

GAO

Report to the Chairman, Subcommittee
on Readiness, Committee on Armed
Services, House of Representatives

February 1990

AIR FORCE AUDIT AGENCY

Opportunities to Improve Internal Auditing





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-236992

February 20, 1990

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

At the request of the former Chairman of the Subcommittee on Readiness of the House Armed Services Committee, we have reviewed the effectiveness of the Air Force Audit Agency (AFAA). We based our assessment of AFAA's effectiveness on an evaluation of its resource allocation, use of military and civilian auditors, audit quality, and independence. This is the third¹ in the series of requested reviews of internal audit organizations within the Department of Defense (DOD).

We believe AFAA is generally providing effective audit service to the Department of the Air Force. During fiscal year 1988, AFAA reported potential monetary benefits of \$339 million which might be achieved through implementing audit recommendations, bringing the total potential monetary benefits AFAA has reported during the last 3 fiscal years to \$2.2 billion. This amount represents approximately 17 percent of the monetary benefits reported by the 4 central internal audit organizations in DOD over the past 3-year period. AFAA's recommendations have also led to other improvements without measurable monetary benefits.

Despite significant achievements, we believe AFAA would be capable of greater accomplishments if it changed its method of planning and managing audits. AFAA conducts both broadly scoped audits of major, departmentwide operations, such as Air Force spare parts inventories, and more narrowly scoped audits of installation specific operations, such as a base motor pool. AFAA's approach to planning these audits has been to allocate about one-half of its staff each year to audits of major operations and about one-half to installation specific audits. Generally, audits of major operations achieve more significant results. For example, about 87 percent of potential monetary benefits for fiscal year 1988 are attributed to audits of major operations. These audits have also resulted in significant management improvements, such as improved internal controls, contracting procedures, and financial management systems. We

¹Naval Audit Service: Effectiveness of Navy's Internal Audit Organization Is Limited (GAO/AFMD-88-12, February 24, 1988). Army Audit Agency: Staff Reductions and Audit Quality Issues (GAO/AFMD-89-1, April 21, 1989).

civilians would result in a loss in AFAA productivity and reduced potential monetary benefits. We believe civilian auditors could be phased into the military auditor positions without decreasing productivity or audit benefits.

Background

The purpose of AFAA is to provide objective, constructive evaluations of the effectiveness and efficiency with which Air Force managers carry out responsibilities in financial, operational, and support activities. AFAA is headed by the Air Force Auditor General, a civilian, whose office is located at AFAA headquarters at Norton Air Force Base (AFB), California. The Auditor General reports to the Secretary of the Air Force.

AFAA accomplishes its centrally directed audits through two operating directorates: the Financial and Support Audit Directorate at Norton AFB and the Acquisition and Logistics Audit Directorate at Wright-Patterson AFB, Ohio. Two staff directorates and one line directorate responsible for installation audits are also located at AFAA headquarters. In addition, AFAA has staff at 8 audit regions aligned with Air Force major commands and at 69 area audit offices located at Air Force installations worldwide.

AFAA had a fiscal year 1989 authorized staffing level of 758 civilians and 235 military personnel. The AFAA budget for the fiscal year was approximately \$33 million, with an additional \$13 million for compensation and benefits of military personnel.

Objectives, Scope, and Methodology

Our objectives were to assess AFAA's effectiveness by evaluating its (1) allocation of audit resources, (2) use of military and civilian auditors, (3) audit quality, and (4) independence.

To evaluate AFAA's allocation of resources, we reviewed AFAA's planning process, audit coverage of major commands and budget areas, and reported monetary and other benefits. In addition, we selected Air Force acquisition audits for review from among the various functional areas included in AFAA's audit universe. We focused on the acquisition audits because of recently disclosed improprieties in DOD acquisition practices and the relatively large Air Force acquisition budget. We reviewed all AFAA acquisition audit reports issued during fiscal years 1986 through 1988. Due to the security classifications, we did not review AFAA coverage of the Air Force's most highly classified programs, known as "black programs."

AFB, Arizona; McClellan AFB, California; and Travis AFB, California. Our review was performed in accordance with generally accepted government auditing standards.

Audit Efforts Have Benefited Air Force Operations

AFAA's audit efforts during fiscal year 1988 resulted in reported potential monetary benefits of \$339 million and included recommendations to improve systems of internal controls and other aspects of Air Force operations. The following two examples of AFAA work illustrate some of the contributions AFAA has made to Air Force operations:

- AFAA found that the Air Force had overstated spare engine requirements for inactive aircraft, resulting in the improper retention of 435 aircraft engines. In November 1987, AFAA reported that using these engines to satisfy other valid requirements could save more than \$20 million. Air Force management agreed to consider engines for inactive aircraft in determining future engine requirements.
- AFAA conducts ongoing reviews of the Air Force's accounting systems design efforts to correct long-standing and significant problems in two major accounting systems. In his 1988 annual report required by the Federal Managers' Financial Integrity Act of 1982, the Secretary reported general ledger deficiencies in one of the systems and major accounting weaknesses in the other system which processes transactions for the \$100 billion foreign military sales program.

AFAA Provides Broad Audit Coverage

In our opinion, AFAA appropriately distributed its resources in fiscal year 1988 to provide audit coverage to the 13 Air Force major commands. However, later in this report we discuss opportunities for AFAA to schedule more centrally directed audits which are more likely to have a greater impact on improving the Air Force and its major commands.

We reviewed AFAA's fiscal year 1988 year-end statistics and determined that AFAA devoted approximately 50 percent of its resources to produce audit reports issued directly to the 13 major commands. In addition, coverage of 9 major commands was included in 56 summary reports on centrally directed, Air Force-wide audits issued to the Secretary of the Air Force.

