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UNITED STATES
GENERAL ACCOUNTING OFFICE

Reporting, Staffing, And Other Changes Would Enhance The Internal Audit Function

Department of Commerce

Generally the Department's Office of Audits has performed its activities satisfactorily; however, greater benefits could be achieved if more personnel were available. Several advantages and disadvantages were noted in the survey approach technique adopted by the Office. Moreover the possibility exists that the independence of the Office could be adversely affected because its placement may permit an official to influence decisions on which findings are to be reported to top management.

In addition, some regional offices were not reviewing the required amount of audit workpapers prepared by independent public accountants, and independent public accountants should have been used to a greater extent.

CED-77-58

JUNE 1, 1977

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

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-160759

The Honorable
The Secretary of Commerce

Dear Madam Secretary:

This report describes how the Office of Audits carries out its audit functions and points out how reporting, staffing, and other changes would enhance those functions.

This report contains recommendations to you on pages 12 and 22. 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 Director, Office of Management and Budget; the Assistant Secretary for Administration and the Director, Office of Audits, Department of Commerce; the Chairman, House Committee on Appropriations; the Chairman, Subcommittee on State, Justice, Commerce, the Judiciary, Senate Committee on Appropriations; the Chairman, Subcommittee on State, Justice, Commerce, and Judiciary, House Committee on Appropriations; the Chairman, House Committee on Government Operations; the Chairman, Senate Committee on Governmental Affairs; the Chairman, Senate Committee on Commerce, Science, and Transportation; and the Chairman, House Committee on Interstate and Foreign Commerce.

Sincerely yours,

Henry Eschwege

Henry Eschwege
Director

GENERAL ACCOUNTING OFFICE
REPORT TO
THE SECRETARY OF COMMERCE

REPORTING, STAFFING, AND OTHER CHANGES WOULD ENHANCE THE INTERNAL AUDIT FUNCTION
Department of Commerce

D I G E S T

The Office of Audits, Department of Commerce, has two functions--an internal audit function, concerned primarily with the operations of departmental organizations and an external audit function concerned primarily with grants and contracts awarded by the Department to public and private organizations.

Generally the Office has performed its audit activities satisfactorily; however, greater benefits could be achieved if more personnel were available. GAO found that

--the average estimated cycle for auditing the Department's programs and activities--once every 12 to 13 years--was unduly long and

--some programs and activities had not been audited since 1967; only selected aspects of many others had been audited in recent years. (See p. 5.)

GAO noted several advantages and disadvantages in the survey approach technique adopted by the Office, under which only a limited amount of detailed examination work was performed to identify weaknesses. They are discussed in detail on pages 7 to 9.

Moreover there is a possibility that the independence of the Office could be adversely affected because of its placement in the organizational structure which, GAO believes, may permit the Assistant Secretary for Administration to influence decisions as to whether audit findings on programs for which he has line management responsibility are included in final reports issued to the Secretary and the Under Secretary. (See p. 9.)

GAO's review showed that some regional offices were not reviewing the required amount of audit workpapers prepared by independent public accountants and that an Office study disclosed that independent public accountants should have been used to a greater extent. (See p. 19.)

CED-77-58

Tear Sheet. Upon removal, the report cover date should be noted hereon.

The Secretary of Commerce should:

--Determine whether staffing level requirements can be met through (1) position realinements within the Office of Audits, (2) an increased use of the studies made by the Office of Program Evaluation and the audits by independent public accountants only to the extent practicable, or (3) a proposal to the Congress for additional staff.

--Direct the Director, Office of Audits, to review a sufficient percentage of the workpapers prepared by independent public accountants.

--Require, to the extent practicable, the use of independent public accountants for audits of grants and contracts awarded by the Office of Minority Business Enterprise. (See pp. 12 and 22.)

Also the Director, Office of Audits should require that, when activities under the jurisdiction of the Assistant Secretary for Administration are audited, the final report not only present findings for which corrective action was taken, planned, or promised but also disclose that other findings were brought to the attention of the Assistant Secretary and, in the opinion of the parties involved, were adequately resolved by the responses received. The report should also state that the evidence supporting these latter matters is available if the Secretary wishes to review it. (See p. 12.)

The Director, Office of Audits, and his staff were given the opportunity to informally comment on the conclusions and recommendations and they generally agreed with the findings except for the one dealing with the independence of the Office. Their comments are mentioned in the various sections of this report. (See pp. 13 and 23.)

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ABBREVIATIONS

ADP	automatic data processing
FMC	Federal Management Circular
GAO	General Accounting Office
OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

The Department of Commerce's activities are conducted by its various constituent agencies--the National Oceanic and Atmospheric Administration, the Maritime Administration, the Economic Development Administration, the Domestic and International Business Administration, the National Fire Prevention and Control Administration, the National Bureau of Standards, the Bureau of the Census, the Bureau of Economic Analysis, the United States Travel Service, the National Technical Information Service, the Patent and Trademark Office, the Office of Minority Business Enterprise, and the Office of Telecommunications.

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 and whether they are doing so economically and efficiently.

2. Complying with applicable laws and regulations.

The standards 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 Federal Management Circular (FMC) 73-2, Audit of Federal Operations and Programs by Executive Branch Agencies, 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 the Office of Management and Budget (OMB) 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 COMMERCE

At one time the Department's larger agencies had their own audit staffs. In September 1967, acting on a recommendation contained in a General Accounting Office report 1/ to the Congress, all audit activities in the Department, except for Maritime Administration staff making subsidy audits, were centralized in the Office of Audits.

The mission of the Office of Audits, which is under the Assistant Secretary for Administration, is to assist departmental management at all levels to achieve effective, efficient, and economical administration of the funds and resources of the Department. In carrying out this mission, the Office performs internal and external audits of departmental programs and activities.

The Department also established the Office of Program Evaluation, under the Assistant Secretary for Administration, to evaluate the effectiveness of the Department's programs in meeting objectives established through legislation and other appropriate authority. The Office of Program Evaluation and the Office of Audits are coordinating their activities.

Internal audit

The Department's internal audit function is concerned primarily with operations of departmental organizations. Its chief purpose is to furnish management with objective appraisals concerning the programs and functions for which management is responsible. Such appraisals focus attention on conditions related to the economy, efficiency, and effectiveness of programs and activities. Internal audits are carried out on a cyclical basis by three internal audit divisions, with each division responsible

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1/Review and Appraisal of Efficiency and Effectiveness of Audit Activities, Department of Commerce (B-160759, July 12, 1967).

for auditing certain departmental organizations. The 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.

3. Reviews to determine whether desired results are effectively achieved.

The scope of any individual audit may include one, two, or all three of these areas.

