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REPORT TO THE CONGRESS 099376

UNITED STATES
GENERAL ACCOUNTING OFFICE



BY THE COMPTROLLER GENERAL ~~APRIL 1976~~
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Opportunities For Improving Internal Auditing

Department of Transportation *AGC.00037*

The Department of Transportation's internal audit office functions independently, is composed of qualified auditors located throughout the United States, and has a formalized system for auditing the Department.

GAO believes internal auditing could better serve Department management if

- planning of audits is improved;
- audit work is adequately reviewed;
- management's responsiveness to audit recommendations is evaluated; and
- changes are made in audit staffing, training, and audit procedures.

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

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To the President of the Senate and the
Speaker of the House of Representatives

This report describes how the Department of
Transportation could improve its internal auditing.

We made our review pursuant to the Budget and
Accounting Act, 1921 (31 U.S.C. 53), and the Accounting
and Auditing Act of 1950 (31 U.S.C. 67). The Act of 1950
requires us to consider the effectiveness of an agency's
internal controls, including internal audit, in determining
the extent and scope of our examinations.

We are sending copies of this report to the Director,
Office of Management and Budget, and to the Secretary
of Transportation.


Acung Comptroller General
of the United States

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ABBREVIATIONS

ADP	automatic data processing
GAO	General Accounting Office
GSA	General Services Administration



D I G E S T

The Budget and Accounting Procedures Act of 1950 requires the head of each agency to establish and maintain systems of accounting and internal control, of which the internal audit is an integral part. The internal audit supplements routine management control by furnishing independent information and analyses on how an agency is doing its job and by recommending improvements.

In 1971 the Department of Transportation consolidated its internal audit staffs into a single audit office reporting to the Assistant Secretary for Administration. Field audit offices were established in the 10 standard Federal regions.

The audit office functions independently within the Department, is composed of qualified auditors, and has a formalized system for auditing the Department.

However, internal auditing could better serve the Department if some policies and practices were changed. GAO recommends that:

- Planning of audits be improved.
- Requirements for supervising and reviewing audit work be followed.
- Management's responsiveness to audit recommendations be evaluated and the results periodically reported to Department management.
- Changes be made in the internal audit office staffing, training, and audit procedures.

Better planning of audits would insure that resources are used where most important to the Department. (See p. 6.)

Because internal audit office policies on audit review and supervision are not always followed, some audit reports contain unsupported or inaccurate information. (See p. 14.)

The Department's internal auditors generally do not ask about the results of their audit recommendations. Followup and reporting to Department management on responsiveness to audit recommendations are needed. (See p. 18.)

The Department needs to make changes to:

- Reduce the imbalance between the headquarters and field audit staffs.
- Reduce the amount of staff resources spent on obtaining background data and preparing audit programs.
- Use specialists in fields other than accounting and auditing to help evaluate technical programs.
- Balance auditor training, by location and by the subjects of courses attended. (See p. 23.)

The Department agrees with the general intent of GAO's recommendations but believes its operations are effective and generally consistent with GAO's recommendations. GAO believes additional changes could improve the Department's internal auditing. (See pp. 11, 17, 21, 24, 26, 28, and 30.)

CHAPTER 1

INTRODUCTION

The Department of Transportation was established in 1966 for developing national policies and programs to achieve safe, efficient, economical, convenient, and integrated transportation. The Department's activities are carried out through its various operating administrations: the Coast Guard, the Federal Aviation Administration, the Federal Highway Administration, the National Highway Traffic Safety Administration, the Federal Railroad Administration, the Urban Mass Transportation Administration, the Saint Lawrence Seaway Development Corporation, and the Materials Transportation Bureau.

Most of the Department's programs and activities are decentralized through about 300 field offices in the United States and overseas. The Department spends about \$10 billion annually and has about 74,000 civilian employees and 37,000 uniformed personnel in the Coast Guard.

INTERNAL AUDIT

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a) requires the head of each agency to 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. An integral part of such a system is internal auditing, which uniquely supplements routine management controls through its independent approach and review methods.

Audit standards

In 1972 the Comptroller General of the United States published "Standards for Audit of Government Organizations, Programs, Activities and Functions." The standards widened the scope of governmental auditing, so that it is no longer concerned primarily with financial operations. Auditing is now also concerned with whether governmental organizations are:

1. Achieving the purposes for which programs are authorized and funds are made available.
2. Doing so economically and efficiently.
3. Complying with applicable laws and regulations.

The standards, as summarized in appendix I, were developed to apply to audits of this wider scope. In August 1974 the Comptroller General incorporated the standards in a revised statement entitled "Internal Auditing in Federal Agencies."

The General Services Administration's (GSA's) Federal Management Circular 73-2, Audit of Federal Operations and Programs by Executive Branch Agencies (app. II), dated September 27, 1973, sets forth policies to be followed in auditing Federal operations and programs. The circular's primary objectives are to promote improved audit practices, achieve more efficient use of manpower, improve coordination of audit efforts, and emphasize the need for early audits of new and substantially changed programs. Both GSA and the Department have accepted the Comptroller General's standards as the basic criteria on which audit activities will be conducted.

Auditing at the Department of Transportation

Auditing is divided into two distinct types, internal and external. The overall objective of internal auditing is to help Department management attain its goals by furnishing information, analyses, appraisals, and recommendations on how management responsibilities are being carried out and the extent to which management is achieving its objectives. External auditing provides the Department with audit service and advice relating to the operations of recipients of Federal assistance, primarily contractors and grantees.

Originally the internal audit functions were separately organized in the Department's operating administrations. In 1971 these internal audit staffs were consolidated into the office of Audits within the Office of the Secretary. The Director of Audits reports administratively to the Assistant Secretary for Administration and is responsible for all internal auditing and for issuing policy and technical guidance for the Department's external audit activities. These external audit activities remain decentralized within the operating administrations.

The Director of Audits, through his staff offices, selects the programs and activities to be audited, provides policy guidance, allocates audit resources, and directs the performance of audits. The internal audits are conducted by audit offices located in each of the 10 standard Federal regions. As of November 1975, the office of Audits had a staff of 93 professional auditors, 15 on the Director's

staff and 78 in the 10 regional offices. This organization and staffing is shown as appendix III. For fiscal years 1974 and 1975, the estimated cost of operations of the office was \$2.5 million each year.

During fiscal year 1974, the office of Audits made 100 audits at 156 locations, and, during fiscal year 1975, it made 70 audits at 151 locations. A report was issued for each location and consolidated reports were made to the Secretary on the results of an entire audit.

The scope of the Department's internal audits generally comply with the Comptroller General's standard that audits encompass (1) examinations of financial operations and compliance with applicable laws and regulations, (2) reviews of efficiency and economy in the use of resources, and (3) reviews to determine whether desired results are effectively achieved. The office of Audits also considers the Department's internal controls when determining the scope of its audits.

Most of the audits were directed at determining whether the Department's resources were being used economically and efficiently. The office of Audits also provided adequate coverage to financial and compliance audits and program results audits.

The Director of Audits said that making audits of program results and benefits was an evolving concept for internal auditors, and he planned to proceed slowly in scheduling this type of audit.

PROGRAM EVALUATION

In addition to having audit staffs, the Office of the Secretary and the operating administrations within the Department have offices responsible for program evaluation. These offices review the operations of their respective organizations and report only to their own managements whereas the internal auditors report to the Secretary. Collectively, within the Department, about 200 employees perform such evaluations with an annual budget of about \$10 million.

SCOPE OF REVIEW

We made our review at the office of Audits' headquarters in Washington, D.C., and its field offices in Washington, D.C.; Fort Worth, Texas; and Denver, Colorado.

We reviewed the organization and operations of the office of Audits in relation to the standards issued by the Comptroller General and the requirements of the GSA circular. We also reviewed the operations of the field offices in their performing of 10 audits completed during fiscal years 1974-75 and compliance with requirements of the office of Audits' audit manual. We held discussions with personnel in the office of Audits and the Department's operating administrations.

We did not review the external audit operations because the responsibility for auditing rests mainly with the operating administration's external audit staffs or the audits are conducted under service agreements with other Federal auditing organizations, such as the Defense Contract Audit Agency.

CHAPTER 2

AUDIT INDEPENDENCE AND AUDIT PLANNING

The office of Audits was established in 1971 within the Office of the Secretary reporting to an organization with both staff and operating responsibilities. Greater assurance of audit independence might be achieved if the office of Audits were responsible to a Department organization without operating responsibilities. Also improvements in audit planning and better coordination with the operating organizations being audited would give greater assurance that audit resources are applied to the most important functions and programs.

INDEPENDENCE OF INTERNAL AUDIT

The Comptroller General's standard on independence provides that "In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude." The explanation of the standard points out that the auditor's independence can be affected by his place within the organizational structure. Auditors may be subject to policy direction from superiors involved either directly or indirectly in the management process. To avoid organizational impairments and achieve maximum independence, the audit organization should not only report to the highest practicable level but also be organized outside the line management function of the entity being audited.

The office of Audits is under the Assistant Secretary for Administration, as shown in appendix IV, who, in addition to a staff function, is also responsible for programs subject to audit, such as the personnel and training program and the investigations and security program. The Assistant Secretary has been approving the annual audit plan even though Department Order 2920.1, "Audit Service in the Department of Transportation," requires that the annual audit plan be approved by the Deputy Secretary¹/ of the Department.

We did not identify any instance of auditors' lacking independence; however, we are concerned as to whether internal audit systems have the strength inherent in organization structures that provide for the internal

¹/The order states "Under Secretary," but that position was changed to "Deputy Secretary" effective Oct. 28, 1974.

audit function to be under the direction of an individual who has no other operating responsibilities.

When an agency official has both operating and internal audit responsibilities, the degree of independence and effectiveness of the internal audit function in relation to the other activities administered by that official depends on whether the agency's top management is concerned with and apprised of the internal audit planning, programing, execution, and reporting functions.

We believe there is a reasonable degree of assurance that there is no impairment of the independence and effectiveness of the Department's internal audit function because (1) the Assistant Secretary reports directly to the Secretary, (2) internal audit is accorded strong support by top management, and (3) areas subject to internal audit have been unrestricted.

PLANNING OF AUDITS COULD BE IMPROVED

The audit universe should contain enough information to serve as a basis for planning which audits to perform. The office of Audits could improve its planning system by expanding the information included in the universe. The office should also document the factors considered in selecting audits and in assigning priorities.

Audit universe and bases for selecting audits and assigning priorities

Audit planning should be based on a universe of all programs and operations subject to audit to insure that all potential audits have been considered during the planning process. GSA Circular 73-2, requires that Federal agencies develop an audit universe and document the bases for selecting audits and assigning priorities.