AFAA considered the significance and magnitude of all major budget areas in determining the audit issues to be included in its fiscal year 1988 audit planning. We recognize that a comparison of the Air Force

Centrally directed audits are planned and managed solely by AFAA's two operating directorates—one at Norton AFB and one at Wright-Patterson AFB. Centrally directed audits cover topics which generally have an Air Force- or command-wide interest and result in systemic recommendations to top Air Force management or commanders. In addition, audit reports which contain results of work done at the installation in support of the centrally directed audits are often issued to installation commanders. During fiscal year 1988, AFAA issued 87 summary reports and 677 installation level reports as a result of centrally directed audits.

Once the Auditor General approves AFAA's operating directorates' annual plans for centrally directed audits, each of the area audit offices is told how many staff days will be needed to support these centrally directed audits. Area audit offices then fill the remaining staff days with self-initiated audits of activities at the individual installations.

Although AFAA headquarters provides guidance to area audit offices by identifying general issue areas, installation level audits are planned and executed by the area audit office managers and staff. Some of the installation level audits scheduled by area audit offices actually repeat the audit work done through centrally directed audits which have been completed. The reports issued as a result of these centrally directed audits contain systemic recommendations that will have an Air Force- or command-wide impact.

Installation level audits cover a variety of topics and contain recommendations to the installation commander on actions to be taken locally. Early in fiscal year 1989, the Auditor General asked each area audit office to submit a copy of the most significant installation level audit report issued in fiscal year 1988. We reviewed the reports submitted to the Auditor General and found that they covered subjects such as management of travel funds, vehicle tires and batteries, and government-owned household appliances. During fiscal year 1988, AFAA issued 863 reports to commanders as a result of installation level audits.

Approximately 55 percent of AFAA's staff days in fiscal year 1988 was devoted to centrally directed audits, managed exclusively by the two operating directorates. However, there were a number of proposed centrally directed audits which could not be scheduled and staffed because resources were designated for installation level audits.

Forty-five percent of AFAA's staff days in fiscal year 1988 was used to complete installation level audits, although the percentage of staff days

In our November 1977 report, we recommended the total civilianization of AFAA. At that time, the Assistant Secretary of Defense and the Secretary of the Air Force agreed with our recommendation and proposed a gradual reduction of military officers over a 3- to 4-year period. Subsequent AFAA actions reduced the military staffing from approximately 50 percent to the current level of 25 percent of the auditors.

The total cost of filling positions with military personnel is greater than filling those positions with civilian employees of comparable grade, primarily because military personnel are entitled to greater compensation. We estimate that the Air Force could save about \$2 million annually without any loss of audit expertise if AFAA's military auditor positions were replaced with civilian positions of comparable grade.

The Auditor General believes factors other than cost are important when considering the use of military officers as auditors. The Auditor General informed us that the Air Force believes the continued use of military auditors is important to AFAA because they add to AFAA's credibility when reviewing military programs. In our opinion, the amount of credibility added by military officers is difficult to judge. Other DOD audit organizations and GAO do not use military auditors and yet have credibility when they review military programs.

Improvements Needed in Audit Quality

Government auditing standards state that findings and conclusions in audit reports should be supported by sufficient objective evidence. The standards also require audit reports to be clear and accurate. AFAA Regulation 175-101 states that "Every categorical statement, every figure, every bit of data in the report of audit must be based on hard evidence and be fully supported and documented in the working papers."

We reviewed a sample of 12 summary audit reports and working papers for centrally directed audits for compliance with evidence and reporting standards. Although we identified audit quality problems with 4 reports, we found that 10 of the 12 audit reports generally complied with the evidence and reporting standards.⁴

We identified the following audit quality problems in the four reports:

⁴Although most reports in our sample generally complied with evidence and reporting standards, a Comptroller General decision (B-236940, October 17, 1989) said a recent AFAA audit of the Air Force Stock Fund and the Aviation Fuel Management Accounting System did not have a sufficiently broad audit scope to support some of its conclusions.

draft report has been referenced in accordance with AFAA policy. Furthermore, we believe referencing to original working papers is a stronger quality control than referencing to summary documents because there is less opportunity for error. If the logistics of shipping working papers from audit sites to the operating directorate are too burdensome, other audit quality control measures could be taken. For instance, AFAA could require that the summaries written by auditors at each site, or by the audit manager, be referenced to original working papers before those summaries are used as a basis for drafting a report to top Air Force management.

AFAA Independence

Based on our review of a sample of 12 audit reports and working papers and AFAA's organizational placement, we found that AFAA has operated independently in accordance with generally accepted government auditing standards. As a result of departmental changes in accordance with the Goldwater-Nichols DOD Reorganization Act of 1986, the Auditor General reports directly to the Secretary of the Air Force with no oversight or supervision from other Secretariat offices. We found that AFAA seeks management's input as part of the annual audit planning process, but we did not find that management inappropriately influences AFAA's audit planning or prohibits AFAA from auditing any Air Force programs or activities. Nor did we find that management inappropriately influenced the content of the sample of 12 audit reports we reviewed for audit quality.

However, in the perception of some, including members of the Congress and some civilian auditors in AFAA, AFAA's military auditors are not viewed to be as independent and objective as civilians. We found no evidence in our review of 12 audit reports and working papers to corroborate this perception.