External audit

The external audit function is concerned primarily with the operations of public and private organizations which receive funds from the Department. The purpose of the external audits is to assist those responsible for departmental procurement, grant, loan, and subsidy operations in achieving prudent financial management. These organizations are provided with accounting and financial advice for negotiating, awarding, administering, repricing and settling contracts, grants, loans, and subsidies. In conducting external audits, documentation in support of claims, costs, cost proposals, and cost pricing data is audited at the contractor's site. Depending on the needs of contracting officers or program officials, the audit also may include examination of other than financial aspects of an organization which receives funds from the Department.

In addition to external audits performed by its own staff, the Office arranges for external audits to be performed by other Federal agencies, State and local audit agencies, and independent public accountants. The Office provides the recipients of the audit services with appropriate comments based on its analyses of the audit results.

Staffing levels

As of April 1976, the Office had a staff of 83 professional auditors--3 on the Director's staff. 4 on the Program Planning and Review staff, 4 on the External Audit Policy staff, 28 in 3 divisions performing internal audits, and 44 in 6 regional offices performing external audits.

Reports issued

The following table shows the number of audit reports issued by the Office.

Fiscal year	Internal	External
1974	58	473
1975	65	697
1976 (6/30)	52	515

In addition, other governmental agencies and independent public accountants under the direction of the Office issued 438, 604, and 505 reports in fiscal years 1974, 1975, and 1976, respectively.

SCOPE OF REVIEW

We made our review at the Office of Audits headquarters in Washington, D.C., at the Office of Internal Audit Division I in Rockville, Maryland, and at the Mid-Atlantic Regional Office in Washington, D.C. We conducted a review also at the Office of Financial Management of the Maritime Administration, in Washington, D.C., and in the Maritime Administration's Eastern Region Office, New York, New York.

We reviewed the organization and operations of the Office of Audits and the audit activities conducted by the Office of Financial Management of the Maritime Administration in relation to the Comptroller General's "Standards for Audit of Government Organizations, Programs, Activities and Functions," and the requirements of FMC 73-2. We reviewed audit guidelines, workpapers, audit reports and memoranda and interviewed officials of the Office of Audits and the Office of Financial Management to obtain information on their audit responsibilities and activities. We also interviewed officials of various agencies in the Department with regard to certain functions they perform that serve to complement audits made by the Office of Audits.

CHAPTER 2

GREATER BENEFITS FROM INTERNAL AUDIT COULD BE ACHIEVED

Generally the Office of Audits has performed its audit activities satisfactorily; however, greater benefits could be achieved if more personnel were available. We found that

--the average estimated cycle for auditing the Department's programs and activities--once every 12 to 13 years--was unduly long and

--some programs and activities had not been audited since 1967; only selected aspects of many other programs and activities had been audited in recent years.

We noted several advantages and disadvantages in the survey approach technique adopted by the Office under which only a limited amount of detailed examination work was performed to identify weaknesses.

Moreover there is a possibility that the independence of the Office could be adversely affected because of its placement in the organizational structure. The Office's organizational placement may, in our opinion, permit the Assistant Secretary for Administration to influence decisions as to whether audit findings on programs and activities for which he has line management responsibilities are included in final reports issued to the Secretary and the Under Secretary.

PROGRAMS NOT AUDITED ON A TIMELY BASIS

It is the Department's policy to audit all programs and activities, to the extent manpower is available, once every 5 years. The Office of Audits falls far short of achieving this objective.

The Office has calculated that it will take its staff of 28, currently assigned to internal audits, 12 to 13 years to audit all programs and activities once.

There were 424 programs and activities in the fiscal year 1976 universe. An Office of Audits official told us that some of the programs and activities had never been audited since the 1967 centralization of the audit functions. Because of the manner in which the records were maintained, we were unable to readily determine the specific unaudited programs and activities.

The Office official told us that only selected aspects of many other programs and activities had been audited in recent years. Examples of some of these programs and activities and the amount budgeted for fiscal year 1976 are (1) the National Oceanic and Atmospheric Administration's Nautical Chart Service-$10.6 million, (2) Basic Observations under Basic Environmental Services--$59.4 million, (3) Public Weather Services--$48.5 million and (4) the Office of Minority Business Enterprise, Program Development and Technical Support and Executive Direction and Support--$19.1 million.

The exceptionally long average time span between audits of programs and activities and the fact that some of the Department's programs and activities have never been audited or have been only partially audited limits the Office's ability to assist departmental management in achieving efficient and economical administration of the funds and resources of the Department. This situation appears to stem from a lack of sufficient personnel available to perform internal audits.

The apparent shortage of auditing personnel pertains only to internal audits. The Deputy Director, Office of Audits, believes that the staff of 44 assigned to external audit work, together with the external audits conducted by other governmental agencies and independent public accountants is adequate to meet departmental needs.

Even though the Office considers that it is insufficiently staffed, it made no request for additional funds in fiscal years 1974 through 1977 because of budget constraints imposed by the Department. The Congress was, therefore, not made aware of the shortage of audit personnel.

On page 17 we discuss the recent establishment of the Office of Program Evaluation to conduct special studies to evaluate the effectiveness of departmental programs in meeting legislative or other objectives. At the time of our review, this office was just getting organized but was cooperating with the Office of Audits on matters of mutual interest. Also, on page 20, we discuss the need for the Office of Audits to make greater use of independent public accountants to alleviate some of the responsibility of the external audit group for directly performing these audits. In our opinion, a reduction of internal audits' long audit cycle could be achieved if (1) the Office of Audits made appropriate use of studies of the Office of Program Evaluation and (2) any external audit staff becoming available as a result of the greater use of independent public accountants was used in conducting internal audits.

Conclusion

We believe that the average time span between audits of programs and activities--12 to 13 years--is unreasonably long. Furthermore, management's needs for an independent review to determine how well its programs and activities are functioning are not being served when some programs have never been audited since 1967 and others have been audited on a limited basis.

USE OF SURVEY APPROACH TECHNIQUE WHEN STAFF IS SMALL HAS ADVANTAGES AND DISADVANTAGES

The Office of Audits increased the number of internal audits it performed by eliminating, to the extent possible, detailed examination audit work.

This was accomplished by employing what it refers to as the "survey approach technique." Under this technique, any potential findings that have been indentified, after the completion of only a limited amount of examination work, are immediately brought to the attention of agency officials. If these officials concur in the findings, the Office prepares its report without further examination work. If no agreement is reached, the Office determines how much additional work is needed to support its position. The Office has labeled these audits as survey-approach-type audits, and generally all of its internal audits are of this type.

Another aspect of the survey approach technique is the limitation placed on staff-days programed for each audit. For fiscal year 1977 the limitation is 200 staff-days for each audit. The 200-staff-day limit may be increased when justified and approved by the Director.

