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P.L. 93-365. 10 U.S.C. 125. Federal Management Circular
73-2. Air Force Regulation 23-38. Air Force Regulation
175-4. DOD Directive 1100.9.**

The Air Force should make its internal audit stronger to keep top management better informed on how operations are conducted and how recommendations for improvements are carried out. **Findings/Conclusions:** Because internal auditing is not high enough in the Air Force organizational structure, auditors do not have maximum independence in planning and conducting audits. Although Department of Defense policy requires all nonmilitary positions to be filled by civilians, the Audit Agency has about an equal number of military and civilian employees. **Recommendations:** The Secretary of Defense should use his reorganization authority to relocate the Air Force Audit Agency under the Secretary or Under Secretary of the Air Force and have the audit staff report directly to that official. Also, the Secretary of Defense should direct the Secretary of the Air Force to: eliminate all restrictions on the Audit Agency in selecting activities for audit, determining the scope of work, and reporting results; more clearly define the nature and scope of audits and inspections; fill the position of Auditor General with a qualified civilian; appoint civilians to most auditor positions currently filled by military personnel; and improve organizational structure and management control to use staff more effectively. Alternatives for this last recommendation include reducing audits on commander-requested and nonappropriated-fund work and reorganizing the Audit Agency by region. In order to assure that the greater audit independence recommended is maintained in the future, the Congress should amend existing legislation to place the internal audit functions of the three military services under the secretary or under secretary of the respective departments to whom the auditors

would report directly. (Author/SC)

4419

REPORT TO THE CONGRESS

04022

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES



The Air Force Audit Agency Can Be Made More Effective

Internal auditing is vital to a good management control system. Air Force managers could get greater benefits from internal auditing by

- placing the audit function at a higher organizational level,
- having the audit organization headed by a qualified civilian,
- appointing qualified civilians to positions held by military auditors,
- removing limitations on scope of audit work, and
- using audit staff more effectively by organizing audit operations by region and reducing less productive work.



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

B-134192

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

This report, the third of a series on Department of Defense internal audit activities, describes how the Department of the Air Force can improve its internal auditing.

We made this survey as part of our current effort to expand and strengthen internal audit activities of Government departments and agencies. We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The 1950 act requires us to consider the effectiveness of any agency's internal controls, including internal audit, in determining the extent and scope of our examinations.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretaries of Defense and the Air Force.

ACTING

R. F. Kistner
Comptroller General
of the United States

D I G E S T

By law, the head of each Government agency must set up and maintain systems of accounting and internal control, of which internal auditing is an integral part. In the U.S. Air Force internal auditing is done by its audit agency, which is under its Comptroller.

The Air Force should make its internal audit stronger to keep top management better informed on how operations are conducted and how recommendations for improvements are carried out.

ORGANIZATIONAL PLACEMENT

Internal auditing is not high enough in the Air Force organizational structure. Consequently, the auditors do not have maximum independence in planning and conducting audits. The Audit Agency is now three reporting levels below the Secretary of the Air Force. This is inconsistent with the Comptroller General's audit standards which advocate that the audit function be at the highest practical organizational level. (See pp. 4 and 5.)

LIMITATIONS ON SCOPE OF AUDIT WORK

Air Force auditors cannot always:

- Select areas to audit, because audit plans are reviewed and revised by the Comptroller of the Air Force and the Air Staff System Selection Committee. (See pp. 7 and 8.)
- Issue reports based on their own conclusions since reports are reviewed by members of the Air Staff who are responsible for activities subject to audit. As a result of these reviews, reports have been modified and findings softened.

The rationale for the reviews is to keep data within Air Force channels and to avoid unwarranted conclusions by external organizations (Department of Defense and GAO). GAO disagrees. Changing the meaning of audit reports can (1) distort information that top level commanders need to manage their operations effectively and (2) stifle the auditor from reporting conclusions and recommendations based upon objective, verifiable evidence. (See pp. 10 to 12.)

