request again that the reports be submitted.

Improved recordkeeping would aid in resolving audit findings and recommendations

The Inspector General's audit followup procedures require that all audit reports issued will be listed on "Followup on Audit Report." Each of the program audit managers and regional audit managers are required to maintain the followup report for the reports they issue.

Records maintained by the Office of Inspector General do not adequately reflect the status of findings and recommendations. They did not always show when responses to audit reports were submitted, the nature of the response, and whether the response was satisfactory. The records did not always clearly indicate which audit reports had outstanding responses or the action taken to obtain a response. Moreover, individual followup reports were not consolidated into a single source which could be given to departmental management.

Better recordkeeping would aid the Office of Inspector General in ensuring that audit findings and recommendations are given prompt, adequate consideration by management. It would also provide a basis for submitting periodic status reports to management.

ADDITIONAL IMPROVEMENTS NEEDED TO IMPROVE AUDIT EFFECTIVENESS

Audit effectiveness is also hampered by loosely controlled operations, staffing problems, and the failure to establish an adequate management information system. The new Inspector General for Interior stated that she was also concerned about the loosely controlled operation and lack of readily available information. She stated that her own efforts to obtain information had been time consuming and that she was considering organizational changes which should result in a more formalized operation.

Loosely controlled operations

Operations in the Office of Inspector General are loosely controlled and often informal. For example, records concerning responses to audit findings and recommendations are not always complete, and inquiries concerning overdue audit reports are handled on a sporadic rather than periodic basis. Also, as discussed on page 31, planning for individual audit assignments must be done by regional audit staff without formal headquarters input. In some cases, regional audit staff may not have any experience or knowledge of the area to be audited. According to an audit official, one factor which has affected the quality of operations is the lack of professional audit staff at headquarters; the number has been restricted to five positions in an effort to maximize the direct audit effort.

Staffing problems

The Office of Inspector General has no structured program to promote economy and efficiency in the Department of the Interior, as required by the Inspector General Act of 1978. According to one regional audit manager his region lacks the capability (trained staff) to make these types of internal audits. He stated that assignments are based on staff availability and capability and that due to a lack of auditors in charge, lower graded staff are given more responsibility faster than they should be. He stated that as a result, the quality of work, and morale to a certain extent, has been sacrificed.

During fiscal years 1976-78, the average ceiling for the professional staff was set at 122. During this same period, 76 professional staff left. During fiscal year 1977, of an initial staff of 38 in one regional office, 10 staff members left. In the same office during the next fiscal year, of an initial staff of 43, 12 staff members departed.

The impact that staffing problems have on audits that address program results or efficiency and economy of operations was reflected in guidance for development of the annual audit work plan for fiscal year 1978, which stated:

"A workload mix is needed which is realistic in relation to our staff capability. Only a limited number of highly complex audits can be undertaken and in selecting these, some priority needs to be given to * * * advance the state-of-the-art regarding expanded scope audits and the use of

advanced audit techniques. Contrariwise, a high priority should be given audits which are moderately or less complex, but nonetheless have high payoff potential."

Insufficient recordkeeping and management information

In order to fulfill its responsibilities adequately, the Office of Inspector General needs up-to-date information in areas such as resource application, current and prior workload, audit coverage, and audit followup. Therefore, a system to collect, verify, and analyze audit data is a necessary tool for measuring and reporting audit productivity. Information is now manually prepared and maintained by various audit officials and is not always consolidated. One result is that spontaneous requests for information result in time-consuming efforts to respond.

In April 1976, an internal study was initiated to examine the feasibility of an automated management information system. The study showed that minimal management information was being provided. Also, the current system did not meet regional office needs, produced too much paper in relation to the information conveyed, and required excessive clerical effort. The study proceeded into the development of an automated management information system. According to audit officials, the system was never implemented because the responsible staff member with data processing expertise resigned.

The Office of Inspector General has not sufficiently monitored and evaluated its regional office operations. As a result, the three regional offices are, in some cases, using different procedures. For example, regional offices are responsible for followup on reports they issue. If the regional offices are unable to resolve audit findings and recommendations, the outstanding reports are referred to headquarters for additional followup action. One regional office closes outstanding reports once they are referred to headquarters. The other two regional offices continue to carry the reports as overdue. Since headquarters does not maintain a control record on reports issued by the regions, reports may be closed without any assurance of corrective action.

CONCLUSIONS

The audit function at Interior is an informal operation that is neither completely independent nor effective in providing audit coverage of departmental programs and operations.

This situation exists because management has not provided adequate resources and backing and audit policies, procedures, and practices give priority to external contract and grant audits and overhead rate negotiations, most of which is done on a reimbursable basis at the request of departmental agencies. As a result, the Inspector General cannot make sufficient independent, self-initiated internal audits of Interior's programs and operations. Instead, efforts are directed toward "firefighting" and providing cursory internal audit coverage to each bureau and office.