The survey approach technique and the placing of constraints on the number of staff-days spent on each internal audit assignment by a staff of only 28 auditors has some advantages and disadvantages.

The advantages include:

--Producing more reports and therefore serving a wider spectrum of management than would result if more time were spent on each assignment.

--Focusing attention on areas most likely to produce reports on major areas of weakness.

--Discontinuing assignments with marginal return.

--Providing staff members with a greater variety of experience and promoting staff morale.

The disadvantages include:

--The economy or efficiency of a complete program or activity is seldom determined. We recognize, however, that an agency with a limited audit staff may, as a practical matter, have to resort to using this technique.

--Audits to determine whether a program is achieving its desired results are, in our opinion, generally complex and require considerable amounts of audit work. Program results cannot be measured by auditing selected aspects of a program. Limiting the amount of time spent on each assignment under a survey-approach-type audit does not allow enough time to perform indepth reviews and reach conclusions on overall program effectiveness.

For example, the Office issued a report in February 1973 on its audit of the National Sea Grant Program, National Oceanic and Atmospheric Administration, which it considers to be a report on an evaluation of the program. The report discusses how the Office of Sea Grant manages the grant program and is mainly concerned with coordinating proposals to carry out program activities, administering program procedures for evaluating program accomplishments, and financial aspects of the program. Our analysis of the audit showed that little was done to measure the program's effectiveness; rather, it evaluated selected aspects of the program to determine whether the program was being carried out economically and efficiently. In our opinion, the report does not present an analysis of the effectiveness of the program's objectives set forth in the legislation or an evaluation of how effective the grants are in solving the problems for which the grants were made.

Office officials told us that, although their report did not independently evaluate the program's effectiveness, it did indicate that little was done by program managers to measure the program's effectiveness.

Conclusion

The survey approach technique enables the Office of Audits to make effective and efficient use of its limited resources in conducting financial audits and reviews to determine the efficiency and economy in the use of resources. But the technique has some disadvantages. These disadvantages, in our opinion, relate primarily to reviews to determine whether entire programs and activities are being operated economically and efficiently and whether desired program results are being effectively achieved.

ORGANIZATIONAL PLACEMENT MAY ADVERSELY AFFECT OFFICE OF AUDITS' INDEPENDENCE

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. In addition to staff function responsibilities, the Assistant Secretary's other responsibilities include conducting a centralized procurement function, providing central publications, printing and related services for organizations of the Department, and providing administrative management services to operating units of the Department.

We proposed in our 1967 report to the Congress that the Office be responsible to the highest authority practicable, preferably to the Secretary or the Under Secretary rather than to the Assistant Secretary for Administration. The Department took the position that the Office should continue to report to the Assistant Secretary for Administration but that it should transmit a copy of each internal audit report directly to the Secretary or the Under Secretary.

The sending of reports to these officials has not, however, fully resolved the matter. The Office of Audits' independence may be impaired in that it must audit activities for which the Assistant Secretary has line management responsibility and in certain circumstances obtain the Assistant Secretary's input on proposed reports before the reports are formalized and copies are sent to the Secretary and the Under Secretary. We believe that this organization structure has the potential of affecting the findings in a final report.

In accordance with this procedure, Office of Audits officials, in November 1975, met with the Acting Assistant Secretary to discuss five audit findings developed during the review of automatic data processing (ADP) operations. These ADP operations were under the Assistant Secretary for Administation.

The Acting Assistant Secretary took an opposing position on two of the findings. Later the findings were not included in the final report and thus were not brought to the attention of the Secretary or the Under Secretary for their review and consideration.

Information on the two findings not included in the final report follows.

In the first finding, the Office questioned the effectiveness of internal controls when the ADP Operations Division submitted proposals for ADP procurement and feasibility studies to the ADP Management Division for its review and approval. These Divisions were under the Office of Organization and Management Systems. The Office of Audits expressed concern that the location of both divisions under the direction and supervision of the Office of Organization and Management Systems gave the appearance of a lack of independent review of ADP procurement proposals. The Office of Audits recommended that consideration be given to transferring the ADP Operations Division to an office not having responsibility for reviewing and approving proposed ADP acquisitions.

The Acting Assistant Secretary explained that the ADP Operations Division functions were previously conducted by various departmental organizations and that these functions were consolidated under the Office of Organization and Management Systems to provide the Department with better services. Consequently, he considered placing the ADP Operations Division under another departmental organization to be inadvisible.

The Acting Assistant Secretary thought the potential weakness in internal control in the handling of feasibility studies from the ADP Operations Division was not a weakness since such studies were reviewed as closely as others and perhaps more stringently due to the close working association of the Office of Organization and Management Systems with the Assistant Secretary for Administration.

The Deputy Director, Office of Audits, deleted the finding on the appearance of a lack of independent review of ADP procurement proposals and the potential weakness in internal controls because he believed that the Acting Assistant Secretary's explanation of the reasons for the existing organizational alinement and his involvement in reviewing ADP procurement proposals provided a valid rationale for the organizational alinement and reasonable assurance of controls for reviewing and approving ADP procurement proposals.

In addition, the Deputy Director said that no example of adverse effect could be demonstrated from the time the Office of Organization and Management Systems organizational structure was instituted, which further supported the Acting Assistant Secretary's rationale. He said also that, although he agreed with the principle of our finding that the independence and objectivity of internal audit functions may be impaired when an agency official had both audit and operating responsibilities, he did not believe that the independence and objectivity of the Office of Audits was, in fact, impaired in this instance.

In the second finding, the Office of Audits noted that the Department's Administrative Order 201-4, dated May 28, 1968, which excluded consideration of the private sector for acquiring ADP related services, was contrary to FMC 74-5, dated July 30, 1974, which specifically provided that the private sector be considered for such services.

The Acting Assistant Secretary told the Office of Audits that OMB Circular A-76 permitted an agency head to exempt certain areas at his discretion from reliance on the private sector for services. He stated further that a departmental official was working with the General Services Administration to determine whether the Department's acquisition of ADP services could qualify as an exemption under Circular A-76.

We were subsequently informed by an official of the Office of Audits that, in accordance with a Presidential directive aimed at improving the general management of the

Government, the Department was reviewing its ADP activities to ascertain potential areas suitable for contracting out to the private sector.

Under the present organization of the Department, the Assistant Secretary has a dual role, being responsible for the reviews which the Office of Audits conducts and determining whether the Office of Audits has uncovered a matter requiring corrective action or reporting to the Secretary and the Under Secretary in an area over which he exercises line management responsibility.