On April 14, 1989, the DOD Office of Inspector General, Assistant Inspector General for Audit Policy and Oversight, reported on an investigation of anonymous allegations made against senior AFAA officials. The allegations centered around (1) suppression of audit findings, recommendations, and audit reports, primarily by senior military auditors, (2) independence and qualifications of military auditors, and (3) various administrative procedures and policies affecting auditor promotion and independence. After the allegations were made, the Air Force and the Auditor General took the initiative and made a number of changes to the administrative procedures and policies affecting auditor promotion and

However, we believe AFAA could improve its overall effectiveness. If AFAA changed its philosophy of devoting one-half of its resources to installation level audits, centrally directed and installation audits could be scheduled based on their relative, individual merits.

AFAA is the only DOD central audit organization which uses permanent military auditors. The Air Force could save about \$2 million annually in personnel compensation costs without any loss in audit expertise if AFAA military auditor positions were replaced with civilian auditor positions of comparable grade.

Although AFAA audit reports and working papers generally comply with audit standards, AFAA audit quality could be improved. In reports where we found audit quality problems, the referencing procedure was not always followed. In addition, AFAA's referencing policy could be improved by requiring referencing to original working papers or, at a minimum, by requiring that summaries be referenced to working papers before being used as a source for writing audit reports.

Recommendations

In order to improve AFAA's planning and scheduling of audits, we recommend that the Secretary of the Air Force direct the Auditor General to plan audits throughout AFAA based on the individual merits of the audits rather than a predetermined allocation of resources between centrally directed and installation level audits.

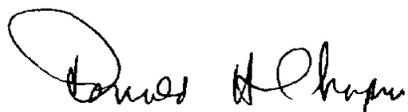
To reduce the costs of AFAA operations, we recommend that the Secretary of the Air Force replace all military auditor positions with civilian positions.

To improve the quality of AFAA audit reports, we recommend that the Secretary of the Air Force direct the Auditor General to

- require that all draft audit reports be referenced to original audit working papers or, at a minimum, to auditors' summaries which have been referenced to original working papers at each site before those summaries are used to prepare final audit reports and
- require that associate directors provide assistant auditors general written confirmation that each draft audit report has been referenced in accordance with AFAA policy.

This report was prepared under the direction of John J. Adair, Director, Audit Oversight and Policy. Other major contributors are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Donald H. Chapin". The signature is written in a cursive style with a large initial "D".

Donald H. Chapin
Assistant Comptroller General

Appendix I
Comments From the Department of Defense

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internal auditing services to all organizational levels--including line and staff managers at major commands and field installations. The Air Force Audit Agency has initiated a study to assist in the prioritization of resources to support both centrally directed and installation audits and develop a mechanism and approach for increasing the level of resources allocated to centrally directed audits. Estimated completion date of the study is June 30, 1990--with full implementation in FY 1992. The results will partially impact audits planned for FY 1991.

The DoD acknowledges the 1977 agreement to implement the GAO recommendation to convert all military auditor positions to civilian positions. The Air Force did not, however, unilaterally decide to retain 25 percent of its auditor authorizations as military positions. Based on former Air Force Secretary Stetson's communications with the Chairmen of the House Government Operations and Appropriations Committees and the Senate Subcommittee on Defense Appropriations during the 1979 appropriation hearing, an agreement was reached to retain annual funding for 25 percent military auditor authorizations in the Air Force Audit Agency.

The relatively modest amount of personnel cost savings that would be achieved by converting military auditor positions to civilian positions would be far more than offset by decreased productivity resulting from the replacement of some 200 experienced military auditors with entry-level civilian auditors that are unfamiliar with Air Force activities. The entire Defense Department is currently undergoing a detailed review of military and civilian manpower requirements to determine where civilians can be used effectively to free up military resources for combat and combat support requirements. All Air Force military positions will be considered during the review, including the Air Force auditor positions.

Since the question of Military Department audit independence is periodically raised, the Department is particularly gratified that the GAO found the Air Force Audit Agency has operated independently, in accordance with Government Auditing Standards, and that management has not inappropriately influenced audit planning or prohibited the Air Force Audit Agency from auditing any Air Force programs or activities. Further, the GAO did not find management inappropriately influenced the content of audit reports, nor did the GAO find evidence to corroborate a perception that military auditors are not as independent and objective as civilians.

The Department is committed to effective internal audit organizations within the Military Departments and continually monitors them through various quality assurance reviews. As a part of that process, the Office of the Inspector General, DoD, will monitor the implementation of agreed-upon actions in response to the recommendations contained in the GAO draft report.

GAO DRAFT REPORT - DATED OCTOBER 31, 1989
(GAO CODE 903102) OSD CASE 8166

"AIR FORCE AUDIT AGENCY: OPPORTUNITIES TO
IMPROVE INTERNAL AUDITING"

DEPARTMENT OF DEFENSE COMMENTS

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FINDINGS

FINDING A: Background: Air Force Audit Agency. The GAO observed that the purpose of the Air Force Audit Agency is to provide objective, constructive evaluations of the effectiveness and efficiency with which Air Force managers carry out responsibilities in financial, operational, and support activities. The GAO explained that the agency accomplishes its centrally directed audits through two operating directorates-- (1) the Financial and Support Audit Directorate located at Norton Air Force Base, California, and (2) the Acquisition and Logistics Audit Directorate located at Wright-Patterson Air Force Base, Ohio. The GAO pointed out that the agency also has two staff directorates and one line directorate responsible for installation audits located at the agency headquarters--along with a staff at eight audit regions aligned with Air Force major commands and 69 area audit offices worldwide.

The GAO noted that the Air Force Audit Agency had a FY 1989 authorized staffing level of 758 civilians and 235 military personnel. According to the GAO, the agency budget for the fiscal year was approximately \$33 million--with an additional \$13 million for compensation and benefits of military personnel.