Planned and ongoing audits have been canceled because some commanders prefer Inspector General inspections to avoid what they see as duplication between audits and inspections. Ambiguous regulations on audits and inspections, however, have contributed to confusion about audit and inspection functions. Canceling audits for inspections unnecessarily limits the scope of audit work. (See pp. 8 to 13.)

MILITARY AND CIVILIAN STAFFING

Department of Defense policy requires all nonmilitary positions to be filled by civilians. Contrary to this policy, the Audit Agency is headed by a military officer. (See pp. 15 and 16.)

Despite congressional intent and Department of Defense policy and regulation, the Audit Agency has about an equal number of military and civilian auditors. The Air Force could save about \$2.14 million annually by converting from military to civilian auditors. (See pp. 18 to 20.)

USE OF AUDIT STAFF

The Audit Agency lets its auditors review, at their discretion, local or base level Air Force operations. This takes a significant portion of the Agency's time. Such relatively uncontrolled use of time contributes to increased audits in less important areas and may cause delays or canceled audits in important areas. (See pp. 21 to 23.)

Air Force auditors are allowed to spend up to 15 percent of their time on work requested by commanders. It is usually associated with Comptroller or other staff functions, such as legal research or compiling statistical data. (See pp. 22 and 23.)

The Air Force spends about 9 percent of its time auditing nonappropriated funds, yet required work on appropriated funds cannot be done because of insufficient resources. (See p. 23.)

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

The Secretary of Defense should use his reorganization authority under 10 U.S.C. 125 to relocate the Air Force Audit Agency under the Secretary or Under Secretary of the Air Force and have the audit staff report directly to that official. (See p. 5.)

Also, the Secretary of Defense should direct the Secretary of the Air Force to:

- Eliminate all restrictions on the Audit Agency in selecting activities for audit, determining the scope of work, and reporting results. (See p. 13.)
- More clearly define the nature and scope of audits and inspections. (See p. 13.)
- Fill the position of Auditor General with a qualified civilian. (See p. 16.)
- Appoint civilians to most auditor positions currently filled by military personnel. (See pp. 19 and 20.)
- Improve organizational structure and management control to use staff more effectively. Alternatives include (1) reducing audits on commander-requested and nonappropriated-fund work and (2) reorganizing the Audit Agency by region, as all other Defense internal audit organizations are organized. (See pp. 24 and 25.)

RECOMMENDATION TO THE CONGRESS

In order to assure that the greater audit independence recommended is maintained in the future, we also recommend that the Congress amend the National Security Act of 1947, as amended, to place the internal audit functions of the three military departments under the Secretary or Under Secretary of the respective departments and have the internal auditors report directly to those officials. This recommendation was made in a previous report (FGMSD-77-49, July 26, 1977).

AGENCY COMMENTS

The Department of Defense agrees that the selection, scope, and reporting of internal audit work should not be restricted. Defense agrees to (1) raise the reporting level of the Audit Agency, (2) clarify the Air Force regulations on audits and inspections, (3) reduce the number of nonappropriated and commander-requested audits, and (4) hire more civilians as internal auditors and audit managers. (See app. IV.)

The Department does not agree with GAO's recommendations that the head of the Air Force Audit Agency be a civilian or that the Audit Agency be organized by region. Defense officials did agree to reassess these recommendations after they comply with GAO's recommendation to appoint civilians to military auditor positions and after they evaluate the Audit Agency configuration. (See app. IV.)

GAO disagrees and sees no compelling reason why the Auditor General position should not also be made civilian along with other auditor positions in conformance with its recommendation and Defense's policy and directives. (See p. 17.)

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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

Internal auditing was established in the Department of the Air Force in 1948. The Air Force Audit Agency was established in 1949 under the Office of the Comptroller of the Air Force. Its specific responsibility was to provide all levels of Air Force management with independent, objective, and constructive evaluations of the effectiveness with which managerial responsibilities are carried out.