Conclusion

We believe the independence and objectivity of the internal audit functions may be impaired when an agency official has both audit and operating responsibilities. We believe that, in the interest of independence and full disclosure, the final report to the Secretary and the Under Secretary should have disclosed that two other findings, in addition to the three findings presented, were brought to the attention of the acting Assistant Secretary which were subsequently dropped because, in the opinion of the parties involved, adequate support had been provided.

RECOMMENDATIONS

We recommend that the Secretary of Commerce determine whether staffing level requirements can be met through (1) position realinements within the Office of Audits, (2) an increased use of the studies made by the Office of Program Evaluation and the audits by independent public accountants only to the extent practicable, or (3) a proposal to the Congress for additional staff. In view of the disadvantages, cited in this chapter, in using the survey approach technique, an increase in the number of staff assigned to perform internal audits appears to be essential if the Office of Audits is to perform reviews whose purpose is to evaluate the economy and efficiency of entire programs and activities and program effectiveness.

We recommend that the Director, Office of Audits require that, when activities under the jurisdiction of the Assistant Secretary for Administration are audited, the final report not only present findings for which corrective action was taken, planned, or promised but also disclose that other findings were brought to the attention of the Assistant Secretary and, in the opinion of the parties involved, were adequately resolved by

the responses received. The report should also state that the evidence supporting these latter matters is available should the Secretary wish to review it.

We gave the Director, Office of Audits, and his staff the opportunity to present oral comments on the findings contained in this chapter. They disagreed with our recommendation dealing with the independence of the Office principally because they felt the honesty and integrity of the auditor would be questioned. We are not questioning the auditor's honesty and integrity, but, so that top management is completely informed, we believe the report should point out that there were other findings in which differences were noted and were subsequently resolved.

CHAPTER 3

AUDIT WORK IS ADEQUATELY PLANNED

Within the constraints imposed by its limited manpower resources which affect the number and frequency of audits of programs and activities, the Office of Audits' planning for its internal and external audits is, in our opinion, systematic and effective.

Starting with a documented universe of all programs and activities subject to internal audit, the Office of Audits develops an audit plan of activities to be audited during the year. Activities are selected for audit in accordance with certain priorities including the need to be responsive to management. The Office of Audits' efforts are coordinated with those of the Office of Program Evaluation and use is made of studies prepared by program evaluation groups within the various departmental organizations.

Audit planning for external audits is based on a universe of grants and contracts that meet the Office of Audits' criteria of being subject to audit. The audit of the contracts and grants may be conducted by the Office of Audits' auditors; by auditors of other Federal agencies and State and local agencies; or by independent public accountants.

INTERNAL AUDITS

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

The Office of Audits prepares a listing annually, based on the Department's budget of all programs and activities that are subject to internal audit. The list shows for each activity the funding, the personnel strength, when an audit was last made by the Office of Audits and by GAO, and an estimate of the staff-days required for an audit. There were 424 possible programs and activities to be audited in the fiscal year 1976 audit universe.

Our review showed that the internal audit universe developed by the Office of Audits contained enough information to serve as a basis for planning which audits to perform.

Basis for selecting programs and activities to be audited and for assigning priorities are satisfactory

FMC 73-2 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 OMB, 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 Office of Audits' audit plans for fiscal year 1975 and 1976 listed the assignments to be undertaken, described briefly the areas to be reviewed, and the reasons for their selection. Among the reasons for selection were (1) congressional interest, (2) the program was new, (3) the program had undergone a major change, and (4) the program had not been previously audited. Except for the subsidy programs of the Maritime Administration, there are no mandatory legal requirements that any of the Department's programs, activities, or funds be audited by the Department. Each activity included in the audit plan was assigned a letter, according to the following priorities.

A--Congressional or secretarial interest.

B--Major programs or missions.

C--Special requests.

D--Recurring audits, i.e., imprest funds.

E--Other activities of importance to the Commerce mission.

According to the audit plan for fiscal year 1976, 46 internal audit assignments were scheduled. Of this number, 14 involved agency requests for reviews of major programs and missions and 13 involved agency requests for reviews of miscellaneous activities. Five audits were Department-wide reviews.

Our review showed that the factors considered in selecting audits and in assigning priorities were adequately documented. The programs and activities covered were, in our opinion, diversified and responsive to management's needs.

Views of departmental organization officials are considered in the planning of audits

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."

Before the preparation of each year's audit plan the Office of Audits holds meetings with top officials of departmental organizations to discuss areas that may warrant auditing. After considering the suggestions, the priority of auditing other areas, and staff resources, the Office of Audits prepares a tentative audit plan. The plan, along with a request for additional suggestions which, in the opinion of the official, may require a higher priority of review, is forwarded by the Assistant Secretary for Administration to knowledgeable departmental organization officials. After these suggestions are reviewed and evaluated, a final audit plan is submitted to the Assistant Secretary for Administration for his approval.

The Office of Audits has satisfactory procedures for insuring that the views of departmental organization officials are considered in the planning of audits.

Audits are coordinated with program evaluation groups

The OMB circular states that it is important to establish close coordination between the audit activity and other management review activities--e.g., program evaluation--in an agency.

The Office of Program Evaluation was recently established to conduct special studies to evaluate the effectiveness of departmental programs in meeting objectives established through legislation or other appropriate authority. At the time of our review, that Office was just getting organized but was cooperating with the Office of Audits on matters of mutual interest.

Several of the departmental organizations have program evaluation groups that review their programs. There are about 24 professional employees with an annual budget of $951,000 in the Department that perform program-type evaluations. These groups are subject to audit by the Office of Audits, although they have not been audited.

The activities of the program evaluation groups in the Department's constituent agencies are oriented toward performing studies of specific problems for management rather than toward evaluating programs to determine if they were achieving the purposes for which they have been authorized. Some of these groups involve personnel taken from their regular assignments to perform a particular study and then return to their normal duties when the study is completed.

The program evaluation groups may be represented at the annual meetings the Office of Audits holds with program management officials to discuss potential areas for audit. The Office reviews and evaluates the studies and reports made by these groups that pertain to an area planned for audit. When appropriate, the Office conditions its audit objectives on the basis of the information developed by the program evaluation groups.

Our review showed that the Office coordinated its efforts with those of program evaluation groups that conducted studies and analyses of programs within departmental organizations.

EXTERNAL AUDITS

It is the Department's policy to audit--to the extent resources are available for such purposes--documentation in support of selected contracts, grants, subsidies, or loans, and other financial agreements entered into or proposed by all Department bureaus and offices. These audits are carried out by the Office of Audits or, on a reimbursable or other basis, by other Federal agencies,

State and local agencies, or by independent public accountants under arrangements made by the Office of Audits.