The audit planning process has very little meaning because it does not control audits and ensure that internal audits are made of those programs and services where the greatest potential exists for management weakness. This situation is further aggravated by auditors' failure to consistently follow up on their audit findings and recommendations to encourage management to take timely corrective actions. As a result, audit findings and recommendations, some involving substantial amounts of funds, remain unresolved for prolonged periods of time while others may be dropped without adequate assurance of corrective actions. The Office of Inspector General does not have a management information system which is capable of giving management information on the status of ongoing audits or audit report findings and recommendations. Information must be compiled manually from records which are either incomplete or inconsistent.

RECOMMENDATIONS

We recommend that the Secretary of the Interior eliminate reimbursable funding of audit activities and find alternative ways to conduct external contract and grant audits and overhead rate negotiations so that more internal audits can be made with available staff.

We also recommend that the Secretary direct the Office of Inspector General to:

- Revise the audit planning process to ensure that periodic, independent assessments are made of all departmental programs and services to identify areas where potential for management weaknesses exist. An appropriate system for establishing audit priorities should also be developed in order to ensure that audit coverage is directed to the most critical issues on a reasonable audit cycle.

- Establish an appropriate information and reporting system to provide meaningful, periodic reports which will keep all management levels informed of the status of ongoing audits and actions needed or taken on report findings and recommendations.
- Strengthen its report followup procedures to ensure that audit report findings and recommendations are not closed out without appropriate assurances that management has taken action.

AGENCY COMMENTS

Interior officials stated that the Department was considering eliminating reimbursable funding of audit activities but a final decision had not been made. They stated that because of their importance and the funds involved, external contract and grant audits and overhead rate negotiations should remain centralized in the Office of Inspector General to ensure independence and more effective use of resources. They stated that with adequate resources, both effective internal and external audits could be performed. The officials also stated that the Office of Inspector General was taking action to improve its audit planning, information, and followup systems.

As shown in this report, Interior has not provided adequate resources for audit activities. Unless needed staffing resources are provided and alternatives for providing contract and grant audits and overhead rate negotiations are used, effective internal audit coverage of Interior's programs and operations will not be provided.

CHAPTER 4

NEED TO EXPAND INVESTIGATIVE ACTIVITIES

Although the Department of the Interior collected about \$3.6 billion in fiscal year 1978 in revenues, paid salaries and program expenses of about \$3.7 billion, administered about \$2 billion in contracts and grants, and employed about 55,000 permanent full-time employees and 23,000 other employees, it had not devoted adequate resources to investigative activities. As a result, a concerted effort has not been made to detect fraud and abuse; instead, Interior relies primarily on complaints and allegations--a reactive approach.

INVESTIGATIVE RESPONSIBILITIES

Before passage of the Inspector General Act, part 355 of the "Departmental Manual" gave the Division of Investigation in the Office of Inspector General (previously called the Office of Audit and Investigation) the responsibility for investigating complaints and allegations involving misconduct and/or serious irregularities in the Department's property, funds, or programs. Investigations are made of these complaints and allegations and appropriate recommendations are made and coordinated with the various bureaus and offices involved. If necessary, investigative efforts are also coordinated with the Federal Bureau of Investigation and other Federal departments or agencies.

Section 4(a) of the Inspector General Act has expanded the responsibility of this office by requiring that the Inspector General be responsible for recommending policies for and conducting, supervising, or coordinating activities carried out to promote economy and efficiency and prevent and detect fraud and abuse in the Department's programs and operations.

Section 202(a) of the Civil Service Reform Act (5 U.S.C. 1206) establishes "whistleblower" provisions to protect Federal employees who report allegations of fraud, waste, and mismanagement from reprisals by their supervisors and employing agency. The Inspector General Act also provides that employees may report irregularities with assurance of confidentiality if desired.

As a result of the above acts and at the suggestion of OMB, the Office of Inspector General established a 24-hour telephone and recording service on March 5, 1979, for employees to use in referring their allegations to the Inspector

General. This service is referred to as the "hotline" and can be used by employees throughout the country. The Division of Investigation also receives allegations and requests for information from the hotlines established by GAO and the Special Counsel of the Merit Systems Protection Board.

FRAUD AND ABUSE DETECTION PROGRAM

Although the Office of Inspector General has recently established the hotline to receive complaints and allegations, it has not established a program for detecting fraud, such as initiating investigations into fraud-prone areas. Rather, it uses a passive or reactive approach which relies on complaints and allegations such as those received on the hotline.

In response to an Intergovernmental Relations and Human Resources Subcommittee, House Committee on Government Operations, questionnaire on auditing, investigative and related activities, Interior officials stated the following during hearings held in June 1977:

"Neither the audit or investigative activities * * * have concentrated sufficiently on preventive measures to insure economy and efficiency or to preclude and detect fraud and abuse. Therefore, we do not have a sound basis for singling out other than a few specific programs or activities. Nor can we estimate the extent of fraud and abuse in such programs."

The officials also stated that none of the staff is assigned to search independently for fraud or abuse except as a byproduct of corrective actions taken after an investigation. Although this statement was made in June 1977, the situation has not changed as of June 1979.