The GAO also observed that the Air Force Audit Agency audit efforts during FY 1988 resulted in reported potential monetary benefits of \$339 million and included recommendations to improve systems of internal controls and other aspects of Air Force operations.

DOD RESPONSE: Concur. The DoD agrees that the Air Force Audit Agency reported potential monetary benefits of \$339 million in FY 1988 and made recommendations to improve systems of internal controls and other aspects of Air Force operations. The Office of the Inspector General, DoD, reviewed the \$339 million and concluded that \$84 million should not have been claimed as monetary benefits.

FINDING B: Air Force Audit Agency Provides Broad Audit Coverage. The GAO concluded that, in FY 1988, the Air Force Audit Agency appropriately distributed its resources to provide audit coverage to the 13 Air Force major commands. The GAO reviewed the Air Force Audit Agency FY 1988 year-end statistics and determined that the agency devoted approximately 50 percent

Enclosure

DOD RESPONSE: Concur. The DoD agrees that, as a rule, centrally directed audits produce more significant audit results than those addressing local installation issues. The Air Force Audit Agency has initiated a study to assist in prioritization of resources to support both centrally directed and installation audits and develop a mechanism and approach for increasing the level of resources allocated to centrally directed audits. Estimated completion date of the study is June 30, 1990--with full implementation in FY 1992. The results will partially impact audits planned for FY 1991.

FINDING D: Use of Civilian Auditors Would Reduce Costs. The GAO observed that, as of November 1988, the Air Force Audit Agency had 204 military officers serving as auditors--or approximately 25 percent of the total of 792 auditors. The GAO pointed out that DoD Directive 1400.5, DoD Policy for Civilian Personnel, states that civilian employees will be used, as follows:

"...in all positions that do not require military incumbents for reasons of law, training, security, discipline, rotation, or combat readiness, or that do not require a military background for successful performance of the duties involved."

The GAO referred to a November 1977 GAO report (OSD Case 4573-A) in which the GAO recommended total civilianization of the Air Force Audit Agency. According to the GAO, the Assistant Secretary of Defense and the Secretary of the Air Force agreed with the recommendation and proposed a gradual reduction of military officers over a 3- to 4-year period. The GAO pointed out that subsequent audit agency actions reduced the military staffing from approximately 50 percent--to the current level of 25 percent of the total number of auditors.

In addition, the GAO found that the total cost of filling positions with military personnel is greater than filling those positions with civilian employees of comparable grade--primarily because military personnel are entitled to greater compensation. The GAO estimated that the Air Force could save about \$2.0 million annually if the military auditor positions in the Air Force Audit Agency were replaced with civilian positions of comparable grade.

The GAO acknowledged that the Air Force Auditor General believes that factors other than cost are important when considering the use of military officers as auditors. According to the GAO, the Auditor General stated it is the continued position of the Air Force that use of military auditors is important to the agency because the military add to the agency credibility when reviewing military programs. The GAO concluded, however, that the amount of credibility added by military officers is difficult to judge--pointing out other DoD audit organizations and the GAO do not use military auditors and still have generally recognized credibility when they review military programs.

DOD RESPONSE: Concur. The DoD agrees that some amount of personnel cost savings would result from converting military auditor positions to civilian positions. The Department also

DOD RESPONSE: Concur. The DoD agrees that the Air Force Audit Agency Assistant Auditors General should be provided written assurance that referencing has occurred. The DoD also agrees that summaries from each audit site should be cross-referenced to the original working papers. The Air Force Audit Agency will revise its directives to accomplish the above.

FINDING F: Air Force Audit Agency Independence. The GAO found that the Air Force Audit Agency has operated independently, in accordance with generally accepted Government Auditing Standards. The GAO pointed out that the Auditor General of the Air Force reports directly to the Secretary of the Air Force with no oversight or supervision from other Secretariat offices. The GAO found that, while the Air Force Audit Agency seeks management input as part of the annual audit planning process, management does not inappropriately influence audit planning or prohibit auditing any Air Force programs or activities. Further, the GAO pointed out it did not find that management inappropriately influenced the content of the sample of audit reports reviewed for audit quality.

The GAO did acknowledge that, in the perception of some, including certain members of the Congress and some civilian auditors, the agency's military auditors are not viewed as being as independent and objective as the civilian auditors. The GAO indicated, however, that its review disclosed no evidence to corroborate the perception. The GAO further referenced an Inspector General, Department of Defense, investigation of allegations made against senior Air Force Audit Agency officials. According to the GAO, the Inspector General reported that the investigations "did not disclose any conclusive evidence that senior military auditors have suppressed the reporting of results" or that they "had not otherwise performed their audit work in an independent manner."

DOD RESPONSE: Concur. The Air Force Audit Agency has operated independently and in accordance with generally accepted Government Auditing Standards.

* * * * *

RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the Secretary of the Air Force direct the Auditor General to plan audits throughout the Air Force Audit Agency based on the individual merits of the audits--rather than a predetermined allocation of resources between centrally directed and installation level audits.

DOD RESPONSE: Concur. The DoD agrees that centrally directed audits, as a rule, produce more significant audit results than those addressing local installation issues. It is also the position of DoD that as the sole internal audit function for the Air Force, it is essential that the Air Force Audit Agency provide internal auditing services to all organizational levels--including line and staff managers at major commands and field installations. The Air Force Audit Agency has initiated a

guidance was published on November 14, 1989. The estimated completion date for issuing the revisions to the directives is March 31, 1990.