Each of the Office of Audits' six regional offices prepares an annual inventory of its external audit work load. The July 1, 1975, workload consisted of known contracts and grants, excluding those below specified dollar thresholds, and estimates of anticipated requirements related to terminations, new contracts, and forward pricing proposals. Each regional office is responsible for preparing its own inventory. Department program managers and procurement personnel are responsible for providing the Office of Audits with copies of contracts and grants that are subject to audit.

Funding plans and published lists provide regional managers with an independent source for verifying that they have received all contracts and grants they should have. Furthermore, the Office of Audits had assigned a liaison auditor to the Department's Office of Administrative Services and Procurement to make sure copies of all contracts subject to audit are forwarded to the appropriate regional office.

Each regional office prepared a detailed audit plan and a summary audit plan for the year based on the July 1, 1975, workload inventory. The audit plan took into account the time the Office of Audits' auditors would spend making audits and their time for reviewing and processing audits made by independent public accountants, Federal agencies, and others. Time requirements were based on a uniform standard number of hours for each type of audit or review.

Our review showed that audit planning for external audits was based on a universe of grants and contracts that met the Office of Audits' criteria of being subject to audit and a uniform standard number of hours that would be required for each type of audit or review.

CHAPTER 4

OBSERVATIONS ON CONDUCT OF AUDITS AND REVIEW OF AUDIT WORK

Our review showed that

--Some regional offices were not reviewing the required amount of audit workpapers prepared by independent public accountants.

--The Office of Audits conducted a review of the operations of its regional offices and found that independent public accountants should have been used to a greater extent because in some regions a large portion of the grants and contracts awarded by the Office of Minority Business Enterprise was being audited by the Office's staff.

On the other hand, our review of the reports and workpapers prepared by the Office of Audits for different types of audits showed that professional care was used in managing the audits. Written audit programs were used, workpapers were well prepared, staff was supervised and the workpapers supported the material contained in reports.

MORE REVIEWS OF INDEPENDENT PUBLIC ACCOUNTANTS' WORKPAPERS ARE NEEDED

The Office of Audits' policy provides that its auditors review the workpapers of 20 percent of the audits of the Office of Minority Business Enterprise grants and contracts made by independent public accountants. A recent review conducted by the Office of Audits of the quality of the work performed by its regional offices showed that only two were meeting this objective.

By examining the workpapers prepared by independent public accountants, the Office of Audits can verify the quality of their work and the extent costs incurred were reviewed for compliance with contract terms and Federal laws and regulations. Such reviews provide assurance that the independent public accountants are not approving claims for costs that are inappropriate.

An Office of Audits official told us that in recent years the Office of Audits had not reviewed any workpapers prepared by independent public accountants for their audits of Economic Development Administration work projects primarily because the limited audit staff was assigned to other work considered to be of higher priority.

We believe the Office of Audits' objective of having its auditors review the workpapers of 20 percent of the independent public accountants' audits of the Office of Minority Business Enterprise grants and contracts is reasonable and should be complied with by all regional offices. We also believe there is a need for the Office of Audits to review, on a test basis, independent public accountants' workpapers of audits of Economic Development Administration work projects.

MORE AUDITS OF GRANTS AND CONTRACTS SHOULD BE PERFORMED BY INDEPENDENT PUBLIC ACCOUNTANTS

The Office of Audits has established as an objective that 80 percent of the audits of Office of Minority Business Enterprise grants and contracts should be made by independent public accountants and 20 percent should be made by Office of Audits auditors. An Office of Audits analysis showed that, between July 1, 1974, and April 30, 1975, only two of its regional offices were in general compliance with this policy. Office of Audits reviews of its six regional offices covering a 1-year period ended after April 1975 indicated little or no improvement.

Some reasons regional managers gave for their performing more audits than had the independent public accountants were (1) the need to audit contractors that were considered to be problem cases, (2) unexpected terminations of some contracts left little time to obtain the services of an independent public accountant, and (3) some contracts had failed to set aside enough funds to pay for an audit by an independent public accountant.

A newly adopted procedure should alleviate part of the problem. Under this procedure, the Department contracts directly with the independent public accountant to perform audits of grants and contracts made by the Office of Minority Business Enterprise and the Department pays the independent public accountant his fee. Under the prior procedure, the organization funded by the Office of Minority Business Enterprise entered into a contract with the independent public accountant for the audit of costs incurred and paid the accountant from its grant or contract funds.

In our opinion, the insufficient numbers of Office of Audits personnel available to conduct internal audit assignments and external audit assignments resulting from new Department programs make it imperative that independent public accountants be used to conduct a larger percentage of the audits of grants and contracts awarded by the Office of Minority Business Enterprise with appropriate supervision and review by Office of Audits external audit personnel.

If this action is taken, it may become feasible to transfer some of the external audit staff to internal audits.

ADEQUATE MANAGEMENT OF AUDITS

Internal audits

Before an audit is started, the Office of Audits prepares an assignment data sheet that includes more detailed information on the specific objectives of the audit than is shown in the audit plan. Discussions are held with program managers to obtain an understanding of the program and any studies prepared by program evaluation groups or by others related to the area of interest. The auditor in charge of the assignment and the knowledgeable assistant director prepare the written audit program. The program is reviewed and modified as necessary by the Office's Program Planning and review staff.

Our review of the programs prepared for five internal audits showed that they were tailored to meet the audit objectives, facilitated control of the audit work during the review phase, gave adequate consideration to internal controls and legal requirements, and provided a permanent record of the audit plan.

We reviewed 10 internal audit reports and their workpapers and determined that sufficient competent and relevant evidence was obtained to afford a reasonable basis for the auditors' opinions, judgments, conclusions, and recommendations. The purpose of the workpapers and the source for the information were generally shown, and the workpapers were cross-referenced to the audit programs and reports. The workpapers generally showed evidence of having had a supervisory review.

External audits

The Office of Audits has developed, for its own use and for others, standardized comprehensive audit programs for audits of contracts and grants made by the Office of Minority Business Enterprise, various components of the Economic Development Administration, and the National Oceanic and Atmospheric Administration's Office of Coastal Zone Management. During the development of the procedures discussed in the audit programs, the Office of Audits conferred with representatives of the American Institute of Certified Public Accountants through its Committee on Federal Assisted Programs, with State representatives of the National Intergovernment Audit Forum, and with our Office. We reviewed the audit programs and found them to be generally satisfactory.

Our review of audits made by the Office of Audits showed that the audit programs were followed. We also reviewed the audit workpapers prepared by independent public accountants for several audits and noted that the workpapers were reviewed in accordance with the Office of Audits' checklists.

We reviewed reports and workpapers for 13 external audits conducted by the Office of Audits. The purpose of the workpapers and the source of information and conclusions were generally shown. The workpapers generally showed evidence of a supervisory review and were cross-referenced to audit programs and reports. Sufficient competent and relevant evidence appeared to have been obtained to afford a reasonable basis for the auditors' opinions, judgments, conclusions, and recommendations.