The office of Audits' audit manual, which outlines the office's policies and procedures, states that:

"A well-organized planning process ensures that the Office of Audits has identified and considered all programs and functions that should be subjected to internal audits, and that audit efforts will be directed to the highest priority areas. To accomplish this objective, an audit universe will be developed * * *."

Prior to August 1974, the office of Audits prepared an audit workload inventory which identified some of the

potential audit areas in the Department. In August 1974 the office began developing an audit universe in accordance with the GSA requirement. By November 1975 work on the universe had developed little more than a list of the organizational components of the Department, with some data on the various programs and activities. The universe included some overall funding data for fiscal year 1975, and the office was compiling data on completed audits for comparison with the universe.

Bases for selecting audits and
assigning priorities

The circular requires that annual audit plans be drawn from the audit universe and that the plans state the specific reasons for selecting the programs and activities included. According to GSA, some of the factors that should be considered are

- newness, changed conditions, or sensitivity;
- dollar magnitude and duration;
- extent of Federal participation in terms of resources or regulatory authority;
- management needs to be met, as developed in consultation with responsible program officials;
- results of other evaluations, such as program reviews; and
- mandatory requirements of legislation or other congressional recommendations.

The plans for fiscal years 1975 and 1976 do not show the bases for selecting the programs and activities to be audited, although the Director of Audits told us that the office considered the GSA criteria in the selection process. In its revised audit manual issued in June 1975, the office adopted the GSA criteria; it said that subsequent annual plans, beginning with 1977, would show the bases for audit selections. The Director of Audits told us, however, that, if all potential audits were selected on the basis of the GSA factors, he was not sure that it would be necessary to document the bases.

COORDINATION WITH MANAGEMENT
COULD BE IMPROVED

The office of Audits could improve its responsiveness to audit suggestions from other organizations within the Department and its coordination with program evaluation groups in these organizations.

Responsiveness to subordinate management

The Comptroller General's standard on the scope of internal auditing provides that:

"* * * an internal audit program should be structured to meet the needs of top management and also be designed to serve the needs of subordinate management levels."

These subordinate management levels are within the several operating administrations, such as the Federal Aviation Administration and the Coast Guard.

Since the consolidation of the internal audit function in 1971, the administrations no longer have their own internal auditors and must rely on the office of Audits for their audit needs. In developing its annual audit plan, the office solicits suggestions from the administrations and the secretarial offices, the Secretary's regional representatives, and its own regional audit staffs. These suggestions and the office's Policy and Plans Staff's assessment of areas needing audit form the pool from which audits are selected. Of 38 audits suggested by the administrations for fiscal year 1976, only 9 were included in the audit plan.

The Director of Audits submits the tentative audit plan to the Assistant Secretary for Administration for approval. When requesting approval the Director of Audits provides the Assistant Secretary with a list of the suggested audits that were excluded from the plan and the reasons for exclusion.

The list provided to the Assistant Secretary does not show all the suggested audits excluded from the plan, and the reasons stated for those not adopted are usually "other audits of higher priority" or "audited previous fiscal years." All of the suggested audits were not included on the list, the Director of Audits said, because he did not believe it necessary to burden the Assistant Secretary with that much detail.

Inasmuch as the office of Audits does not document the bases on which programs are selected for audit, eliminating suggested audits as not being of high enough priority cannot be related to a scale of relative importance. We found that, in some cases, suggested audits which had been eliminated on the basis that the programs had been previously audited were aimed at different aspects of the programs than had been covered before.

For example, the Office of the Secretary suggested that an audit be conducted of various administrations' compliance activities and the actual extent of compliance dealing with assurances regarding the environmental impact of the Department's programs. The previous audit in this area dealt primarily with only the procedures for obtaining the assurances.

In another example, the Federal Aviation Administration suggested two audits of its training program. It wanted evaluations of (1) the level of training required compared to job needs and (2) training courses at its Management Training School to determine whether management's training goals were being met. The previous audit assessed only the efficiency of the school's operations and concluded that the school was operating satisfactorily. To improve overall management, recommendations were made dealing with such items as leased space, requirements for audiovisual equipment, and monitoring trainee selections.

After the Assistant Secretary approves the audit plan, the administrations and the Office of the Secretary receive only the approved plan and are not provided with explanations why their suggestions were eliminated. Employees within the operating administrations told us that they would like such explanations and that the explanations would be useful in many ways.

The operating administrations told us that explanations would provide them with the internal auditor's bases for selecting audits so that future suggestions would be responsive to the auditor's concepts of audit areas and the administrations would know not to request some audits again. In some cases where the audit is not to be made because of limited staff resources, the administrations might prefer not to wait and, instead, have their own program evaluation personnel make a review.

Coordination with program evaluation groups

The GSA circular states that it is important to establish close coordination between the audit activity and other management review activities in an agency, for example, program evaluation.

The Office of the Secretary and the operating administrations within the Department have program evaluation offices to review the programs of their respective administrations and to report to their own managements. Collectively about 200 employees make program evaluations in the Department, with an annual budget of about \$10 million.

From an internal auditing standpoint, program evaluation cannot be considered an independent program review, but such an evaluation provides additional program review coverage that should be considered in planning internal audits. These evaluation activities should also be audited like any other management activity to insure that the groups are meeting the objectives of the evaluation.

The activities of the program evaluation groups are not considered by the office of Audits when planning audits, and the groups have never been audited. Past program evaluations are only considered after an internal audit job has started.

The Chief of the office of Audits' Policy and Plans Staff told us that it was not practicable to coordinate audit planning with program evaluation groups because these groups must change their plans often to meet their managements' needs and could not be relied on to follow a long-range plan and schedule. He said that, since the groups did not operate under procedures comparable to auditing standards, there was no assurance that their reports were acceptable for internal audit purposes and that they had disclosed fully the results of the evaluations.

The results of past program evaluations is one of the factors specified in GSA's circular that should be considered in selecting audits. Close coordination with program evaluation groups and selective audit of these activities could, we believe, overcome the above problems. Further, planned evaluations could be the deciding factor in selecting between two otherwise equally important audit areas. Also, audit planning should be coordinated because the auditors may want to bring to the attention of the program evaluation groups the areas identified for audit which could not be scheduled for audit in the near future.

CONCLUSION

The Assistant Secretary for Administration is responsible for the Department's internal audit activities, although he is also responsible for activities subject to audit. We believe, however, that there is a reasonable degree of assurance that there is no organizational impairment to the independence of internal audit. To give more visibility to the internal audit's independence, however, the Assistant Secretary should not approve the tentative audit plan.

When selecting audits to be made and assigning priorities, the office of Audits should appropriately consider all potential audits. We therefore believe that more emphasis should be given to expanding the information included in the audit universe and to documenting the bases for selecting audits and assigning priorities.

The office of Audits' planning process could be improved by analyzing audits suggested by other Department organizations in relation to the order of importance of programs and activities in the audit universe, by providing them with specific explanations for suggestions excluded from the plan, and by taking into account the work performed and planned by program evaluation groups. Program evaluation group activities should also be audited like any other management activity.

AGENCY COMMENTS AND OUR EVALUATION

The Department said (see app. V) that the annual audit plan would be signed by the Secretary or the Deputy Secretary, consistent with the intent of Department Order 2920.1.

The Department said also that, in developing its fiscal year 1977 plan, the operating administrations were requested to provide information on planned evaluations or appraisals and that the office of Audits would also continue to consider the activities of the Department's program evaluation groups when developing future plans. The Department agreed that program evaluation groups should be audited, and the office of Audits tentatively plans to audit one or more of the groups during fiscal year 1977.

According to the Department, its audit universe now shows all organizations and programs subject to audit and all fiscal year 1975 funding data. It pointed out

that the only definition of an audit universe provided for in GSA's circular was "all programs and operations subject to audit." The Department believes its audit universe satisfies the requirements of the circular.

In our view the Department has not adequately responded to the intent of the circular or its own planned use of the audit universe as described in its audit manual. The circular and the Department's audit manual indicate that the audit universe should contain the information needed to insure that audit work is directed to the highest priority areas. It seems this objective could not be effectively accomplished with the Department's current audit universe.

The Department said that its planning system showed that recommendations for audits were evaluated, and generally documentation does exist as to why audits were or were not selected. It said also, however, that the documentation could be improved.

Now that the Secretary or Deputy Secretary will be approving the audit plan, the office of Audits needs to provide an explanation to top management as to why recommended audits were not scheduled to provide the approving official with a better basis for accepting or suggesting modification of the audit plan.

According to the Department, it was not feasible for the office of Audits to engage in a continuing dialogue with the operating administrations and to justify the merits of their planned audits. Also such a procedure would tend to erode the independence of the audit function by placing constraints on the exercise of independent judgment at a critical point in the operations of the office of Audits.

We agree with the Department's position. However, it was not our intent for it to justify scheduled audits but, rather, explain why all the requested audits were not scheduled. Organizationally auditors are not responsible to the operating administrations, so independence cannot be affected by discussing potential audits with them. There seems to be little basis for the Department's position that talking to the operating administrations can constrain the exercise of independent judgment.

The Department believes that decisions not to audit requested areas because of previous audit activity in the same program areas are valid. Although the requests involved different aspects of the programs, the extent and timing

of past audit coverage in a given location or program area is a definite factor in deciding whether to plan further audit activity.

We agree that these can be deciding factors. This is the type of explanation, however, that should be provided to the operating administrations so they may further explain their need or at least know it was considered.

RECOMMENDATIONS

We recommend that the Secretary of Transportation:

- Insure that Department actions on developing an audit universe and bases for selecting audits and assigning priorities are responsive to the GSA circular and its own planning needs.
- Require the Director of Audits to provide the administrations and the Office of the Secretary with specific explanations for those suggested audits that cannot be scheduled.
- Insure compliance with the Department's Order 2920.1 concerning approval of the tentative audit plan.
- Require the Director of Audits to consider the activities of the Department's program evaluation groups when developing its annual audit plans.

CHAPTER 3

REVIEW OF AUDIT WORK

One of the basic auditing standards is that audit reports include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditors' workpapers to demonstrate or prove the bases for the matters reported and their correctness and reasonableness. The office of Audits is in general compliance with the standard; however, we believe that some improvements should be made in this area.

This office of Audits' audit manual provides for two controls to insure compliance with this standard. Reports are to be cross-referenced to the supporting documents, and there are two levels of supervision. Because the manual is not always followed, information in some audit reports was not supported by the auditors' workpapers.

