

DOCUMENT RESUME

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**[Survey of GSA's Internal Audit Function]. LCD-78-315; B-160759.
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Report to Joel W. Solomon, Administrator, General Services Administration; by Fred J. Shafer, Director, Logistics and Communications Div.

**Issue Area: Internal Auditing Systems: Internal Audit Planning and Coordination (201); Internal Auditing Systems: Sufficiency of Federal Auditors and Coverage (202).
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The operations of the General Services Administration's (GSA's) Office of Audits, which audits both internal agency activities and GSA contracts, were surveyed with an emphasis on planning functions and staffing needs. GSA has not developed explicit criteria for deciding on the size of its audit staff. Instead, the subjective judgment and experience of GSA officials is heavily relied on in requesting and approving or disapproving increases in the size of the audit staff. GSA's internal guidance requires a 5-year audit plan that identifies all areas subject to audit; this 5-year plan is, in effect, the GSA audit universe. The Office of Audits did not consider this plan adequate for establishing priorities or identifying specific audit areas because it was directed toward GSA's organizations and did not sufficiently consider its functions or activities. In addition to compiling an adequate audit universe, other ways to make better use of GSA's existing audit resources include: closer coordination by the Office with GSA program evaluation groups, possible reduction in scope of some audits, and a better method of selecting and documenting the types of audit work performed on each assignment. The Office of Audits should: establish explicit criteria to be followed in deciding on the appropriate size of the GSA audit staff, assure that a current and complete audit universe is used in annual audit planning, and develop closer coordination among management review groups.

(RRS)

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20348

**LOGISTICS AND COMMUNICATIONS
DIVISION**

B-160759

FEB 16 1978

**The Honorable Joel W. Solomon
Administrator of General Services**

Dear Mr. Solomon:

We have surveyed the operations of the General Services Administration's (GSA's) Office of Audits, which audits both internal agency activities and GSA contracts. Particular emphasis was placed on its planning function and staffing needs.

For fiscal year 1977, GSA's Office of Audits was authorized 103 full-time permanent employees and a budget of \$3.2 million. As of September 30, 1977, there were 80 professional auditors and 19 administrative and clerical employees assigned to headquarters and GSA regional offices. In the same year, GSA's total budget was about \$4.1 billion, and it had about 36,000 employees.

During fiscal year 1977, the Office of Audits issued over 300 reports on GSA internal operations and contracts. That number seems impressive, but in relation to GSA's goal of auditing all its programs and operations at least once every 5 years, the Office estimates that the current staff will need 12 years or more to audit essential programs and 20 years to audit all activities.

We recognize that the resource needs of the Office must be weighed against resource needs of other GSA components. However, we believe that an expansion of GSA's audit resources and activities should be considered, and the extent of such expansion should be based on current identification and review of GSA activities subject to audit, and on explicit criteria for determining an appropriate size for the audit staff.

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CRITERIA NEEDED TO DECIDE
SIZE OF AUDIT STAFF

GSA has not developed explicit criteria for deciding on the size of its audit staff. Rather, the subjective judgment and experience of GSA officials is heavily relied on in requesting and approving or disapproving increases in the size of the audit staff.

Two recent attempts to increase the number of audit personnel were not approved. A requested increase of 20 for fiscal year 1977 was disapproved by the Office of Management and Budget (OMB); and a requested increase of 12 for fiscal year 1976 was disapproved by the House Committee on Appropriations.

An Office request for an increase of 25 persons in fiscal year 1979 has recently been approved by GSA and OMB. However, even with such an increase, the Office will still be far below a staffing level that would permit a 5-year cycle for examining all activities subject to audit.

In recent hearings before a Subcommittee of the House Committee on Government Operations, ^{1/} the Subcommittee's counsel said that the presentation to the House Appropriation's Subcommittee for GSA's fiscal year 1978 appropriation did not convincingly show GSA's need for audit resources. He added that it would be impossible to discern from the presentation that the current staff limited the Office to an audit cycle of 12 or more years.

In a recent report to the Congress on Federal audit staffing and coverage, we recommended that OMB develop guidelines to assist agency management in determining the appropriate size for their audit staffs. (An Overview of Federal Internal Audit, FGMSD-76-50, Nov. 29, 1976.) In disagreeing with this recommendation, OMB contended that preparing the plans required by its Federal Management Circular 73-2 would give agency management sufficient information for these determinations. OMB stressed that

^{1/}Hearings of June 13, 1977, on H.R. 2819 before a Subcommittee of the Committee on Government Operations, House of Representatives, 95th Congress, First Session.

"* * * the decision on resource levels and their application must remain with agency management, subject to OMB review, since the requirements for audit must be considered in the context of the total agency's needs and priorities."

We still believe that Government-wide guidelines are needed. However, as indicated by OMB, agency management is responsible for convincing presentations of its audit staff needs. Without a clear description of how the staffing requirements are calculated, reviewing officials--whether in GSA, OMB, or the Congress--are at a disadvantage in deciding the validity of proposed staffing increases.

While the current estimates of at least 12 years for essential programs and 20 years to complete an audit cycle (versus a 5-year cycle) strongly suggest that the present audit staff is too small, we believe that GSA should develop explicit criteria for deciding on and seeking approval of increases to its audit staff.