CONCLUSIONS

There is a need for the Office of Audits' regional offices to increase their frequency of reviews of the audit workpapers prepared by independent public accountants. Furthermore the Department needs to see that independent public accountants are used to perform more audits of grants and contracts awarded by the Office of Minority Business Enterprise.

RECOMMENDATIONS

We recommend that the Secretary of Commerce, through the Assistant Secretary for Administration, direct the Director, Office of Audits, to review a sufficient percentage of the workpapers prepared by independent public accountants.

We recommend also that the Secretary require, to the extent practicable, the use of independent public accountants for audits of grants and contracts awarded by the Office of Minority Business Enterprise.

The Director, Office of Audits, and his staff agreed with our recommendations. Regarding the greater use of independent public accountants, they provided us with statistics showing that independent public accountants were performing 72 percent of the audits of grants and contracts awarded by the Office of Minority Business Enterprise from April 1, 1976, through March 31, 1977. This action is commendable; however, we believe the Office should continue with its efforts to meet the 80/20 percent criteria mentioned on page 20.

CHAPTER 5

REPORT PROCEDURES AND THE SYSTEM OF FOLLOWING UP ON RECOMMENDATIONS ARE ADEQUATE

The Office of Audits' procedures for processing audit reports are satisfactory. The Office discussed the findings with departmental organization officials at exit conferences, and the departmental organization comments were considered when the reports were prepared. Reports were informative, and attention was focused on matters requiring action by management.

Controls were established to insure that corrective action was implemented. Departmental organizations reported periodically to the Office on recommendations where action was still pending. The Office verified that the corrective action had, in fact, been implemented.

The Office had called attention to the need to resolve questioned contract or grant costs which had been outstanding for long periods. The Office of Minority Business Enterprise has recently instituted procedures which should help resolve this issue. Under these procedures, costs supported by vouchers will be reviewed periodically by the Office of Minority Business Enterprise during the life of the contract or grant.

INTERNAL AUDITS

Report-processing procedures are adequate

According to the Office of Audits' audit manual, the Office is responsible for reporting to management by means of a written report on the results of all audit work. The purpose of reporting is to communicate information and to focus attention on matters requiring action by management or on matters for which management has requested specific data or has indicated an interest.

The Office prepares an agenda of the findings developed in an audit for discussion at an exit conference with responsible departmental organization officials. If the findings and recommendations are agreed to by the officials, the comments made at the exit conference are

evaluated and considered when the final report is prepared. If the departmental organization officials prefer to comment formally on the report or if officials do not concur in the findings or recommendations, a draft report is sent to the departmental organization. The Office gives recognition to departmental organization comments, including, if appropriate, opposing views and statements of actions taken or proposed.

Recently, the majority of reports has been issued without a prior draft, whereas, up until 2 years ago, draft reports were issued in the majority of cases.

The agendas prepared by one of the internal audit divisions were written in such a manner that they could have been used with some small modification in the final report. The care given to the preparation of the agenda saved time in the preparation of the final report and departmental organization officials were aware of the tone and thrust the final report would take.

Reports prepared by the audit staff and cross-referenced to the workpapers and the audit program were reviewed by the audit supervisor, the internal audit division's assistant director, and the Office's Program Planning and Review staff.

The internal audit reports we reviewed explained the scope and objectives of the audit and included the views of responsible officials of the audited organization. The reports were concise, clear, and complete. Our tests to supporting workpapers showed the reports were accurate, objective, and factually supportable. The reports identified the underlying causes of the problem and included recommendations for corrective action.

Action is taken to ensure that recommendations are carried out

The Department requires the Office to maintain a followup on audit recommendations and to report on the status of recommendations to the Assistant Secretary for Administration. Assistant Secretaries and heads of principal departmental organization units are required to:

1. Review internal audit reports concerning their operations.

2. Consider carefully each condition and recommendation.

3. Determine whether corrective actions recommended can and should be taken.

4. Ascertain whether the corrective actions decided on by management have, in fact, been taken.

If the head of a principal departmental organization concludes that a recommended corrective action is undesirable, he is required to develop adequate documentation to support his conclusion.

Reports were submitted to departmental organizations whose activities were audited and to other officials, including the Secretary and the Under Secretary. The Program Planning and Review staff maintained a log of the recommendations.

Within 60 days after a final report is issued, the head of the departmental organization is required to prepare a progress report to the Assistant Secretary concerned and to the Assistant Secretary for Administration. Thereafter he is required to submit a quarterly progress report on those recommendations that remain open.

The progress reports show:

1. For each adopted recommendation on which action has been completed, a description of the action taken and where feasible the estimated annual savings or other improvements expected.

2. For each adopted recommendation on which further action is necessary, a description of the action planned and the estimated target date for its completion.

3. For each rejected recommendation, a statement of the specific reasons why the recommendation is not being adopted and a description of any alternative courses of action that have been taken or are being considered.

When corrective action is taken, the item shown in the log maintained by the Program Planning and Review staff is stamped "completed." Some recommendations can be implemented without delay; others may involve major changes in procedures and may take more than a year to implement.

The Office maintains close contact with the departmental organizations to make sure it receives the quarterly reports on time. Generally, the same followup procedures that pertain to the Office of Audits' recommendations pertain to our recommendations. Office of Audits division directors are responsible for verifying that actions taken by a departmental organization are responsive to the recommendations. Office of Audits officials told us that, if the recommendation involved an activity in the Washington area an auditor visited the site to verify that corrective action was taken. If the recommendation involved an activity located outside the Washington area, the departmental organization responsible for the activity was required to furnish documentary evidence that the recommendation was implemented. When warranted by the significance of the recommendations, site visits are made to out-of-town activities to verify that corrective action has been taken.

The Director, Office of Audits, reports on the status of audit recommendations semiannually to the Assistant Secretary for Administration.

We reviewed the action taken by departmental organizations on the recommendations made by the Office of Audits in three reports issued in 1974 and 1975. Corrective action was taken on some of the recommendations, but others were still open. Those on which action was still pending appeared to involve major program changes on which action was continuing.

Flash reports provide management with timely information

During an audit, a matter may be uncovered requiring that corrective action be taken immediately. Disclosure through normal reporting at the completion of the audit would be too late to take action or would unnecessarily delay action in a critical situation. To meet management needs for timely information, the Office prepares a flash report on the matter while the audit is still in progress.

We reviewed three flash reports selected at random and found that in each instance there was a need to alert management to take corrective action without delay and that management acted promptly.

EXTERNAL AUDITS

Processing of external audit reports is adequate

The procedure generally followed by the Office in processing external reports follows.