CROSS-REFERENCING

The need for cross-referencing of reports is accurately described in the office of Audits' audit manual which states:

"Complete and accurate cross-referencing in the working papers is essential to completion of the audit. An auditor should remember that the relationship of one set of facts to another may not be known to the next person who uses a working paper, and the relationship may not be as clear in his own mind when he again uses the paper. Cross-referencing is essential to adequate analysis and interpretation of audit results. It facilitates reviews and preparation of the report, and decreases the probability of a defective audit report."

The manual requires that all facts, observations, and conclusions in the report be cross-referenced with the summary or basic workpapers, as appropriate.

Our review of audit reports and supporting workpapers disclosed instances where this provision of the manual had not been followed. We reviewed seven reports at the office of Audits' Fort Worth and headquarters audit offices and found that two reports had not been referenced to the supporting documents, and on three others the referencing was incomplete or inaccurate. All three of the reports

we reviewed at the Denver office, however, had been adequately cross-referenced.

When reports are not correctly cross-referenced, they may contain inaccurate information or information not supported by the workpapers. For example, in an audit of the National Railroad Passenger Corporation's capital acquisition program and the Federal Railroad Administration's administration of the loan guarantee program, the office of Audits had used a Department employee from another office to assist in this audit. Sections of the final report based on this employee's draft report, were not supported by the workpapers, and the employee's work was not verified by the auditors. The report showed that \$40 million was "payment to railroads for operating expenses." Our analysis of the supporting documentation showed that the correct figure was only \$30 million.

SUPERVISORY REVIEW OF WORKPAPERS

The type of error described above should have been detected before the report was issued. The primary control for detection is the supervisory review of the supporting workpapers. The audit manual states that:

"The supervisory review of the working papers is an integral part of every audit, because it provides added assurance that all potential observations have been recognized, properly developed, and adequately supported. This review permits the supervisor to assess the degree of professional competence with which the audit was performed."

The manager of each regional audit office is responsible for the overall review of all audits, although he may delegate to his auditor-in-charge the responsibility for reviewing workpapers of subordinate staff members.

Because the office of Audits noted that supervisory reviews were not always being made or, if made, not documented, it established a requirement in November 1972 for using supervisory review sheets. Review sheets are to be maintained as evidence of the supervisory review and should indicate satisfaction with the work and should record questions raised and the responses of subordinate staff members. For the seven audit reports we examined at the headquarters and Fort Worth audit offices, we found little or no evidence that the workpapers were

reviewed. For the three audit reports at the Denver office, however, the applicable workpapers contained the required review sheets.

MONITORING OF AUDIT BY AUDIT MANAGEMENT STAFF

Another control to insure that adequate, factual information is obtained on audits is oversight of all internal audit activities by the office's Audit Management Staff, which assists the various audit offices in developing audit observations and in planning audit reports. The audit manual requires the Audit Management Staff to:

"* * * perform on-site reviews at participating field offices during the progress of audits for the purpose of coordinating the audit effort, and assuring that Office of Audits' goals are achieved in an orderly and efficient manner."

During fiscal year 1975 relatively few of these required visits were made. Although audits were made at over 120 sites outside Washington, D.C., the Audit Management Staff visited only 35 of them during 29 separate trips to the regions. The Chief of the Audit Management Staff said the reason for few visits was the large workload of his staff members.

Each project officer of the Audit Management Staff was responsible for audits being made at from 13 sites to as many as 30 sites outside the Washington, D.C., area. The number of visits by each project officer ranged from 4 to 9, and no project officer visited more than 50 percent of the sites for which he was responsible. The amount of travel by project officers ranged from 9 to 20 days each during fiscal year 1975.

CONCLUSIONS

The office of Audits, through its audit manual, has procedures for insuring that its audit reports are based on factual information. The procedures were not always followed, and there was some lack of supervisory review, as well as inadequate audit site visits by the Audit Management Staff.

The benefits of the required cross-referencing and use of supervisory review sheets is demonstrated by the fact that the three reports we reviewed at the Denver office had complied with both these requirements, and we found no instances where the reports contained information not accurately supported by the workpapers.

AGENCY COMMENTS AND OUR EVALUATION

The Department disagreed with our statement that audit reports were not being referenced to the supporting documents.

We originally found that three reports had not been referenced to the supporting documents and that three other reports had incomplete or inaccurate cross-referencing. In subsequent discussions with agency officials, we were told that after much searching they could only show where one of the three reports had been referenced. The Department did not respond to our finding that referencing was incomplete or inaccurate, but, in a subsequent discussion, it acknowledged that our information was correct.

The Department agreed that supervisory review sheets were not being prepared, but it believed the workpapers were reviewed. It said the audit workpapers and review sheets would be documented as required by the audit manual.

Concerning onsite visits by the Audit Management Staff, the Department said that, although more visits might have been desirable, it believed the staff had adequately fulfilled its supervisory review responsibilities. The Department plans, however, to continually monitor and reassess its practices in this most vital area.

RECOMMENDATION

We recommend that the Secretary of Transportation require the Director of Audits to take steps to insure that the requirements for cross-referencing and supervisory review of workpapers and reports, including the monitoring responsibilities of the Audit Management Staff, are being met.

CHAPTER 4

REPORTING AND FOLLOWUP SYSTEM

The office of Audits reports its audit findings and recommendations to the appropriate Department officials responsible for the programs and operations reviewed and sends summary reports to the Secretary. It also sends copies of such reports to the Assistant Secretary for Administration and to other officials in the Department who may benefit from this information. The office does not have an effective system, however, for insuring that management actions promised in response to audit recommendations are actually being implemented and are correcting the problems identified by audit reports. The office does not periodically report to Department management on its followup activity and the results of such activity.

NEED FOR MORE EFFECTIVE FOLLOWUP SYSTEM

The Department's order on "Audit Service in the Department of Transportation" requires that the office of Audits evaluate responses to its audit reports and followup on recommendations to determine whether adequate consideration was given to them by management officials and whether management actions to accomplish necessary changes or correct deficiencies were actually implemented. To accomplish this the office of Audits has a twofold system.

1. Primary followup: An evaluation to determine that commitments made for actions to be taken or in process or completed are responsive to audit observations and recommendations. For example, if the commitment involves issuing a new or revised directive, the directive should be reviewed to determine whether it satisfies the recommendation. If the commitment is a study or other action, internal auditors should determine that the action is appropriate.
2. Secondary followup: An independent verification of whether or not the new or revised directive or other management actions have been effectively implemented and are achieving the desired results.

Primary followup

The primary responsibility for action and followup on audit recommendations rests with officials responsible for the program or activity audited. The Department

requires the administrations to respond to audit reports within 90 days. Evaluations of these responses by the internal auditors constitute their primary followup. These responses, however, are not always evaluated by the auditors.

For example, in February 1975 the Fort Worth audit office recommended to the Federal Aviation Administration that arrangements be made for storing duplicate copies of major systems' master tape files and program source cards in a secure, fireproof area of another building. On May 28, 1975, Federal Aviation proposed that, instead of storing a duplicate tape, the previous version of the master tape be stored along with the data used to update the tape. Federal Aviation requested the manager of the audit office for written approval of the alternate plan. On July 22, 1975, we found that the manager of the Fort Worth audit office had not yet reviewed Federal Aviation's proposal to determine whether or not it was a satisfactory solution to the problem reported. When we brought this oversight to the manager's attention, the proposal was reviewed and approved on July 28, 1975.

In another case the Coast Guard did not make the required 90-day response to an audit report. It was 9 months before the internal auditors formally inquired about the overdue response.

Secondary followup

Prior to fiscal year 1975, it was the policy of the office of Audits to perform secondary followups on all audit recommendations about 1 year after the audit report was issued. Currently secondary followups normally are not being scheduled as separate reviews. The audit manual states that, for major recommendations, selected followups should be made when subsequent scheduled audits are being made in the same geographic area. The manual suggests that, when this is not possible, it may be necessary on occasion to make special trips for significant secondary followups. Reports on secondary followups are issued on an exception basis, only when reviews indicate significant uncorrected deficiencies.

The Audit Management Staff, which is responsible for monitoring the office of Audits' followup activities, did not have information on how many recommendations needed followup or how much followup was done during fiscal year 1975 or the first 5 months of fiscal year 1976. The audit manual, as revised in June 1975, requires regional office

managers to submit their followup plans at least annually to the Audit Management Staff. This will not be implemented, however, until fiscal year 1977.

We inquired into the disposition of a number of recommendations which had not been the subject of secondary followup by the office of Audits. In most cases Department management had completed the actions promised in response to the recommendations. In several cases, however, action promised had not been implemented, even after the audit reports had been issued for several months. For example, in December 1973 the headquarters audit office recommended that the Office of the Secretary maintain a register of Department program evaluations and management improvement studies. Although the recommendation was accepted, our inquiry in August 1975 disclosed that no action had been taken to develop the recommended register and none was planned.

In another example, the Fort Worth audit office recommended to Federal Aviation in May 1973 that it develop more specific criteria for evaluating the performance of its aviation medical examiners and for determining the number of examiners needed. Federal Aviation stated in July 1973 that it would develop criteria for the Federal Air Surgeon's approval and possible incorporation in guidelines furnished to the regional flight surgeons. Our followup disclosed that, although the criteria had been developed and submitted to the Federal Air Surgeon, they had not been approved as of October 1975.

The Director of Audits said that it was management's responsibility to take action on audit recommendations and to insure satisfactory compliance. He believed that the amount of followup being done by the office was adequate and that the internal auditors performed many informal followups in their daily work with Department officials that did not appear in the records.

The record showed that, during fiscal year 1974, internal auditors charged about 380 staff-days to followup activity and issued about 30 reports on the followup results. During fiscal year 1975, the time charged to this activity dropped to only about 120 staff-days, less than 1 percent of total internal audit staff time available. Also, during fiscal year 1975 and the first 6 months of fiscal year 1976, only six reports on followup reviews were issued. Five of these dealt with activities in one region.

CONCLUSIONS

The reporting of audit findings and the report distribution system of the office of Audits appears to adequately respond to the provisions of the standard on reporting.

The internal auditors should periodically determine what management is doing about their recommendations and whether satisfactory corrective action has been taken. The office of Audits, however, has generally deemphasized the need for followup and no longer has a systematic method of inquiring into the disposition of its recommendations.

Department management should also be informed of the amount of followup being done and the results as a means of evaluating (1) the responsiveness of Department organizations to audit findings and (2) effectiveness of the internal auditors in helping the Department's management of its programs and activities.

AGENCY COMMENTS AND OUR EVALUATION

The Department believes that the office of Audits does have an effective followup system as outlined in its audit manual. The Department said that its overall experience as a result of previous followups indicated that management generally was satisfactorily implementing commitments made on audit recommendations. Therefore, it was decided to revise the policy of following up 1 year after the report was issued, particularly in view of the limited audit resources and many new Department programs to be reviewed. It said also that the staff-days shown for followup review might be misleading because its system did not provide for identifying time spent on followup which is included in other audits.