RECOMMENDATION 4: The GAO recommended that the Secretary of the Air Force direct the Auditor General to require that Associate Directors provide Assistant Auditors General written confirmation that each draft audit report has been referenced in accordance with Air Force Audit Agency policy.

DOD RESPONSE: Concur. Air Force Audit Agency directives will be revised to require that Assistant Auditors General are provided written assurance that each draft report has been referenced in accordance with Air Force Audit Agency policy. Interim guidance was published on November 14, 1989. The estimated completion date for issuing the revisions to the directives is March 31, 1990.

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Major Contributors to This Report

**Accounting and
Financial Management
Division, Washington,
D.C.**

Rex Simmons, Assistant Director, Audit Oversight and Policy,
(202)275-9356
H. Vernon Davis, Evaluator-in-Charge
Ann R. Lewis, Evaluator

**Cincinnati Regional
Office**

James E. Fuquay, Regional Assignment Manager
Jimmie D. Leonard, Site Supervisor
Lori A. Williams, Evaluator

**Los Angeles Regional
Office**

Charles E. Payton, Regional Assignment Manager
Phillip Abbinante, Evaluator

study to assist in prioritization of resources to support both centrally directed and installation audits. The study will develop a mechanism and approach to increasing the level of resources allocated to centrally directed audits. Estimated completion date of the study is June 30, 1990 with full implementation in FY 1992. The results will partially impact audits planned for FY 1991.

RECOMMENDATION 2: The GAO recommended that the Secretary of the Air Force replace all military auditor positions with civilian positions.

DOD RESPONSE: Nonconcur. It is the DoD position the relatively modest amount of personnel cost savings that would result from converting military auditor positions to civilian positions would be far more than offset by decreased productivity and reductions in audit identified potential monetary benefits for an extended period of time.

The entire Defense Department is currently undergoing a detailed review of military and civilian manpower requirements to determine where civilians can be used effectively to free up military resources for combat and combat support requirements. All Air Force military positions will be considered during the review, including the Air Force auditor positions.

Of special concern to the DoD is the significant loss of productivity that would result from the loss of some 200 experienced military auditors and their replacement with civilian auditors, primarily at the entry level, who would be unfamiliar with Air Force activities. At the beginning of FY 1978, when the Air Force Audit Agency started converting from a 50/50 civilian military mix to a 75/25 civilian military mix, the Audit Agency was authorized 548 military positions. By the end of FY 1982, the number of military positions was reduced to 256. During the same 5-year period, Air Force Audit Agency production of Air Force and major command level summary reports declined from 98 for FY 1978 to 46 for FY 1982. The DoD would have difficulty competing with the private sector in hiring a large number of experienced auditors in a short period of time; in any event, there is a lack of availability of auditors that have knowledge and experience in Air Force activities and that would not require extensive training before becoming fully productive.

RECOMMENDATION 3: The GAO recommended that the Secretary of the Air Force direct the Auditor General to require that all draft audit reports be referenced to original audit working papers or, at a minimum, to auditors' summaries--which have been referenced to original working papers at each site before those summaries are used to prepare final audit reports.

DOD RESPONSE: Concur. Air Force Audit Agency directives will be revised to require that draft reports be referenced to auditors' summaries from each audit site which, in turn, have also been cross-referenced to the original working papers. Interim

acknowledges that, in 1977, the DoD agreed to implement the GAO recommendation to convert all military auditor positions to civilian. The Air Force did not, however, unilaterally decide to retain 25 percent of its auditor authorizations as military positions. The decision was a cooperative decision based on former Air Force Secretary Stetson's communications with the Chairmen of the House Government Operations and Appropriations Committee and the Senate Subcommittee on Defense Appropriations during 1979 appropriation hearings. The agreement to retain annual funding for 25 percent military auditor authorizations in the Air Force Audit Agency was based on rationale other than cost considerations.

FINDING E: Improvements Needed in Audit Quality. The GAO explained that Government Auditing Standards state that findings and conclusions in audit reports should be supported by sufficient objective evidence. According to the GAO, the standards also require audit reports to be clear and accurate. The GAO pointed out that Air Force Audit Agency Regulation 175-101 states that "Every categorical statement, every figure, every bit of data in the report of audit must be based on hard evidence and be fully supported and documented in the working papers."

The GAO reviewed a sample of 12 summary audit reports and working papers for centrally directed audits for compliance with evidence and reporting standards. The GAO found audit quality problems with four reports--however, the GAO indicated that 10 of the 12 audit reports generally complied with the evidence and reporting standards.

The GAO described Chapter 18 of Air Force Audit Agency Regulation 175-102, which establishes a quality assurance procedure to ensure the accuracy of audit reports. According to the GAO, the procedure, known as referencing, requires an Air Force Audit Agency auditor not associated with the audit to review the draft audit report to verify that "specific statements of fact are supported by documentary evidence."

The GAO found that Air Force auditors do not generally reference draft audit reports to original working papers--instead, they are referenced to summaries of facts prepared by the auditors at each audit site and/or by the audit manager responsible for drafting the final report. The GAO reviewed the summaries at the sites and found instances in which discrepancies between items contained in working papers and items in the auditor's summaries were repeated in the final audit report.

The GAO concluded that, in order to ensure that the referencing procedure is followed on all Air Force Audit Agency draft reports, associate directors responsible for individual audits should furnish written confirmation to the Assistant Auditors General that each draft report has been referenced in accordance with the agency policy. The GAO further concluded that referencing to original working papers is a stronger quality control than referencing to summary documents because there is less opportunity for error.

of its resources to produce audit reports issued directly to the 13 major commands. The GAO also noted that coverage of nine major commands was included in 56 summary reports on centrally directed, Air Force-wide audits issued to the Secretary of the Air Force.