In December 1978, the Secretary of the Interior did request that his Assistant Secretaries give the Inspector General an analysis of their respective programs and agencies to identify potential areas where fraud and abuse could exist and to determine what actions could be taken to correct or lessen the risk of fraud or abuse. The results of this request appear questionable since top management of some bureaus and offices did not adequately consider the request, resulting in some responses that were totally unacceptable and returned for further consideration. Also, some non-program offices were not requested to respond even though they may contain fraud-prone areas.

The Acting Assistant Inspector General for Investigation stated that he does not have any plans to use the responses. He said the responses were very shallow and did not contain any information that was not already known from past investigations. In response to our questions, he also said that his office does not have a written fraud program, although the present Inspector General has informally requested that it prepare one. Although his office has contacted a few other Inspector General Offices, it has not found any that have a fraud detection program.

In order to give some attention to identifying fraud and abuse, the Office of Inspector General has planned three audits into fraud-prone areas. These audits will be conducted with the sole intent of detecting fraud and abuse in the procurement area. The three audits are (1) review of sensitive expenditures--Office of the Secretary, (2) acquisition of small construction, rehabilitation, and repair services, national capital region, and (3) review of small purchases at selected locations.

ADDITIONAL RESOURCES ARE NEEDED
FOR INVESTIGATIVE ACTIVITIES

The Division of Investigation receives about 200 complaints, allegations, and referrals annually. With the recent addition of the hotlines in various Federal agencies and increased emphasis on identifying fraud and abuse, the number of cases will probably increase substantially. As the following table shows, only about 24 percent of the allegations reported to the Division of Investigation receive an extensive investigation by the division.

<u>Fiscal year</u>	<u>Reported incidents</u>	<u>Full review</u>	<u>Percent</u>
1977	210	54	26
1978	177	42	24
1979 (note a)	<u>115</u>	<u>23</u>	20
Total	<u>502</u>	<u>119</u>	24

a/Oct. 1, 1978, to Mar. 31, 1979.

All allegations and referrals are usually given a quick "look-see" to determine if the facts available are serious enough to demand an immediate investigation.

There are no set criteria used in determining which cases will receive a full, extensive investigation by the division. Instead, allegations are selected for an extensive investigation based on judgment; the Acting Assistant Inspector General for Investigation's selection is governed primarily by the apparent seriousness of the allegations, management's immediate need for information, and the availability of resources.

As a result of the selection process, those allegations which do not appear to be of a high priority may not receive an extensive investigation. Also, long slippages in less serious cases have resulted in a backlog of allegations for investigations. These problems were recognized as early as June 1977 by Interior officials during hearings before the Intergovernmental Relations and Human Resources Subcommittee, House Committee on Government Operations. The Department stated that:

" * * *the current staff of seven professionals has a backlog of at least two cases each at all times. The highest/most serious cases are addressed first creating long slippages in less serious cases."

The long slippages that have occurred can make prosecution of criminal cases difficult. This is because the defendant's right to due process is jeopardized when the time between the incident's occurrence and the prosecution of the incident becomes excessive. In addition, it is usually easier to obtain the facts of the allegation when the investigation takes place as soon as possible after the alleged incident. Also, if the investigation does not take place promptly or at all, the division's credibility may become suspect in the eyes of those bringing the complaints. The backlog of cases may also defer any type of administrative action that should be taken once the criminal action has been decided.

In addition to its investigative workload, the Division of Investigation also receives, reviews, and processes Federal Bureau of Investigation reports and arrest records. The Bureau reports are mostly cases that the U.S. attorney has declined to prosecute and then sends back to Interior for

administrative action. After the Division of Investigation reviews the report, which occasionally requires additional work, it usually sends it to the appropriate bureaus for action.

In May 1979, the Division of Investigation consisted of only six investigators and the Acting Assistant Inspector General for Investigation, whose time is spent mainly on administrative duties. Because the workload had become so heavy for the small staff, five vacant audit positions were converted to investigative positions to alleviate the critical immediate need for staff. As a result, five additional investigators were hired to report for duty in June 1979. The additional staff will help to handle the expanding investigative activities required by the Civil Service Reform Act and the Inspector General Act, which is aimed at detection and prevention of fraud and abuse. However, according to the Acting Assistant Inspector General for Investigations, the increased staff will still not be enough for the Division of Investigation to implement an adequate fraud and abuse detection and prevention program. He stated that additional resources are needed if Interior intends to get serious about identifying and reducing the potential for fraud and abuse.

CONCLUSIONS

The Department of the Interior has not devoted adequate resources to identifying and eliminating the potential for fraud and abuse in its programs and operations. Investigative activities, which are initiated on the basis of complaints and allegations primarily involving employee conduct, have been so understaffed that all cases cannot be appropriately considered. This situation is likely to get worse with the increasing emphasis on detection and prevention of fraud and abuse in Federal programs.

RECOMMENDATIONS

We recommend that the Secretary of the Interior allocate resources necessary to review allegations adequately and efficiently and investigate potential fraud cases in a timely manner and to establish a fraud detection program.

AGENCY COMMENTS

Officials of the Department of the Interior stated that Interior was pursuing the Inspector General's staff needs for fraud detection with the administration and that appropriate resources would be provided in relationship to the requirements of the Inspector General Act of 1978.

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