Concerning the two examples on (1) register of Department program evaluations and management improvement studies and (2) aviation medical examiners, the Department said that these would be followed up on when considered appropriate.

The Department believes that, since its system provides for submitting reports to management when followup reviews indicate significant uncorrected deficiencies, it is not necessary to furnish Department management with a statistical report on the amount of followup being done. The Department, however, will continue to evaluate its policy and system to determine the need for any changes.

In our opinion the office of Audits does not have an adequate followup system to show what recommendations should be followed up and the status of any followup being done.

Concerning the two examples discussed, we pointed out that our sample of followup reviews disclosed several recommendations where management had not been responsive. In these two cases, as of February 1976, it had been 26 and 33 months since the recommendations had been made. The Department's response that these two cases will be followed up when considered appropriate does not appear to recognize the length of time since the reports were issued.

Allowing recommendations to remain outstanding for such periods can give management the impression that the office of Audits is no longer concerned about the recommendations and can decrease the audit's effectiveness. As pointed out in GSA's circular, "Timely action on recommendations by responsible management officials is an integral part of the effectiveness of an agency's audit system and has a direct bearing on it."

RECOMMENDATION

We recommend that the Secretary of Transportation require the Director of Audits to implement an effective followup system, to include previous recommendations that need followup attention, and to report periodically to Department management on the extent and status of its followup activity.

CHAPTER 5

OTHER AREAS WHERE MANAGEMENT ATTENTION

WOULD IMPROVE EFFECTIVENESS

Four areas needing management attention to improve the office of Audits effectiveness are:

1. The impact of the current Washington-field staff allocation on the operations of the headquarters audit office.
2. The amount of staff resources spent on obtaining background data and preparing audit programs.
3. The use of audit personnel with disciplines other than accountancy.
4. Imbalance of auditor training, by location and by the subjects of courses attended.

IMPACT OF STAFF ALLOCATION ON HEADQUARTERS AUDITORS

For the purpose of scheduling audits, the office of Audits usually plans that each audit will need 50 to 75 staff-days at each audit location. Only a few of the Department's activities are carried on in only one Federal region, such as the Transportation System Center in Massachusetts or certain headquarters operations in Washington, D.C. Most internal audits require audit work at one or more regions and in the headquarters offices. The field office assigned to headquarters has internal audit responsibility both for the headquarters operations of the Department and for activities in Federal Region III (Pennsylvania, Delaware, Maryland, Virginia, West Virginia, the District of Columbia, and Europe).

Headquarters auditors are required to make audits at Department headquarters to support audits being made of the Department's field activities. As a result, headquarters auditors are forced to give priority to these audits over those scheduled audits in Federal Region III or those to be made only at headquarters. For example, during fiscal year 1975 headquarters auditors spent only 1 staff-year on audits in Federal Region III, compared to 4 to 8 staff-years spent by the field auditors in each of the other nine regions. Also headquarters auditors canceled only 1 audit where it was needed to support the field audits, compared to canceling 9 of 18 audits scheduled to be made only at headquarters.

The Director of Audits told us that he recognized the problems being faced by headquarters auditors in providing adequate audit coverage of Department activities in Federal Region III and at headquarters.

We believe this situation exists because of the number of auditors assigned to Department headquarters audits compared to the number of auditors in the other nine field offices. Some possible alternatives in solving this imbalance would be to (1) transfer some field staff employees to headquarters, (2) supplement the headquarters audit office with other field employees on a temporary duty basis, and (3) have field employees spend more time on followup work, as discussed in chapter 4 of this report.

AGENCY COMMENTS AND OUR EVALUATION

The Department disagreed that a staffing imbalance existed and felt that the use of other field auditors by the headquarters audit office would have an adverse effect on the field offices. The Department agreed that the headquarters audit office was subject to more changes and diversions; however, it felt that, as audit planning and scheduling procedures were refined, the need for adjustments to work assigned to the headquarters audit office would be minimized.

Refining the planning and scheduling procedures cannot materially affect headquarters audit office operations. As long as the headquarters audit office has the responsibilities of (1) performing audits at Department headquarters, (2) performing audits in Federal Region III, and (3) supporting the audits of other audit offices, the current staffing ratio will result in less priority being given to audits to be conducted at headquarters only or in Federal Region III.

RECOMMENDATION

We recommend that the Secretary of Transportation require the Director of Audits to review the current allocation of headquarters and field auditors and take actions to solve the imbalance.

DUPLICATION IN MAKING
AUDIT SURVEYS AND IN DEVELOPING
AUDIT PROGRAMS

Because each field office obtains its own background data (e.g., performs a survey) and prepares its own audit program on each audit, regardless of the number of field offices involved for each audit, the office of Audits spends a large part of its staff resources on these tasks. The scheduling of simultaneous starts on the same audit by the field staffs involved often does not enable these staffs to take advantage of preliminary work done by another staff, and, as a result, some duplication of survey work and audit program preparation occurs.

The first examination and evaluation standard is that the work be adequately planned. A written audit program should be prepared and should include information on the objectives and scope of the audit, background and definitions, and auditing and reporting procedures. For the office of Audits, the Audit Management Staff prepares general audit guidelines to be followed by the participating audit offices. Each field audit office then performs its own survey. According to the office's audit manual, these surveys are made before the detailed examination, primarily to develop work steps for meeting the audit objectives. On the basis of its survey, each participating field office prepares its own audit program.

The audit programs generally satisfy the requirements of the standard. Inasmuch as all regional offices on the same audit follow the same guidelines, their respective programs differ only in some of the detailed steps to be performed. During fiscal year 1975, the field audit staffs used over 15 staff-years for this work, about 23 percent of the total field audit staff resources.

When a field office completes its audit program, it is sent to other participating field offices on the same assignment for use in developing their programs. If one field office begins ahead of the others and if it provides the results of its survey to them, there should not be much duplication of survey work and audit program preparation. The office of Audits usually schedules all participating audit offices to begin an audit simultaneously. Although in practice field offices started most of the audits at different times, during fiscal year 1975, 14 audits were made on which 2 or more field staffs began at about the same time.

The possibility of duplication is illustrated by an audit of the Coast Guard's energy conservation program on which five field offices participated. The headquarters audit staff and the New York field staff began their work in November 1974 and spent 27 and 26 staff-days respectively for surveys and preparation of audit programs. Most of the audit steps in the two programs were similar. The other three field offices began later and used a total of 34 more staff-days for surveys and preparation of audit programs. The latter offices added only three audit steps not in the two previous programs. In total, the 5 audit programs contained about 25 separate audit steps, of which 19 were similar in three or more programs.

At the Fort Worth audit office, we examined the time records for four audits in which other field offices also participated. On two of the audits, the Fort Worth office made its own survey and prepared its own audit program, requiring in one case 23 percent of the staff time charged to this audit and in the other case 38 percent of the staff time. For the other two audits the Fort Worth office used programs developed earlier by another field office and used no staff time for survey work and program preparation.

Currently the office of Audits is experimenting with a system of "pilot audits" whereby one field office begins an audit assignment before the other offices and prepares the audit program for all other participating offices. At the time of our review, none of the pilot audits had been completed.

We believe that this pilot audit concept offers the possibility of a substantial reduction in field time required for surveys and audit programs. The concept might be enlarged by having the pilot office also perform the necessary headquarters work in some cases. This would supplement the headquarters office resources, as discussed on page 23, and also provide field staffs with exposure to the headquarters operations of the field activities being audited.

RECOMMENDATION

We recommend that the Secretary of Transportation require the Director of Audits to adopt procedures, such as the pilot audit concept, to avoid the possible duplication of effort resulting from each participating audit office performing a survey and preparing an audit program.

AGENCY COMMENTS

The Department agreed that there might be some duplication because each field office performed a survey and prepared an audit program. It believes experience has shown, however, that various field offices do develop different problem areas as a result of their individual surveys. Also the field offices have been able to reduce their audit scopes when surveys indicate agency controls are adequate in certain areas. The Department plans to evaluate the effectiveness of the pilot audit concept to determine the extent to which it will be used in the future.

DISCIPLINES IN AREAS OTHER THAN ACCOUNTANCY COULD IMPROVE PERFORMANCE

Department internal auditors have the needed accounting-auditing backgrounds, but none are classified as specialists in other fields--such as automatic data processing (ADP), systems analysis, and statistical sampling or engineering. Except for one audit, the office of Audits has not used either outside consultants or in-house expertise in performing its audits.

Our ADP specialists reviewed the headquarters' and regional audit offices' performance on three audits of ADP management. We concluded that the performance on the audits could have been improved if the auditors had had more knowledge about the technical problems of auditing ADP systems.

For example, the Fort Worth audit office made an audit of the management of ADP operations in the Federal Aviation's Southwest Region, including the system of internal control and its computer programs. The audit of the management of the facilities was generally adequate, but the analyses of the more technical areas of internal control and computer programs were not. The audit, for example, did not cover several standard examinations of internal controls, such as the programmers' access to the computer room and the computer programs, rotation of program operators, extent of operator intervention during program runs, and test runs of several programs.

The office of Audits has not made a formal analysis of its need for disciplines other than accountants and/or auditors. The magnitude and scope of the programs in the Department would seem to require technical assistance

from time to time on certain audits. Technical assistance in such fields as ADP and statistical sampling and analysis should be valuable on many audits.

RECOMMENDATION

We recommend that the Secretary of Transportation require the Director of Audits to make an analysis of the Department's programs to determine if future audit performance could be enhanced through the use of personnel with expertise in areas other than accountancy.

Some alternatives for obtaining this expertise would be

- hiring personnel with the desired disciplines,
- using personnel with the technical expertise available within the Office of the Secretary, such as the Office of Management Systems' ADP Management or ADP Applications Staffs or the Office of System Engineering, and
- providing audit staff with technical training in the needed areas.

AGENCY COMMENTS

The Department said it would consider the possibility of using existing specialists within the Department to assist as needed on selected audits. Outside consultants may also be used if requirements are developed. Although the Department believed that the audit staff was not large enough to utilize specialists on a permanent basis, it would explore the possibility of including some specialists in fields other than accountancy.

TRAINING PROGRAM NEEDS ATTENTION

The office of Audits' training program seems to favor having audit office staff members attend training courses where travel is not required. The training received by the internal auditors has usually been in general auditing areas, and very little in technical areas.

The office of Audits does not have a formal in-house training program but relies on the Interagency Auditor Training Center of the Department of Commerce for courses. The office's annual budget for training is only about \$4,000 (\$40 for each auditor) and has not been fully used because travel funds are not always available for training.