The Office of Audits' auditor submits a cross-referenced copy of his report on the results of the audit and workpapers to the supervisor. The supervisor reviews the report and verifies the accuracy of the information in the report to the workpapers. After review by the regional manager, the report is sent to the contracting officer or grant administrator. Reports prepared by independent public accountants and by Government agencies are reviewed and analyzed and then forwarded to the contracting officer or grant administrator.

The Office has established processing standards to make sure reports and audit proposals are reviewed and processed within a specified time. For example, an independent public accountant's proposal to audit an organization under contract with the Office of Minority Business Enterprise must be reviewed and processed within 3 workdays and a report on an Economic Development Administration Office of Public Works project must be reviewed and processed within 20 workdays.

Our review of external audit reports prepared by the Office of Audits showed them to be concise, clear, and complete. Generally, they followed a standardized format within each type of program to explain the scope and objectives of the review. Our tests to supporting workpapers showed the reports were accurate, objective, and factually supportable.

Followup on audit recommendations is adequate

The regional office we visited had procedures for reviewing negotiation memorandums, final closeout memorandums, or other correspondence indicating final action taken by contracting officers on audit recommendations and questioned costs.

We found that followup action sheets on audit reports were prepared showing costs that were questioned and the contracting officers' decisions. If the auditors did not agree with the contracting officers' decisions, they

provided reasons on the action sheets. The regional managers brought the matters to the attention of the Director, Office of Audits.

The regional office maintained a log of unresolved questioned costs and open recommendations and reported quarterly on their status to the Office of Audits' headquarters.

Problem concerning long outstanding questionable costs resolved

The audits of grants and contracts have resulted in a large amount of costs claimed by organizations under contract with the Office of Minority Business Enterprise being questioned. The administrative contracting officers are responsible for determining whether any questioned costs should be disallowed or reinstated. We found that, although the Office of Audits' followup system was satisfactory, actions taken by contracting officers/grant administrators on disposing of questioned costs had been slow.

The Office of Audits had reported to the Acting Assistant Secretary for Administration in its semiannual reports on the status of recommendations that necessary administrative actions had not been taken in a timely manner on the recommendations made in external audit reports on organizations awarded grants and contracts by the Office of Minority Business Enterprise.

In June 1976 the Office of Audits' internal audit staff issued a report on the audit of contract administration at selected regional offices of the Office of Minority Business Enterprise. The report pointed out that the magnitude of project costs and other items questioned in audit reports that remained unresolved was growing larger. A schedule in the report showed that, of $15.2 million in questioned costs, $9.3 million remained unresolved at December 31, 1975. At June 30, 1974, questioned costs totaled $5.5 million and unresolved costs totaled $4.8 million.

The report noted that this problem had been commented on in a task force report dated March 1, 1974, and in a February 1975 report issued by the Department's Office of Organization and Management Systems.

The Office of Audits' review also showed that certain organizations under contract with the Office of Minority Business Enterprise continued to have their contracts

renewed year after year, whereas costs questioned and other audit findings remained unresolved by the contracting officers. One of the five contractors with unresolved costs in the Office of Audits' sample was reported to have gone out of business. The Office of Audits noted that it was fruitless to disclose in audit reports that line item budget restrictions and required approvals had not been met once the performance period had expired and the contract funds had been spent. The Office of Audits also commented on some of the problems contracting officers said that they were having in resolving questioned costs.

The Office of Audits made several recommendations to the Director, Office of Administrative Services and Procurement, including a recommendation that consideration be given to creating a temporary task force to assist contracting officers in reducing the backlog of unresolved audit issues. The Director generally concurred in these recommendations.

The Director, Office of Administrative Services and Procurement, reports to the Assistant Secretary for Administration. The Assistant Secretary is the highest level official responsible for procurement activities. Although the Office of Audits is responsible to the same Assistant Secretary, we found no evidence that the Office of Audits had been inhibited from pursuing this matter.

To preclude future instances of long outstanding unresolved questions of the propriety of contract and grant costs, the Office of Minority Business Enterprise has recently adopted a working capital concept that will provide more assurance that organizations under contract are spending the funds they receive from the Government for acceptable purposes. Under this concept, the Office of Minority Business Enterprise advances funds to an organization to cover the organization's needs for a limited period. Thereafter, the initial advance is replenished periodically when vouchers submitted by the organization to the Office of Minority Business Enterprise in support of incurred costs are reviewed and approved by it.

CONCLUSIONS

The internal and external audit reports were generally concise, presented factual material fairly, provided information on the underlying causes of areas of weakness, and included recommendations for corrective ac-

tion. The scope and objectives of the audits were explained. The views of responsible officials of the audited departmental organizations were considered.

We believe that the Office of Audits has a satisfactory control system for following up on both internal and external audit recommendations.

We found that actions taken by contracting officers/grant administrators on disposing of questioned costs had been slow. In our opinion, however, the Office of Audits reported adequately on this matter and made appropriate recommendations. Adopting new working capital procedures and implementing these recommendations should resolve this issue.

CHAPTER 6

OTHER OBSERVATIONS

We examined into qualifications and training of Office of Audits personnel, cross-servicing arrangements, and quality control reviews and found that these matters were generally being handled satisfactorily.

We also reviewed the work being performed by Maritime Administration auditors and concluded that there was no need to transfer the Maritime Administration's audit functions to the Office of Audits.

STAFF IS QUALIFIED AND TRAINED TO ACCOMPLISH ITS MISSION

The Office of Audits lists as one of its general standards that "The audit is to be performed by a person having adequate technical training and proficiency as an auditor."

Our review showed that all Office of Audits professional staff were college graduates with degrees in various disciplines, including accounting, business administration, law, economics, finance, engineering, and public administration. A November 1974 roster showed that 27 percent were certified public accountants, 13 percent had graduate degrees, and 32 percent were certified internal auditors. About 86 percent of the professional staff were members of one or more professional accounting organizations, and 18 percent of the staff held or have held leadership positions in those organizations. Thirty percent of the professional staff had 18 or more years of experience with the Federal Government.

In addition to having on-the-job training, most staff members have attended Interagency Auditor Training Center courses which included technical accounting and auditing sessions. Staff members also attended managerial sessions within Commerce, Civil Service sponsored programs, the Brookings Institution, and the Federal Executives Institute.

Staff members selected to attend courses were approved by the Director taking into consideration the availability of funds, timing of the course, and the need for professional development. The Department contributed toward graduate and certified public accountants' course tuition. Commerce audit experience is recognized as qualifying applicants to sit for the certified public accountant's examination.

Following is a summary of the numbers of auditors scheduled to take the interagency training courses in fiscal year 1975.