The GAO explained that the Air Force Audit Agency considered the significance and magnitude of all major budget areas in determining the audit issues to be included in its FY 1988 audit planning.

The GAO further found that the agency provided audit coverage to all significant procurement areas and major weapon systems within the Air Force acquisition organization during FY 1986 to FY 1988. The GAO pointed out that, during that 3-year period, the agency issued 164 audit reports on acquisition areas--such as logistics, supply, maintenance, and weapon systems. According to the GAO, the agency addressed a variety of issues, including (1) requirements determination, (2) contracting and contract administration, (3) acquisition management, and (4) pricing. The GAO added that Air Force acquisition officials indicated they were satisfied with the service provided by the Air Force Audit Agency in the area of acquisition audits.

DOD RESPONSE: Concur. The DoD agrees that the issue oriented planning process used by the Air Force Audit Agency effectively identified the more significant Air Force functions and programs for allocating its resources.

FINDING C: More Significant Accomplishments Would Be Possible.

The GAO observed that the Air Force Audit Agency basic operating philosophy is to allocate its staff days evenly between centrally directed audits and installation level audits. According to the GAO, the agency believes that the installation level audits are important to local commanders inasmuch as the Air Force (unlike the Army) does not have an internal review function to provide that service. The GAO pointed out, however, that the philosophy actually becomes a constraint on scheduling centrally directed audits, which the agency generally gives higher priority. The GAO emphasized that, since about half of the agency's resources are committed to installation-level audits, operating directorates are unable to schedule higher priority centrally directed audits.

The GAO concluded that the Air Force Audit Agency would do more centrally directed audits--and its accomplishments could be more significant--if centrally directed and installation-level audits were planned based on the relative merits of each audit proposal. The GAO contrasted that to the current practice of initially allocating half the audit resources to each type of audit. The GAO indicated that annual audit planning decisions could be based on significant factors--such as (1) mission criticality, (2) financial integrity, (3) budget size, and (4) vulnerability of the activity to fraud, waste, and abuse.

Appendix I
Comments From the Department of Defense

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The Department appreciates the constructive and professional manner in which the GAO conducted the review and is pleased with the GAO assessment of the effectiveness of the Air Force Audit Agency. The detailed DoD comments on the GAO findings and recommendations are provided in the enclosure. Thank you for the opportunity to comment on the draft report.

Sincerely,


Susan J. Crawford
Inspector General

Enclosure

Comments From the Department of Defense



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

JAN 12 1990

Mr. Donald H. Chapin
Assistant Comptroller General
Accounting and Financial Management Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Chapin:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "AIR FORCE AUDIT AGENCY: Opportunities to Improve Internal Auditing," dated October 31, 1989 (GAO Code 911634/OSD Case 8166). The DoD concurs with the report findings and recommendations with the exception of the recommendation to convert military auditor positions to civilian positions.

The DoD agrees that:

- The Air Force Audit Agency audits have been generally effective and the Agency has operated independently in accordance with auditing standards.

- The Agency uses an annual planning process which distributes its resources to provide coverage of major commands, budget areas, and initiatives within the Air Force.

- Audits have resulted in substantive changes in Air Force procedures and operations and identified significant potential monetary benefits to be realized through implementation of audit recommendations.

- The Agency could improve its overall effectiveness by changing its philosophy of devoting one-half of its resources to installation-level audits which would result in the scheduling of more centrally directed audits.

- Although Air Force Audit Agency audit reports and working papers generally comply with auditing standards, audit quality could be improved by implementing procedures to ensure referencing reports to working papers.

The DoD also concurs that, as a general rule, centrally directed audits produce more significant audit results than audits addressing local installation issues. It is also the DoD position that, as the sole internal audit function for the Air Force, it is essential that the Air Force Audit Agency provide

Agency Comments and Our Evaluation

We met with officials from the DOD Office of Inspector General and AFAA on November 29, 1989, to obtain DOD's official comments on a draft of this report. DOD agreed to implement our recommendations to improve planning and scheduling of audits and to improve audit quality. However, DOD did not agree to replace all military auditors with civilians.

DOD agrees that personnel cost savings would result from converting military auditor positions to civilian positions. However, based on the assumption that military personnel would be immediately replaced, without phasing in civilians, DOD believes that potential savings would be more than offset over an extended period of time by (1) decreased audit productivity through a loss of experienced military auditors and (2) reductions in potential monetary benefits identified in AFAA audits. The officials acknowledged that the entire DOD is currently undergoing a detailed review of military and civilian manpower requirements to determine where the Department can effectively use civilians and free up military resources for combat and combat support requirements. According to the officials, all Air Force military positions, including those in AFAA, will be considered during the review.

We believe that civilian auditors could be phased into the military auditor positions without decreasing productivity, audit benefits, or expertise. Military auditors are qualified for other Air Force positions, such as comptrollers or finance officers. The military auditors could be moved into these other positions as vacancies occur. Coupled with retirements and separations from the Air Force, this process could be used to phase in civilian auditors without impacting productivity or potential monetary benefits.

We received written agency comments on this report, and they reflect the content of our November 29, 1989, meeting. We have included them as appendix I.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time, we will send copies to the Director of the Office of Management and Budget, the Secretary of Defense, the Secretary of the Air Force, the Auditor General of the Air Force, and interested congressional committees and members of Congress. Copies will also be made available to others upon request.

independence. For instance, the Auditor General deleted contested performance standards that required civilian auditors to work toward or have a professional certification and to indicate a willingness to relocate.