For fiscal years 1973-75, 80 percent of the auditors in the office of Audits' Washington and San Francisco field offices had received some training, compared to only about 45 percent of the auditors in the other 8 field offices.

For example, during fiscal year 1975, most of the training courses of the Interagency Auditor Training Center were held in Washington, D.C., and San Francisco. As a result, the audit staff in these cities received more training than staff members in the other regional offices. For example, seven of the nine auditors in San Francisco received training, whereas none of the six auditors in Fort Worth did. Both regional audit managers had recommended five staff members for training that year.

<u>Audit office</u>	<u>Number of auditors</u>	<u>Number recommended for training</u>	<u>Number receiving training (note a)</u>	<u>Percent of staff trained</u>
Washington, D.C.	21	18	9	43
San Francisco	9	5	3	33
Other eight offices	<u>48</u>	<u>27</u>	<u>11</u>	23
Total	<u>78</u>	<u>50</u>	<u>23</u>	29

a/Does not include four auditors in San Francisco who attended a 1-day seminar.

Although the Training Center offers some technical courses, its curriculum is primarily in general auditing subjects. As shown below, the training of auditors has normally been in general subjects.

<u>Training area</u>	<u>Auditors participating in fiscal years 1973-75</u>
General subjects:	
Written communication	31
Developing findings	7
Supervisory training	7
Operational auditing	5
Management of organizations	5
Planning, managing, and reporting for audit managers	3
Federal government accounting	3
Other general subjects (one or two auditors participated)	19
Technical subjects:	
ADP flow charting	4
Contract administration and employee relations	4
Computer data security	1
Practical sampling for auditors	2
Auditing accounting and statistical sampling	1

According to the Director of Audits, travel funds have not been a major consideration in designating auditors for training and the office's primary concern is the training of employees who need it, especially the lower level employees in general schedule grades 7 through 11.

The letter requesting the regional audit managers to nominate employees for training, however, stated that the office of Audits would "try to schedule as many field employees for training as possible either locally or in Washington, D.C., depending upon available travel funds." Among the 17 lower grade employees, 7 were trained in fiscal year 1975. Two of 3 employees were from Washington, D.C., 2 of 4 employees were from San Francisco, and 3 of 10 employees were from the other 8 regions.

AGENCY COMMENTS AND OUR EVALUATION

The Department believes that the office of Audit's training program provides appropriate training opportunities to all offices. It stated that our figures were misleading because they included 1-day seminars as well as 1- or 2-week training courses. The Department stated also that other factors which were considered when scheduling auditor training were not reflected by the use of statistics. For example, staff employees possess different educational backgrounds, experiences, interests, and

capabilities. The Department believed that further analysis of the training program was not considered necessary.

The number of auditors who attended 1-day seminars, in our opinion, does not make the statistics misleading. For fiscal years 1973-75, only five field auditors attended 1-day seminars. Four of the five auditors were from San Francisco and attended a seminar held in fiscal year 1975. Staff employees' educational background, experience, etc., are factors to be considered in scheduling auditors for training. However, in fiscal year 1975, of the 50 auditors recommended for training by the regional audit managers, only 23 or 46 percent, actually received training. Therefore, it appears that further analysis of the training program is still needed.

RECOMMENDATION

We recommend that the Secretary of Transportation require the Director of Audits to provide training opportunities to all offices by analyzing the training needs of the office in terms of technical as well as general auditing subjects, grade levels, and travel funds required for training.

SUMMARY OF GOVERNMENTAL AUDIT STANDARDS ¹

The audit standards below are intended to be more than the mere codification of current practices tailored to existing audit capabilities. Purposely forward-looking, these standards include some concepts and areas of audit coverage which are still evolving in practice but which are vital to the accountability objectives sought in the audit of governments and of intergovernmental programs. Therefore, the audit standards have been structured so that each of the three elements of audit can be performed separately if this is deemed desirable.

General Standards

1. The full scope of an audit of a governmental program, function, activity, or organization should encompass:
 - a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
 - b. A review of efficiency and economy in the use of resources.
 - c. A review to determine whether desired results are effectively achieved.

In determining the scope for a particular audit, responsible officials should give consideration to the needs of the potential users of the results of that audit.

2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
3. In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.
4. Due professional care is to be used in conducting the audit and in preparing related reports.

¹Excerpts from *Standards for Audit of Governmental Organizations, Programs, Activities & Functions*, Comptroller General of the United States (Washington, D.C., U.S. General Accounting Office, 1972.)

Examination and evaluation standards

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.
3. A review is to be made of compliance with legal and regulatory requirements.
4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with laws and regulations, and to provide for efficient and effective operations.
5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

Reporting standards

1. Written audit reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits. Copies of the reports should be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others responsible or authorized to receive such reports. Copies should also be made available for public inspection.
2. Reports are to be issued on or before the dates specified by law, regulation, or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management and by legislative officials.
3. Each report shall:
 - a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
 - b. Present factual matter accurately, completely and fairly.
 - c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.

- d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.
- e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.
- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
- g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
- h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
- i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.
- j. Clearly explain the scope and objectives of the audit.

... AVAILABLE

- k. State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.
4. Each audit report containing financial reports shall:
 - a. Contain an expression of the auditor's opinion as to whether the information in the financial reports is presented fairly in accordance with generally accepted accounting principles (or with other specified accounting principles applicable to the organization, program, function, or activity audited), applied on a basis consistent with that of the preceding reporting period. If the auditor cannot express an opinion, the reasons therefor should be stated in the audit report.
 - b. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, and material changes in accounting policies and procedures, along with their effect on the financial reports, shall be explained in the audit report.

GENERAL SERVICES ADMINISTRATION
OFFICE OF FEDERAL MANAGEMENT POLICY

FEDERAL MANAGEMENT CIRCULAR

FMC 73-2: Audit of Federal Operations and Programs
by Executive Branch Agencies

September 27, 1973

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

1. Purpose. This circular sets forth policies to be followed in the audit of Federal operations and programs by executive departments and establishments.
2. Supersession. This circular supersedes Office of Management and Budget Circular No. A-73, dated August 4, 1965.
3. Policy intent. The primary objectives of this circular are to promote improved audit practices, to achieve more efficient use of manpower, to improve coordination of audit efforts, and to emphasize the need for early audits of new or substantially changed programs.
4. Applicability and scope. The provisions of this circular are applicable to all executive departments and establishments. The terms "agency" and "Federal agency" throughout this circular are synonymous with the term "departments and establishments" as defined in FMC 73-1.
5. Definitions.
 - a. The term "audit" as used in this circular means a systematic review or appraisal to determine and report on whether:
 - (1) Financial operations are properly conducted;
 - (2) Financial reports are presented fairly;
 - (3) Applicable laws and regulations have been complied with;

(4) Resources are managed and used in an economical and efficient manner; and

(5) Desired results and objectives are being achieved in an effective manner.

The above elements of an audit are most commonly referred to as financial/compliance (items 1, 2, and 3), economy/efficiency (item 4), and program results (item 5). Collectively, they represent the full scope of an audit and provide the greatest benefit to all potential users of Government audits. In developing audit plans, however, the audit scope should be tailored to each specific program according to the circumstances relating to the program, the management needs to be met, and the capacity of the audit facilities.

b. The term "audit standards" refers to those standards set forth in the Standards for Audit of Governmental Organizations, Programs, Activities & Functions issued by the Comptroller General of the United States.

6. Policies and procedures. Agencies are responsible for providing adequate audit coverage of their programs as a constructive 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 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.

a. Organization and staffing. Audit services in Government are an integral part of the management process. Audit services and reports must be responsive to management needs. However, it is important in order to obtain the maximum benefit from this function that agency audit organizations have a sufficient degree of independence in carrying out their responsibilities. To provide an appropriate degree of independence, the audit organization should ordinarily be located outside the program management structure, report

to an agency management level sufficiently high to ensure proper consideration of and action on audit results, and be given reasonable latitude in selecting and carrying out assignments. Adequate and qualified staff should be assigned this important function. The audit of all programs under a single Federal department or agency must be coordinated, and where economies and a more effective audit service will result, especially in large and geographically dispersed programs, the audit operations within a department should be consolidated. It is also important to establish close coordination between audit and such other management review activities as may exist in an agency.

b. Determination of audit priorities. Each agency will establish procedures requiring periodic review of its individual programs and operations to determine the coverage, frequency, and priority of audit required for each. The review will include consideration of the following factors:

- (1) Newness, changed conditions, or sensitivity of the organization, program, activity, or function;
- (2) Its dollar magnitude and duration;
- (3) Extent of Federal participation either in terms of resources or regulatory authority;
- (4) Management needs to be met, as developed in consultation with the responsible program officials;
- (5) Prior audit experience, including the adequacy of the financial management system and controls;
- (6) Timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants;
- (7) Results of other evaluations; e.g., inspections, program reviews, etc.;
- (8) Mandatory requirements of legislation or other congressional recommendations; and
- (9) Availability of audit resources.

c. Cross-servicing arrangements. To conserve manpower, promote efficiency, and minimize the impact of audits on the operations of the organizations subject to audit, each Federal agency will give full consideration to establishing cross-servicing arrangements under which one Federal agency will conduct audits for another--whenever such arrangements are in the best interest of the Federal Government and the organization being audited. This is particularly applicable in the Federal grant-in-aid and contract programs where two or more Federal agencies are frequently responsible for programs in the same organization or in offices located within the same geographical area. Under such circumstances, it will be the primary responsibility of the Federal agency with the predominant financial interest to take the initiative in collaborating with the other appropriate Federal agencies to determine the feasibility of one of the agencies' conducting audits for the others, and to work out mutually agreeable arrangements for carrying out the required audits on the most efficient basis.

d. Reliance on non-Federal audits. In developing audit plans, Federal agencies administering programs in partnership with organizations outside of the Federal Government will consider whether these organizations require periodic audits and whether the organizations have made or arranged for these audits. This consideration is especially necessary for those agencies that administer Federal grant-in-aid programs through State and local governments and which are subject to OMB Circular A-102, Attachment G. Attachment G provides standards for financial management systems of grant-supported activities of State and local governments and requires that such systems provide, at a minimum, for financial/compliance audits at least once every 2 years. Federal agencies will coordinate their audit requirements and approaches with these organizations to the maximum extent possible. The scope of individual Federal audits will give full recognition to the non-Federal audit effort. Reports prepared by non-Federal auditors will be used in lieu of Federal audits if the reports and supporting workpapers are available for review by the Federal agencies, if testing by Federal agencies indicates the audits are performed in accordance with generally accepted auditing standards (including the audit standards issued by the Comptroller General), and if the audits otherwise meet the requirements of the Federal agencies.

e. Audit plans. Based on the considerations set forth in b, c, and d, above, each agency will prepare an audit plan at least annually. At a minimum, such plans will reflect the:

(1) Audit universe (all programs and operations subject to audit);

(2) Programs and operations selected for audit, with priorities and specific reasons for selection;

(3) Audit organization that will conduct the audit;

(4) Audit cycle or frequency, the locations to be audited, and the reasons therefor;

(5) Scope of audit coverage to be provided and the reasons therefor; and

(6) Anticipated benefits to be obtained from the audits.