NEED TO IDENTIFY THE AUDIT UNIVERSE

A starting point in determining the appropriate size for an agency audit staff is to identify what is to be audited and when. OMB requires each Federal agency to prepare an audit plan at least once a year which identifies (1) the audit universe (all programs and operations subject to audit) and (2) the activities selected for audit, including priorities, and specific reasons for selection.

GSA's internal guidance requires a 5-year audit plan that identifies all areas subject to audit. Thus, the 5-year audit plan is, in effect, the audit universe.

We found that the last official audit plan was completed in August 1971 and covered fiscal years 1971-77. It was not updated until fiscal year 1976, when the Office completed a 5-year audit plan for fiscal years 1976-80.

The Office did not consider this plan adequate for establishing priorities or identifying specific audit areas, because it was directed to GSA's organizations and did not sufficiently consider its functions or activities. Nevertheless, this plan, coupled with the judgment of responsible officials, was used for establishing internal audit staffing requirements--including the request for an increase of

25 persons in fiscal year 1979. The use of an inadequate audit plan could be misleading in estimating staff needs.

At the time of our survey, the Office was identifying the total audit universe in GSA and developing a new 5-year audit plan for fiscal years 1978-82, with the intent of keeping it current for realistic short-term planning. However, other priorities such as planning fiscal year 1978 audit work have delayed its completion. We believe the Office should put a high priority on developing and maintaining a current audit universe for use in its annual planning and for deciding on an appropriate staff size.

OTHER ACTIONS COULD IMPROVE
AUDIT EFFECTIVENESS

In addition to compiling an adequate audit universe, there are other ways to make better use of GSA's existing audit resources. Among these are (1) closer coordination by the Office with GSA program evaluation groups; (2) possible reduction in the scope of some audits; and (3) a better method of selecting and documenting the types of audit work performed on each assignment, i.e., financial/compliance, efficiency and economy, and program effectiveness.

Need for closer coordination
with evaluation groups

Various evaluation units exist in GSA. As examples: The Management Systems Division within the Office of Management Services; the Personnel Management Evaluation team within the Office of Personnel; the Planning and Program Division within the Federal Supply Service; the Management Review Division within the Public Buildings Service; and the Planning and Analysis Branch within the National Archives and Records Service.

According to Office officials, internal auditors are required to contact the appropriate evaluation units to review recent work performed in specific areas, before beginning an audit. The Office does not

--routinely coordinate its overall planning with the planning of these evaluation units or

--routinely receive and review reports completed by the evaluation groups.

Knowledge of evaluation units' planned reviews and analyses of their results would permit the Office to systematically consider and, when appropriate, alter its audit plans. Close coordination could reduce the chance of doing the same work twice and lead to more effective use of GSA's total management review and evaluation resources.

Need to identify opportunities
for reduced audit scope

The Office has a three-phased approach for some audits of new areas--a survey at one location, a pilot audit at another location, and a full-scale review at three locations. With this approach, variations in agency practices at different locations can be detected. But effort may be wasted if GSA-wide conditions can be detected by visiting fewer locations. In view of GSA's perceived shortage of auditors, we believe that you should call for a study on the impact of the three-phased approach on staffing requirements.

It would be appropriate to direct the Office to study and report on how often this three-phased approach is used, any attendant benefits, and the staff-days expended. For example, the number of staff-days expended in the second and third phases could be monitored. Such monitoring could identify instances where the same general results may be achieved without going through all phases--thereby saving scarce audit resources.

Need to document the selection of
an appropriate mix of audits

OMB emphasizes to Federal agencies the benefits of requiring that internal audits include the following three elements:

- Financial operations and compliance with applicable laws and regulations.
- Efficiency and economy in the use of resources.
- Achievement of program results.

Individual audits may include one, two, or three of these elements.

The Office does not have a formal system for relating its audits to these three elements. Responsible officials believe that their audits include an appropriate mix of the three elements of audit coverage. However, without a formal system, documentation was not readily available to validate the accuracy of their statements.

In view of such large annual expenditures and diverse operations, we believe GSA's upper management might benefit from a formal system to regularly determine and evaluate the mix of audit types.

RECOMMENDATIONS

We recommend that you direct the Office of Audits, in cooperation with appropriate GSA offices, to

- establish explicit criteria to be followed in deciding on the appropriate size of the GSA audit staff,
- assure that a current and complete audit universe is used in the annual audit planning, and
- improve the effectiveness of existing audit resources by developing closer coordination among the management review groups, reconsidering the three-phased audit approach, and documenting the selection of an appropriate mix of audits.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen of the House Committee on Appropriations, House Committee on Government Operations, Senate Committee on Governmental Affairs, and the Subcommittee on Treasury, Postal Service, and General Government of the Senate Committee on Appropriations. We are also sending copies to the Acting Director, Office of Management and Budget.

B-160759

Please advise us of the actions taken or planned concerning adequate and economical coverage of GSA's programs and operations. Should you desire, we would be pleased to discuss any of these matters with you or your representatives.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "F. J. Shafer", enclosed in a faint, hand-drawn oval.

F. J. Shafer
Director