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

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

AUG 12 1976

B-173582

The Honorable Russell E. Train
Administrator, Environmental Protection
Agency

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Dear Mr. Train:

We have completed our review of the audit activities of the Environmental Protection Agency's (EPA's) Office of Audit. While the Office of Audit is generally operating in compliance with the basic principles and audit standards issued by the Comptroller General, 1/ we are concerned that the scope of EPA's audit coverage is not sufficient and that an audit universe and audit cycle need to be developed.

Our review was made at EPA headquarters in Washington, D.C., and in the Office of Audit's Northern Area Audit Group in Chicago, Illinois, and its Mid-Atlantic Area Audit Group in Washington, D.C.

AUDIT COVERAGE NOT SUFFICIENT

For the most part, EPA's past audits have been financial audits of grantees, primarily grantees under the waste water treatment construction grants program. There have been only a small number of economy and efficiency audits of grantees' activities and audits of EPA's own internal activities. Economy and efficiency audits are aimed at identifying unnecessary or wasteful practices requiring changes in agency policies, practices, and procedures. There have been no program results audits in which program objectives are compared to actual results.

The Program Evaluation Division also reviewed some EPA activities. However, a task force approach was used for such reviews in which personnel from divisions having operational responsibility for the program reviewed were participants on the task force. Such reviews cannot be considered part of the EPA internal audit function because, under the Comptroller General's standards, auditors must be independent of the program being audited.

1/ "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued June 1972.

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During our review, we met with your Assistant Administrator for Planning and Management and with officials of the Office of Audit, to express our concern about the scope of audit coverage. Office of Audit officials generally agreed with us that additional audits need to be made, but they lacked the necessary staff resources. Subsequently, some actions have been taken to help correct the problem. In fiscal year 1976, the Office of Audit received 22 additional permanent audit positions and began contracting with certified public accountants (CPAs) to carry out some of the financial audits of grantees.

Office of Audit officials said that the additional audit resources made available by hiring CPAs and permanent personnel will allow the Office of Audit to make interim or economy and efficiency audits of grantees in the waste water treatment construction grants program. However, grantees under other grant programs and EPA's regional programs will not receive any economy and efficiency audit coverage. In addition, no program results audits will be made on any EPA programs again this year.

We, therefore, are still concerned that the scope of EPA's audit coverage is not sufficient. While the additional audit resources will be helpful, we believe the total audit resources should be used to achieve greater audit coverage through the development of an audit universe and audit cycle plan as prescribed by the Office of Management and Budget (OMB).

NEED TO DEVELOP AN AUDIT UNIVERSE
AND AUDIT CYCLE

OMB is responsible for formulating, prescribing, and assuring compliance with Government-wide policies in such areas as financial management systems, automatic data processing management, and procurement and contracting. Under its Federal Management Circular 73-2, OMB has established policies for audits by executive departments of Federal operations and programs.

The circular requires each agency to prepare an audit plan at least annually showing among other things

- an audit universe (all programs and operations subject to audit);
- programs and operations selected for audit, with priorities and specific reasons for selection;
- scope of audit coverage to be provided and the reasons; and
- audit cycle or frequency.

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Although the Office of Audit does prepare an annual audit plan showing the audits to be made during the year, it has not developed an audit universe nor determined an audit cycle for such a universe.

As a result, EPA management does not have sufficient information on which to judge the adequacy of, or the reasons for the lack of, audit coverage.

The Office of Audit should be required to identify the total audit universe and determine the appropriate audit cycle. This will not only inform top management of those areas which are receiving less than full audit coverage and those areas which are not receiving any audit coverage but also will identify the need for any additional resources. An audit universe and audit cycle properly prepared and used will facilitate preparing annual audit plans.

In the past, the Office of Audit has annually solicited suggested audit areas from regional and headquarters managers. The suggestions have generally formed the basis for the annual audit plans, which have included few provisions for audits of areas selected solely by the Office of Audit.

With the establishment of an audit universe and an audit cycle, the need to solicit audit suggestions from management will be greatly reduced as all programs and activities will be scheduled for audit at appropriate times. This, of course, is contingent on the availability of adequate resources. Also, we recognize that from time to time it may be necessary to deviate from the audit cycle and audit a particular program or activity out of sequence because of an unusual or unexpected event. This, however, should occur infrequently.

RECOMMENDATIONS

We recommend that the Administrator, EPA, require the Office of Audit to identify the total universe requiring audit coverage and that an audit plan be prepared which will establish adequate audit cycles for (1) external audits, both financial and economy and efficiency, and (2) internal audits, including economy and efficiency as well as program results.

The plan should be used as the basis for allocating available resources to assure adequate coverage of all program areas and as the basis for determining and justifying the need for additional audit resources.

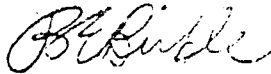
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We shall appreciate receiving your comments on these matters and on any corrective actions you plan to take. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the report.

Copies of this report are being sent to these four committees; the Director, Office of Management and Budget; and your Director, Office of Audit.

Sincerely yours,



for Henry Eschwege
Director

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