The plans should be adjusted as necessary to provide for audit coverage of unforeseen priorities.

f. Coordination of audit work. Federal agencies will coordinate and cooperate with each other in developing and carrying out their individual audit plans. Such actions will include continuous liaison; the exchange of audit techniques, objectives, and plans; and the development of audit schedules to minimize the amount of audit effort required. Federal agencies will encourage similar coordination and cooperation among Federal and non-Federal audit staffs where there is a common interest in the programs subject to audit.

g. Reports. Reporting standards are set forth in the Audit Standards for the guidance of Federal agencies. With respect to release of audit reports, each agency will establish policies regarding the release of audit reports outside the agency. Such policies will be in consonance with applicable laws, including the Freedom of Information Act, and, to the maximum extent possible, will provide for the dissemination of such reports in whole or in part to those interested in such information.

h. Agency action on audit reports. Each agency will provide policies for acting on audit recommendations. Timely action on recommendations by responsible management officials is an integral part of the effectiveness of an agency's audit system and has a direct bearing on it. Policies will provide for designating officials responsible for following up on audit recommendations, maintaining a record of the action taken on recommendations and time schedules for responding to and acting on audit recommendations, and submitting periodic reports to agency management on recommendations and action taken.

7. Responsibilities. Federal agencies will review the policies and practices currently followed in the audit of their operations and programs, and will initiate such action as is necessary to comply with the policies set forth in this circular. The head of each Federal agency will designate an official to serve as the agency representative on matters relating to the implementation of this circular. The name of the agency representative should be sent to the General Services Administration (AM), Washington, DC 20405, within 30 days after the receipt of this circular.

8. Reporting requirement. Each Federal agency will submit a report to the General Services Administration (AM), Washington, DC 20405, by December 31, 1973, on the action it has taken to implement the policies set forth in this circular. Specifically, the report will include actions taken on the issuance of policies; plans, and procedures for the guidance of its auditors; determination of audit priorities; new cross-servicing arrangements made; additional reliance on non-Federal audits; development of audit plans; and coordination of audit work between Federal agencies and between Federal and non-Federal audit staffs. Reports will be submitted at 6-month intervals on the additional actions taken until the circular is fully implemented. Copies of agency issuances on the implementation of this circular will be submitted to the Office of Federal Management Policy, General Services Administration, upon request.

9. Inquiries. Further information concerning this circular may be obtained by contacting:

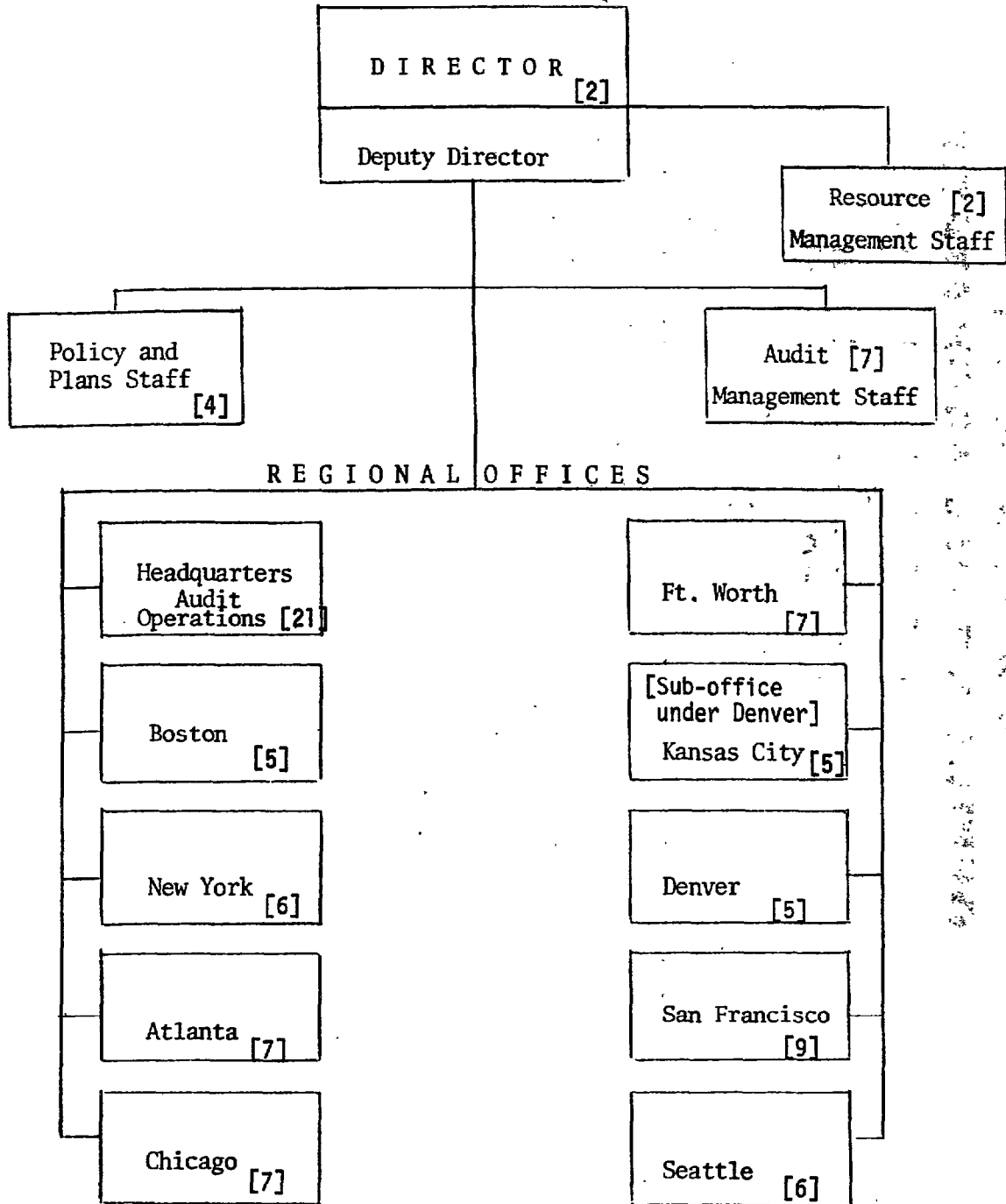
General Services Administration (AMF)
Washington, DC 20405

Telephone: IDS 183-7747
FTS 202-343-7747



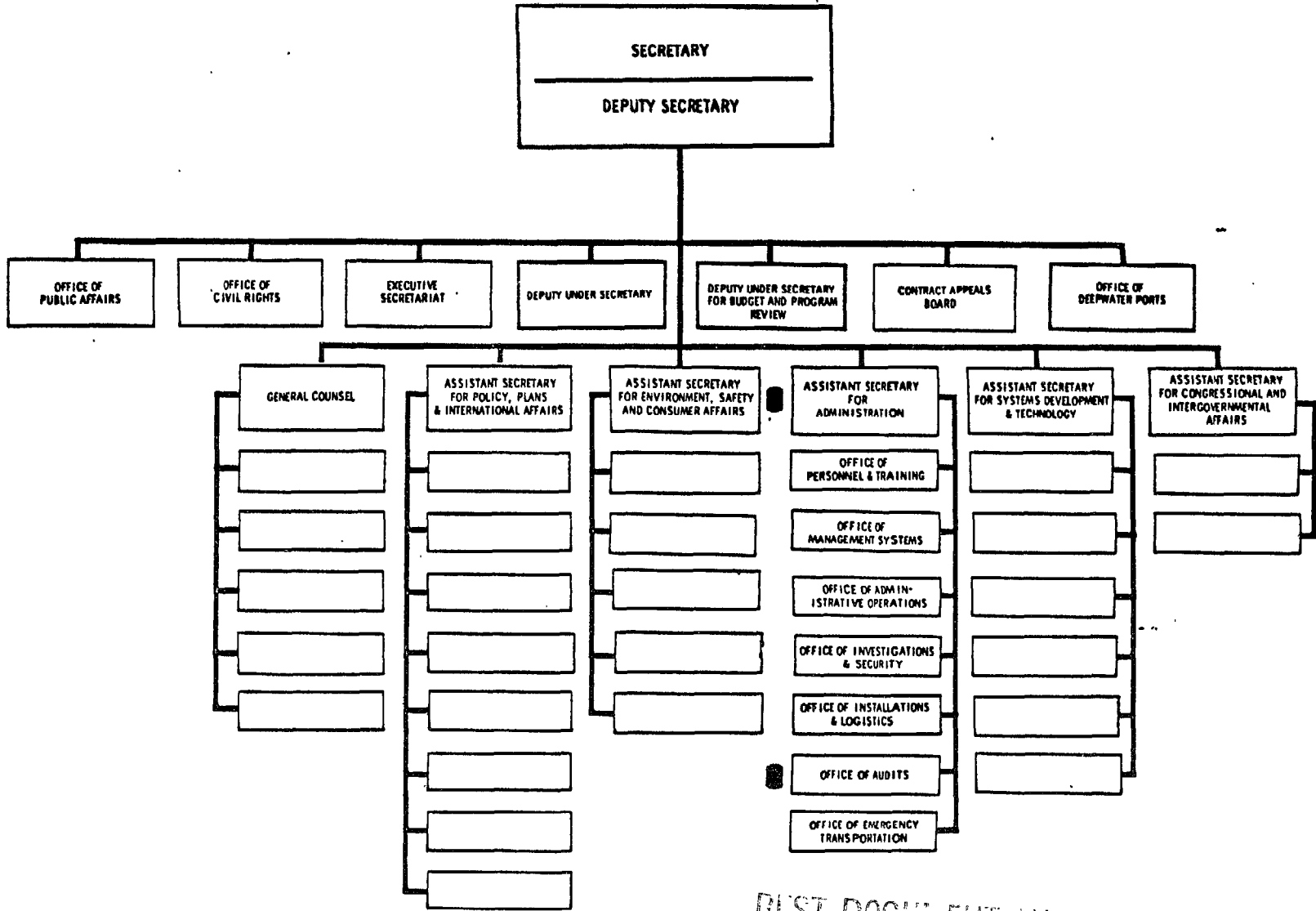
ARTHUR F. SAMPSON
Administrator of General Services

OFFICE OF AUDITS
ORGANIZATION CHART



GAO note: Numbers in brackets refer to the number of staff.