The Assistant Inspector General reported that his investigation “did not disclose any conclusive evidence that senior military auditors had suppressed the reporting of audit results” or that they “had not otherwise performed their audit work in an independent manner.” The Assistant Inspector General did find that various AFAA reporting practices, coupled with poor communication between senior AFAA officials and the staff, led staff members to believe that improper actions were being taken by certain AFAA officials.

The Assistant Inspector General recommended various policy and procedural changes, such as documenting decisions and communicating with audit staff, to eliminate the perception that findings, recommendations, and audit reports were being suppressed. The Assistant Inspector General also recommended changes to AFAA policy which would reduce the possibility of perceived or actual impairments to AFAA independence and strengthen the qualifications requirements for military auditors. For instance, the Assistant Inspector General recommended that the Auditor General (1) ensure that military officers do not perform audit work at units to which they were previously assigned, (2) limit entry-level, military audit positions to officers who have the rank of captain or below and who are not nearing retirement, and (3) develop and use comparable career progression criteria for civilian and military auditors. The Auditor General generally concurred with the Assistant Inspector General’s recommendations. We believe the changes made and those planned in response to the Inspector General’s report will improve AFAA’s personnel policies and practices, if the Air Force does not replace its military auditor positions with civilian auditor positions.

Conclusions

AFAA audits have generally been effective and AFAA has operated independently in accordance with auditing standards. AFAA uses an annual planning process that results in distribution of resources to provide coverage of major commands, budget areas, and initiatives within the Air Force. Audits have resulted in substantive changes in Air Force procedures and operations as well as in the reporting of significant potential monetary benefits to be realized through implementation of audit recommendations.

- Two audit reports did not meet auditing standards for evidence because we found insufficient support in working papers for some key statements. In these two instances, the audit managers responsible for these audits were unable to explain the absence of support in the working papers.
- Three reports contained minor discrepancies between the reports and the respective supporting working papers. These discrepancies generally involved differences in the extent of a problem or deficiency reported by AFAA which did not materially affect the validity of the finding.
- Three reports contained minor presentation errors. For instance, one audit report refers the reader to Schedule B-3; however, there is no Schedule B-3 in the audit report.

Chapter 18 of AFAA Regulation 175-102 establishes a quality assurance procedure to ensure the accuracy of audit reports. This procedure, known as referencing, requires an AFAA auditor not associated with the audit to review the draft audit report to verify that “specific statements of fact are supported by documentary evidence.”

AFAA auditors generally do not reference draft reports to original working papers but rather to summaries of facts prepared by the auditors at each audit site and/or by the audit manager responsible for drafting the final report. AFAA officials told us that reports are referenced to summaries because of the difficulties in shipping original working papers from numerous audit sites to the responsible operating directorate. We found that the summaries are not referenced to working papers at the sites. We found instances in which discrepancies between items contained in working papers and items in the auditors’ summaries were repeated in the final audit report.

One of the two audit reports we judged as not meeting audit standards for evidence was not referenced. The second report was referenced to the audit manager’s summary. Although certain statements in the report were supported in the audit manager’s summary, they were not supported in original working papers. Of the remaining two reports in which we identified audit quality problems, one was not referenced, and the referencing on the other report appears to have been cursory, with no indication that the referencer had verified the accuracy of figures and data, as required.

To help ensure that the referencing procedure is followed on all AFAA draft reports, associate directors responsible for individual audits could furnish written confirmation to the assistant auditors general that each

devoted to installation level audits varied among the area audit offices. For instance, during fiscal year 1988, the area audit office at Vandenberg AFB, California, devoted 91 percent of its staff days to installation level audits, while the audit staff at Hahn Air Base, Germany, devoted only 10 percent of its days to installation level audits.

There are monetary and other benefits to be derived from both centrally directed and installation level audits. Centrally directed audits were the source of \$294.8 million in potential monetary benefits reported in fiscal year 1988, or 87 percent of AFAA's total potential monetary benefits. In addition, centrally directed audits have led to significant management improvements in the Air Force, such as improved internal controls, contracting procedures, and financial management systems.

The remaining potential monetary benefits reported by AFAA in fiscal year 1988, \$44.2 million, were derived from installation level audits. However, 41 of the 69 area audit offices reported no potential monetary benefits from installation level audits in fiscal year 1988, even though these offices generally devoted over one-half of their time to this type of audit. Installation level audits often resulted in improvements to local administrative procedures. During our close-out conference, AFAA officials agreed that installation level audits do not result in the level of potential monetary benefits or Air Force-wide changes that are achieved through centrally directed audits. Currently, AFAA allocates its resources evenly between the two types of audits without knowing whether scarce audit resources are used in the best possible way. AFAA needs criteria for better allocation of these resources and could consider factors such as mission criticality; financial integrity; budget size; payback; and vulnerability of the activity to fraud, waste, and abuse.

Use of Civilian Auditors Would Reduce Costs

While AFAA had been authorized higher fiscal year 1989 staffing levels, as of November 1988, it had 204 military officers, or approximately 25 percent of the total 792 auditors, serving as auditors. However, DOD Directive 1400.5, DOD Policy for Civilian Personnel, states that

“It is the policy of the Department of Defense to use civilian employees in all positions that do not require military incumbents for reasons of law, training, security, discipline, rotation, or combat readiness, or that do not require a military background for successful performance of the duties involved.”

budget and AFAA's resource allocations would give only an approximation of how audit resources should be most effectively used. AFAA officials told us that in determining their audit work, in addition to the Air Force budget, they consider factors such as vulnerability of an area to fraud, waste, and abuse; the work of other evaluation groups; the mission criticality of an activity; and the amount of audit resources available. We agree with AFAA that any one or all of these factors might be justification to adjust resources toward some areas and away from others.