Introductory audit training	7
Technical and refresher training	39
Advanced audit techniques	8
Supervisory and executive training	25
State and local auditor training	6
	85

Periodically an evaluation was made of employee performance by the auditor's immediate supervisor. Employees were rated in various categories and ranked against their peers for purposes of comparing suitability for promotion. Both incentive awards and promotions were used to encourage and recognize contributions of staff members.

CROSS-SERVICING ARRANGEMENTS HAVE BEEN IMPLEMENTED

OMB Circular 73-2 requires that each Federal agency 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 interests of the Federal Government and the organization being audited. The purpose is to conserve manpower, promote efficency, and minimize the impact of audits on the operations of the organizations subject to audit.

It is the policy of the Office of Audits to use, whenever possible, the services of other Federal audit organizations in carrying out external audit responsibilities.

The Office of Audits had cross-servicing agreements with the Defense Contract Audit Agency, the Department of Health, Education, and Welfare, and the Department of the Interior for audit coverage of departmental grants and contracts. In fiscal years 1974 and 1975, the Office of Audits reviewed and processed about 100 and 175 reports, respectively, submitted by other agencies.

We reviewed five reports made by the Department of Health, Education, and Welfare and three reports made by the Defense Contract Audit Agency that we selected at random. The two agencies used their own respective audit guidelines and their reports were generally satisfactory.

QUALITY CONTROL REVIEWS MADE TO ASSURE REGIONAL AUDIT WORK MEETS THE STANDARDS

In 1975 and 1976 the Office of Audits made quality control reviews of the manner in which its regional offices conducted their external audit activities. The reviews were conducted by audit personnel not connected with the regional offices being evaluated.

The reports pointed out some procedural weaknesses--two weaknesses are discussed on pages 19 and 20--in the operations of the regional offices which were discussed with the regional managers. The regional managers were required to inform the Deputy Director, Office of Audits, in writing on the action they planned to take to correct the deficiencies. It is the Office's policy to have headquarters personnel, when visiting a regional office, review the action taken to assure that the deficiencies have, in fact, been corrected.

We found the reports of the reviews to be informative and useful in promoting uniformity in carrying out the Office of Audits' policies and procedures.

NO NEED SEEN FOR TRANSFERRING MARITIME ADMINISTRATION'S SUBSIDY AUDIT FUNCTIONS TO THE OFFICE OF AUDITS

In our 1967 report appraising the audit activities in the Department, we recommended that all audit functions within the Department be centralized except those performed by the Office of Financial Management of the Maritime Administration.

Our review showed that the Office of Financial Management had 47 auditors located in its headquarters and three regional offices involved in performing external audits. These audits were aimed primarily at insuring that subsidizable expenses claimed by shipbuilders and operators were allowable. Except for the conduct of these external audits all activities of the Maritime Administration are subject to audit by the Office of Audits, including an evaluation of the quality of the external audits performed by the Office of Financial Management.

We gave consideration to how well the Maritime Administration performed its external audits and to the benefits of transferring this function to the Office of Audits. We reviewed the operations of the Office of Financial Management, the planning of audits, the

development and use of audit programs, the preparation of working papers, and the manner in which audits were supervised. Our review showed no major deficiencies.

Our review showed also that there would be little or no benefit from transferring Maritime Administration audit functions to the Office of Audits. In order to perform the audits of subsidies conducted by Maritime it appears that specialized knowledge is needed of the shipping industry, subsidy rates and legal and regulatory requirements. Maritime auditors, for the most part, had long tenure and appeared to be qualified to perform this work.

Many of the audits conducted by Maritime were required by law. Therefore, the possibility of the Office of Audits' reducing the workload appears to be minimal.

Based on the desirability of having subsidy audits made by personnel familiar with the subsidy programs and our evaluation of the quality of Maritime audits, we believe that Maritime should retain its external audit functions.

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

	Tenure of office From		Tenure of office To	
SECRETARY OF COMMERCE:				
Juanita M. Kreps	Jan.	1977	Present	
Elliot L. Richardson	Feb.	1976	Jan.	1977
Rogers C. B. Morton	May	1975	Feb.	1976
John K. Tabor (acting)	Mar.	1975	Apr.	1975
Frederick B. Dent	Feb.	1973	Mar.	1975
Peter G. Peterson	Feb.	1972	Feb.	1973
Maurice H. Stans	Jan.	1969	Feb.	1972
C. R. Smith	Mar.	1968	Jan.	1969
Alexander B. Trowbridge	June	1967	Mar.	1968
UNDER SECRETARY OF COMMERCE:				
Sidney Harman	Apr.	1977	Present	
Vacant	Jan.	1977	Apr.	1977
Edward O. Vetter	July	1976	Jan.	1977
John T. Smith (acting)	May	1976	July	1976
James A. Baker III	Aug.	1975	May	1976
John K. Tabor	June	1973	Aug.	1975
Vacant	Feb.	1973	June	1973
James T. Lynn	Apr.	1971	Feb.	1973
Rocco C. Siciliano	Feb.	1969	Apr.	1971
Joseph W. Bartlett	Aug.	1968	Jan.	1969
Howard J. Samuels	Nov.	1967	July	1968
Vacant	Sept.	1967	Nov.	1967
J. Herbert Holloman (acting)	Feb.	1967	Aug.	1967
ASSISTANT SECRETARY FOR ADMINISTRATION:				
Elsa A. Porter	Apr.	1977	Present	
Guy W. Chamberlin, Jr. (acting)	Jan.	1977	Apr.	1977
Joseph E. Kasputys	Feb.	1976	Jan.	1977
Joseph E. Kasputys (acting)	Jan.	1976	Feb.	1976
Guy W. Chamberlin, Jr. (acting)	Sept.	1974	Jan.	1976
Henry B. Turner	Apr.	1973	Sept.	1974
Guy W. Chamberlin, Jr. (acting)	June	1972	Apr.	1973
Larry A. Jobe	Mar.	1969	June	1972
Lawrence E. Imhoff (acting)	Jan.	1969	Mar.	1969
David R. Baldwin	July	1965	Jan.	1969

APPENDIX I

DIRECTOR, OFFICE OF AUDITS, OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION:

Joseph A. Sickon	Mar. 1977	Present
Vacant	July 1975	Mar. 1977
Sidney S. Baurmash	Dec. 1970	July 1975
John R. Delmore	Sept. 1967	Dec. 1970

ASSISTANT SECRETARY FOR MARITIME AFFAIRS (note a):

Robert J. Blackwell	July 1972	Present
Andrew E. Gibson	Mar. 1969	July 1972
James W. Gulick (acting)	June 1966	Mar. 1969

a/Prior to Oct. 21, 1970, this position was entitled Maritime Administrator.