ORGANIZATION CHART
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY



44

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APPENDIX IV

APPENDIX IV



OFFICE OF THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

ASSISTANT SECRETARY
FOR ADMINISTRATION

February 11, 1976

Mr. Henry Eschwege
Director
Resources and Economic Development
Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter dated December 23, 1975, requesting our comments on the General Accounting Office's (GAO) draft report on opportunities for improving the Department of Transportation's internal auditing function. Although there were no adverse conditions resulting from the present mode of operation of the internal audit staff, it is GAO's belief that there are areas where the function can be improved. We agree that, in any organization, there are opportunities for improvements and we welcome innovative ideas which would aid in bringing about improvements.

We agree with the general intent of the GAO recommendations. With respect to action to be taken in the future, the annual audit plan will be signed by the Secretary or the Deputy Secretary, consistent with the intent of DOT Order 2920.1. In addition, we will look into the possibility of using existing specialists, other than accountants, within the Department, and outside consultants may be used if requirements develop.

With respect to the other recommendations, we believe our present methods of operation are effective and generally consistent with the suggestions made by GAO.

I have enclosed herein two copies of the Department's reply.

Sincerely,


William S. Heffelfinger

Enclosure
(two copies)

DEPARTMENT OF TRANSPORTATION REPLYTOGAO DRAFT REPORT OF DECEMBER 23, 1975ONOPPORTUNITIES FOR IMPROVING DEPARTMENT
OF TRANSPORTATION'S INTERNAL AUDITINGSUMMARY OF GAO FINDINGS AND RECOMMENDATIONS1. Audit Independence and Audit Planning

GAO found no impairment of the independence and effectiveness of the internal audit function. However, they do not believe that the planning system insures that all potential audits are appropriately considered.

GAO recommends that the Secretary:

a. Insure that actions responsive to the provisions of GSA's Federal Management Circular (FMC) are proceeding as rapidly as possible.

b. Require the Office of Audits to carefully consider the auditing needs and suggestions of management, and provide the administrations and Office of the Secretary specific explanations for those suggested audits that cannot be scheduled.

c. Insure compliance with the Department's Order 2920.1 concerning approval of the tentative audit plan.

d. Require the Office of Audits to consider the activities of the Department's program evaluation groups when developing its annual audit plans.

2. Supervision of Staff

GAO reported that supervisory review procedures were not always followed on some audits and believes that the Audit Management Staff (AMS) did not make enough visits to audit sites. GAO concludes that, as a result, some of the reports issued did not comply with basic auditing standards because the reports contained some information which was not supported by the working papers.

GAO recommends that steps be taken to insure that supervisory reviews of working papers and reports, including the monitoring responsibilities of the AMS, are performed on audit assignments.

3. Reporting and Follow-Up System

GAO does not believe that the Office of Audits' follow-up system is effective in insuring that management actions promised in response to audit recommendations are actually being implemented and are correcting the problem identified by the audit report. GAO concludes that the Office of Audits has deemphasized the need for follow-up on audit recommendations and no longer has a systematic method of inquiring into the disposition of its recommendations. They also believe that Department management should be informed on the amount of follow-up being performed and the results of the follow-up.

GAO recommends that a follow-up system be implemented to include not only future activities but also previous recommendations that need follow-up attention, and report periodically to Department management on the extent and status of its follow-up activity.

4. Areas Needing Further Study to Improve Effectiveness

a. Staff Allocation

GAO believes there is an imbalance in the audit staff allocation of the Headquarters office as compared to the field offices.

GAO recommends that action be taken to solve the reported imbalance.

b. Making Audit Surveys and Developing Audit Programs

GAO believes there is a possibility of duplication by audit offices in making audit surveys and developing audit programs.

GAO recommends that procedures be adopted to avoid the reported possible duplication of effort.

c. Disciplines in Areas Other than Accountancy

GAO reports that the Office of Audits has not made a formal analysis of its need for disciplines other than accountants/auditors. They believe that technical assistance in such fields as Automatic Data Processing (ADP) and statistical sampling should be valuable on many audits.

GAO recommends that an analysis be made of the Department's programs to determine if future audit performance could be enhanced through use of personnel with expertise in areas other than accountancy.

d. Training Program

GAO reports that the Office of Audits' training program appears to favor staff members in audit offices where travel is not required to attend training courses.

GAO recommends that training needs be analyzed and opportunities provided to all offices.

SUMMARY OF DEPARTMENT OF TRANSPORTATION POSITION1. Audit Independence and Audit Planning

We are pleased and fully agree with the GAO conclusion that the existing organizational alignment of the Office of Audits presents no impairment of the internal audit function. In the future the annual audit plan will be signed by the Secretary or Deputy Secretary, consistent with the intent of DOT Order 2920.1.

While we agree that improvements can be made in refining the audit universe and increasing the documentation for the selection of audits, we believe that appropriate actions have been and are being taken to implement FMC 73-2.

The Office of Audits has and will continue to give careful consideration to the suggestions and needs of management. However, we do not believe it is feasible for the Office of Audits to justify the merits of the specific audits planned to the numerous auditee organizations.

The Office of Audits is considering, to the extent possible, the activities of program review groups in developing the annual plan for FY 1977 and will continue such efforts in the future.

2. Supervision of Staff

We agree that in some instances, supervisory review sheets were not prepared in accordance with our procedures. However, the reviews were made and in most cases the working papers or draft reports were initialed by the supervisors. We believe that audits have been generally in compliance with the auditing standards. Also, although more site visits might have been desirable, we believe that AMS has adequately fulfilled its supervisory review responsibilities, considering its workload and the demonstrated need for field visits.

We do plan to continually monitor and reassess our practices in this area; however, other than assuring that supervisory review sheets are prepared, we do not believe any further action is necessary.

3. Reporting and Follow-Up System

We believe that the Office of Audits does have a systematic method of inquiring into the disposition of audit recommendations. We do not see the need for the Office of Audits to prepare reports

on the extent and status of its follow-up activity. Our system does provide for submitting reports to management when our secondary follow-up reviews indicate significant uncorrected deficiencies. We will continue to evaluate our policy and our system to determine the need for any changes.

4. Areas Needing Further Study to Improve Effectiveness

a. Staff Allocation

We agree that the Headquarters Audit Operations (HAO) is subject to changes due to special requests which cannot be anticipated. We do not believe, however, that there is an imbalance in present staff allocations. As we refine our audit planning and scheduling procedures, the need for adjustments in the work assigned to headquarters will be minimized.

b. Making Audit Surveys and Development Audit Programs

There may be some duplication of effort when field offices perform surveys or prepare audit programs; however, our experience on audits of major program activities has shown that they do develop different problem areas as a result of the surveys. As evidenced by our testing of the "pilot audit" concept, we have and will continue to evaluate our auditing procedures and make improvements as appropriate.

c. Disciplines in Areas Other than Accountancy

As reported by GAO, the Director of Audits advised that he would look into the possibility of using existing specialists, other than accountants/auditors, within the Department to assist on selected audits. Outside consultants may also be used if requirements develop. We do not believe it is necessary to make a formal analysis.

d. Training

We believe that the training program provides appropriate opportunities to all audit offices and considers the needs of the individual auditors as well as the needs of the Office of Audits. Therefore, further analysis of our training needs is not considered necessary.

POSITION STATEMENT1. Audit Independence and Audit Planning

We are pleased and fully agree with the GAO conclusion that the existing organizational alignment of the Office of Audits presents no impairment of the audit function in DOT. Moreover, we are fully confident that this positive condition will continue in the future. We also agree that the annual audit plan should be signed by the Secretary or the Deputy Secretary, consistent with the intent of DOT Order 2920.1.

With respect to the GAO comments on improving the planning process, we believe that appropriate actions have been and are being taken to implement FMC 73-2.

Our audit universe shows all DOT organizations and programs subject to audit and all FY 1975 funding data, both by organizational elements and major program activities. It should be noted that the only definition of an audit universe provided in FMC 73-2 states "all programs and operations subject to audit." While we intend to continue to improve and refine the universe, we believe the results already obtained satisfy the requirements of FMC 73-2.

The files generated during the development of both the FY 1975 and FY 1976 audit plans show that recommendations for audits were evaluated, and generally, documentation does exist as to why audits were or were not selected. We do believe that this documentation can be improved

[See GAO note 1, p. 57]

While we intend to continue to give full consideration to the administrations' recommendations, we do not believe it is feasible for the Office of Audits to engage in a continuing dialogue with its numerous auditee organizations and justify the merits of the specific audits planned. Such a procedure would tend to erode the independence of the audit function by placing constraints on the exercise of independent judgment at a critical point in the operations of the Office of Audits.

We believe that decisions not to audit requested areas because of previous audit activity in the same program areas are valid. Although the requests involved different aspects of the programs, the extent and timing of past audit coverage in a given location or program area is a definite factor in deciding whether to plan further audit activity.

In developing basic information from which to formulate the audit plan for FY 1977, the administrations were requested to provide, in addition to suggestions for areas for audit, information on any planned program evaluations or appraisals. Responses from organizations representing over 80% of the evaluation personnel indicated that due to differences in the timing and format of their planning procedures, effective coordination with our annual plan development would not be possible. While we intend to continue the practice of requesting such information, we believe it is more important and productive to coordinate with these review activities prior to and during the conduct of individual audits.

The Office of Audits agrees that the program evaluation groups should be audited. Program review and evaluation functions are identified in the audit universe, indicating that they are considered to be subject to audit. The Office of Audits tentatively plans to audit one or more of these functions during FY 1977.

The Office of Audits will continue to consider the activities of the Department's program evaluation groups when developing annual plans in the future.

2. Supervision of Staff

The statements in the second and third paragraphs on page 16 of the report are not completely factual. We believe we are complying with basic auditing standards. Our comments on the specific statements are as follows:

Indexing Working Papers to Report

The report states that six of the 10 audit reports reviewed were either not indexed to the supporting documents or the indexing was incomplete. Three of these reports were issued by the Fort Worth Regional Audit Office and three by Headquarters Audit Operations (HAO).

The working papers supporting the reports issued by Fort Worth were cross-referenced to a copy of the draft report and if any changes were made in the final report, the draft report was properly annotated.

The working papers supporting two of the three reports issued by HAO were cross-referenced to the reports.