We also found that AFAA had provided audit coverage to all significant procurement areas and major weapons systems within the Air Force acquisition organization during fiscal years 1986-1988. During this 3-year period, AFAA issued 164 audit reports on acquisition areas such as logistics, supply, maintenance, and weapons systems. AFAA addressed a variety of issues, including requirements determination, contracting and contract administration, acquisition management, and pricing. Audit reports covered a number of Air Force systems in various stages of the acquisition process, including the C-5, F-111, F-16, F-15, and C-141 aircraft; the Maverick, Peacekeeper, and Cruise missiles; and different propulsion and radar systems.

Air Force acquisition officials told us they are satisfied with the service provided by AFAA in the area of acquisition audits. These officials added that AFAA's audit topics have been appropriate, audit coverage has been adequate, audit reports have been timely, and audits have had a significant impact on Air Force policy and operations.

More Significant Accomplishments Would Be Possible

AFAA's basic operating philosophy is to allocate its staff days evenly between centrally directed audits and installation level audits. AFAA believes the installation level audits are important to local commanders since the Air Force, unlike the Army, does not have an internal review function to provide this service.³ This philosophy actually becomes a constraint on scheduling centrally directed audits to which AFAA generally gives higher priority. Because about half of AFAA's resources are committed to installation level audits, AFAA's two operating directorates are unable to schedule higher priority, centrally directed audits.

³The Navy abolished its internal review function in April 1989 and left it to the discretion of local commanders whether to devote resources to an internal review function.

In reviewing AFAA's use of civilians and military officers in audit positions, we compared civilian and military personnel costs. Our analysis was based on AFAA's roster of personnel and an Air Force pay and allowance scale for military and civilian personnel.

In reviewing audit quality, we randomly selected a sample of 12 audit reports from the 187 centrally directed audit summary reports issued during fiscal years 1987 and 1988. We concentrated on evaluating the (1) sufficiency of evidence in working papers, (2) accuracy of reporting audit results, (3) development and reporting causes of problems, (4) support for claimed monetary benefits, and (5) clarity, conciseness, and convincingness of audit reports.

The centrally directed audit reports in our sample were issued by 8 of the 10 divisions within AFAA. Audit work in support of these centrally directed audits was performed in 51 of the 69 area audit offices. A total of 87 installation level audit reports were issued as a result of audit work done for our sample audits. We did not review the quality of the installation level audit reports.

We also reviewed DOD, Air Force, and AFAA regulations, policies, procedures, and instructions pertaining to the internal audit function and audit quality. DOD and AFAA directives require compliance with generally accepted government auditing standards, as contained in the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, 1981 revision. The 1988 revision to these standards is applicable to audits conducted after January 1, 1989.

To evaluate AFAA independence, we reviewed the reporting structure between the Auditor General and Air Force management. We also reviewed policy and procedural changes made as a result of the Goldwater-Nichols Department of Defense Reorganization Act of 1986. Finally, as part of our review of the quality of individual audits, we looked for any possible impairments to auditor independence in conducting and reporting on the audits. We were also aware of the DOD Office of Inspector General's ongoing review of alleged impairments to AFAA independence and use of military personnel as auditors. We received several briefings from OIG officials regarding these issues during our review.

We performed our review between May 1988 and October 1989 at AFAA headquarters at Norton AFB, California; the Acquisition and Logistics Directorate at Wright-Patterson AFB, Ohio; and area audit offices at Bergstrom AFB, Texas; Randolph AFB, Texas; Nellis AFB, Nevada; Luke

believe AFAA needs criteria to plan audits based on the relative merits of each audit proposal rather than its current allocation method.

We also estimate that the Air Force could save about \$2 million annually if AFAA's military auditor positions were replaced by civilian positions. The savings are attributable to lower compensation for civilians at comparable grades. The Air Force is the only service currently using military officers as permanent auditors in its central audit organization. The Air Force prefers keeping military auditors to add credibility to their reviews of military programs. However, other DOD audit organizations and GAO do not use military auditors and still have generally recognized credibility when they review military programs. Since the military are assigned as permanent auditors in AFAA and are not required to rotate into other occupations, they do not provide AFAA with expertise that cannot be achieved with a civilian workforce. In 1977, the Air Force agreed to implement our recommendation to convert all military auditor positions to civilian positions, but has only reduced military officers from one-half to one-fourth of the audit staff.²

We reviewed the audit quality of a sample of 12 AFAA summary audit reports and working papers from centrally directed audits and found that 10 of the 12 audit reports generally complied with those government auditing standards we reviewed. We found insufficient evidence in the working papers to support key statements in two reports, which, we therefore conclude, do not meet the standards for evidence. Based on our review of a sample of 12 audit reports and AFAA's organizational placement, we found that AFAA has operated independently in accordance with generally accepted government auditing standards.

We are recommending that the Secretary of the Air Force direct the Auditor General to change AFAA's method of planning audits to consider the relative merits of each audit proposal rather than continue the current method of allocating staff to installation level work. We are also recommending that the Secretary convert all military auditor positions to civilian positions and strengthen audit quality controls for AFAA audits.

DOD agreed with our findings and recommendations, except the recommendation to convert all military auditor positions to civilian positions. DOD believes that the immediate replacement of military auditors with

²The Air Force Audit Agency Can Be Made More Effective (FGMSD 78-4, November 11, 1977).