[See GAO note 2, p. 57]

[See GAO note 1, p. 57]

Supervisory Review of Working Papers

We agree that review sheets were not prepared and included with the working papers for the seven audit reports examined at the HAO and Fort Worth Audit Offices. However, the working papers on five of the reports had been reviewed as evidenced by the initials of the supervisors on either the working papers or the draft report. On the other two, the Acting Regional Audit Manager had reviewed the working papers but did not initial them.

We will document the audit working papers with review sheets as required by our Audit Manual.

Monitoring of Audit by Audit Management Staff

We agree that AMS responsibility includes the performance of on-site reviews. However, this is only one of the means by which AMS monitors the audits in progress. The AMS Project Officers also monitor the audits by reviewing audit programs, progress reports,

audit leads and draft reports. In addition, they maintain continuous contacts with the field offices by telephone and on some audits hold Auditor-In-Charge (AIC) conferences to discuss the audits and resolve any problems. We consider the number of site visits to be dependent on many factors such as complexity of audit, indications of problems as disclosed by review of progress reports, and the results of our frequent telephone contacts.

Although more site visits might have been desirable under ideal circumstances, we believe that AMS has adequately fulfilled its supervisory review responsibilities, considering its workload and the demonstrated need for field visits. However, we do plan to continually monitor and reassess our practices in this most vital area.

3. Reporting and Follow-Up System

We believe that the Office of Audits does have an effective follow-up system as outlined in our Audit Manual. Our comments on the specific instances cited by GAO as a result of its review of the reports issued by the Fort Worth Regional Office and the HAO are as follows:

Fort Worth Audit Office

a. The FAA reply to the observation pertaining to storage of duplicate ADP tapes was inadvertently filed in the report file rather than held for review by the Regional Audit Manager (RAM).

b. The Acting RAM made several calls to the Coast Guard concerning the 90-day response to the audit report before deciding to formally request a reply. Therefore, the statement in the report that "It was nine months before the internal auditors inquired about the overdue response" is incorrect.

Headquarters Audit Operations

a. Report on Budget Formulation. In November 1974, the Director of Planning and Program Review (S-40) replied to our primary follow-up memorandum. He stated that they did not have the resources to establish an elaborate register of Departmental evaluations, appraisals, audits, management reviews and improvement studies. He stated that the Spring Review requirement and the recent McKinsey Process are sufficient for their purposes. When the reply was received, the follow-up file was annotated that the audit is still open pending a review and evaluation of the latter two items. A secondary follow-up will be performed when considered appropriate.

b. Report on Aviation Medical Program. The observation in the Fort Worth audit report was included in the HAO report which includes the FAA Federal Air Surgeon's (FAS) position on the audit recommendations. The commitments made by the FAS will be considered for secondary follow-ups in accordance with the procedures outlined in the Audit Manual.

Responsibility of the Audit Management Staff

The Audit Manual provides that the cognizant Audit Managers are responsible for secondary follow-up. It is not intended that AMS will maintain records on the recommendations which need to be followed-up. As indicated in the GAO report, the Audit Manual provides that the Audit Managers will submit their secondary follow-up plans at least annually to AMS for coordination. The first report will be required to be submitted prior to the preparation of the FY 1977 Audit Schedule.

Man-days on Secondary Follow-Ups

Our overall experience as a result of our previous secondary follow-ups indicated that management generally was satisfactorily implementing the commitments made on the audit recommendations. Therefore, we decided that our previous policy of requiring a secondary follow-up on each audit recommendation about one year after the audit report was issued should be revised, particularly in view of our limited resources and the many new DOT programs to be reviewed. The man-days shown for follow-up reviews may be misleading because our system does not provide for identifying time spent on follow-up which is included in our scheduled audits.

Our system does provide for submitting reports to management when our secondary follow-up reviews indicate significant uncorrected deficiencies. Therefore, we do not believe it is necessary to furnish Department management with a statistical report on the amount of follow-up being performed. However, we will continue to evaluate our policy and our system to determine the need for any changes.

4. Areas Needing Further Study

a. Staff Allocation

We do agree that the HAO is subject to more changes and diversions due to special requests which cannot be anticipated. However, we do not believe that there is an imbalance in present staff allocations. It is expected that adjustments in audits scheduled will be required during the year, for a variety of reasons. Such changes do not mean a staffing imbalance exists, nor can it be concluded on the basis of one year's audit activity that audit coverage in any specific area is not adequate.

We believe that the use of auditors from field staffs, either by temporary or permanent assignment, would not be appropriate because of the adverse impact on the field offices. We believe that as we refine our audit planning and scheduling procedures the need for adjustments in work assigned to Headquarters will be minimized.

b. Making Audit Surveys and Developing Audit Programs

We agree that there may be some duplication of effort in our present procedures wherein each field office performs a survey and prepares an audit program. However, our experience on audits of major program activities has shown that the various field offices do develop different problem areas as a result of their individual surveys. Also, the field offices have been able to reduce the scope of their audits because their surveys indicate that the agency's controls are adequate in certain areas.

As indicated in the report, we are testing the "pilot audit" concept on some audits. We will evaluate the effectiveness of this concept to determine the extent to which we will use it in the future.

c. Disciplines in Areas Other than Accountancy

As reported by GAO, the Director of Audits advised that he would consider the possibility of using existing specialists within the Department to assist as needed on selected audits. Outside consultants may also be used if requirements develop. While we do not believe that our staff is large enough to utilize specialists on a permanent basis, we will explore the possibility of including some personnel with backgrounds other than accountancy. We do not believe it is necessary to make a "formal analysis" to determine whether audit performance can be enhanced through use of personnel with expertise other than accountancy.

d. Training

We believe the Office of Audits' training program provides appropriate training opportunities to all offices and considers the needs of the Office as well as the individual auditors. The figures shown in the GAO report include one-day seminars as well as one or two week training courses. Also, other factors which are considered when making determinations to schedule auditor training are not reflected by the use of statistics. For example, staff members possess different educational backgrounds, experiences, interests and capabilities. These factors, together with the needs of the

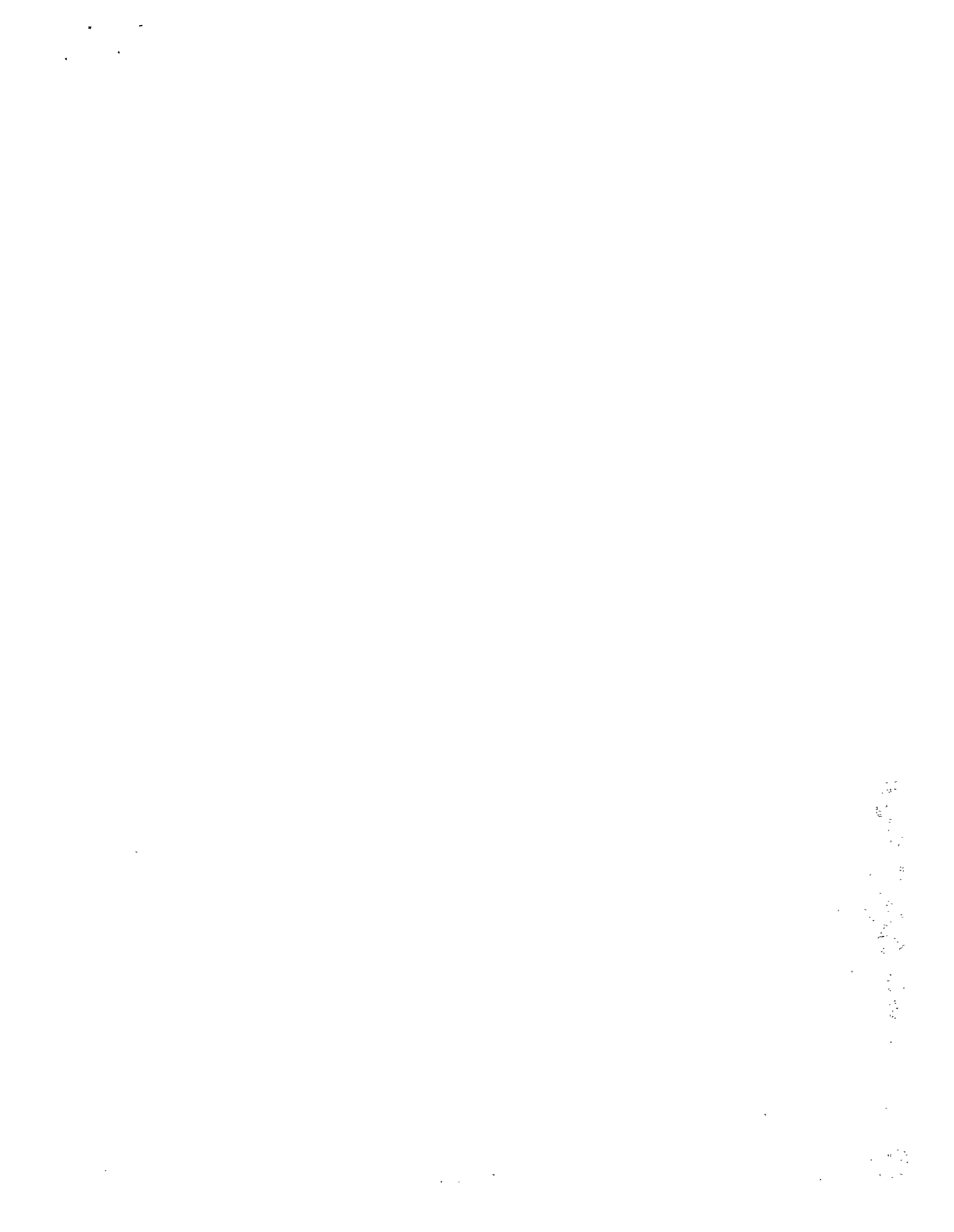
Office of Audits are recognized to assure the most effective determination of training requirements. Further analysis of our training needs is not considered necessary.

William P. Davis
Deputy Assistant Secretary for Administration

1. The deleted comments relate to matters discussed in our draft report but omitted from or modified in this final report.
2. Page references in this appendix refer to our draft report and may not correspond to the pages of the final report.

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF TRANSPORTATION
RESPONSIBLE FOR ADMINISTERING
ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY		
OF TRANSPORTATION:		
William T. Coleman, Jr.	Mar. 1975	Present
John W. Barnum (acting)	Feb. 1975	Mar. 1975
Claude S. Brinegar	Feb. 1973	Feb. 1975
John A. Volpe	Jan. 1969	Feb. 1973
 ASSISTANT SECRETARY FOR		
ADMINISTRATION:		
William S. Heffelfinger	Feb. 1971	Present
 DIRECTOR OF AUDITS:		
Joseph J. Genovese	Oct. 1975	Present
H.E. Sellers	Oct. 1973	Oct. 1975
Nathan Cutler	July 1967	Oct. 1973



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