The internal auditor has a vital role in reviewing and reporting the financial activities as well as operations and performance of programs. Under normal circumstances, the internal audit function can uniquely supplement routine management controls through its independent approach and methods of review. The function is an essential tool of management, complementing other elements of internal control.

In fiscal year 1976, the Air Force had a combined civilian-military personnel strength of about 848,867 and an operating budget of about \$28.6 billion. The Congress and top level managers in the Department of Defense (DOD) need to know how these funds are spent and whether the stated objectives of the programs are achieved.

Section 113 of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a) made top management within each agency responsible for internal auditing by providing that:

"The head of each executive agency shall 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, including appropriate internal audit * * *."

In 1972 we issued the booklet "Standards for Audit of Governmental Organizations, Programs, Activities & Functions." These standards recognize the growing information needs of public officials, legislators, and the general public and establish a framework by which full-scope examinations of Government programs by independent and objective auditors may be conducted. Not long after we issued our booklet, the General Services Administration in 1973 issued Federal Management Circular 73-2, setting forth policies to be followed by agencies in audits of Federal operations and

programs. General Services required that the audit standards be used as the basic criteria for agency audits. In August 1974, we incorporated our standards in a revised statement of our principles, standards, and concepts entitled "Internal Auditing in Federal Agencies."

DOD and its component military departments and agencies, including the Air Force Audit Agency, have recognized the importance of and the need for (1) internal audit, (2) standards for performance of a wide range of audit services, and (3) policies for guidance of internal audit organizations.

INTERNAL AUDITING IN THE DEPARTMENT OF THE AIR FORCE

The Air Force Audit Agency had operating expenses of \$21.4 million in fiscal year 1976. The Audit Agency operates through 5 directorates, 2 regions, and 87 resident audit offices. As of June 30, 1976, the Audit Agency had a staff of 1,011, of whom 521 (52 percent) were civilians and 490 (48 percent) military personnel. During fiscal year 1976, the Agency's auditors expended over 1.27 million direct staff-hours in auditing activities and issued 5,422 audit reports, the bulk of which were issued to local level or installation commanders.

The Audit Agency claimed actual and potential cost savings for fiscal year 1976 of \$242 million. Potential cost savings are those that can result if management implements audit recommendations. No breakdown between actual and potential savings was available. Actual savings realized will depend on whether management implements the Agency's recommendations.

PRIOR REVIEWS AND EVALUATIONS OF THE AIR FORCE AUDIT AGENCY

We discussed the Air Force Audit Agency's operations in reports issued in March 1968 (B-132900) and in January 1970 (B-132900). These reports contained recommendations for improving internal audit operations in DOD, including coordination and overall control of the total audit effort. The Blue Ribbon Defense Panel, convened by the President as part of a comprehensive study of DOD management procedures in 1970, also recommended ways of improving the Audit Agency's organizational structure and its internal audit operations.

SCOPE AND RESULTS OF OUR LATEST SURVEY

Our current survey covered the internal audit activities of the Air Force Audit Agency during the period February 1976 to November 1976. We made our survey at the Air Force Audit Agency headquarters, Norton Air Force Base, San Bernadino, California, at audit division offices at Wright-Patterson Air Force Base, Dayton, Ohio, and at three field audit offices--Nellis Air Force Base, Las Vegas, Nevada; Space and Missile Systems Organization, El Segundo, California; and Tinker Air Force Base, Oklahoma City, Oklahoma.

We surveyed the organization and operations of the Audit Agency in relation to our "Standards for Audit of Governmental Organizations, Programs, Activities & Functions" and the requirements of Federal Management Circular 73-2, which sets forth policies to be followed in auditing Federal operations and programs.

Our survey did not include all aspects of the Audit Agency's operations. Rather, we concentrated our efforts on areas identified during our preliminary work, such as limitations on scope and reporting on audit work, organizational placement of the audit function, the extent to which congressional intent and DOD policy were followed in employing civilians, and the Audit Agency's use of staff resources. These matters are discussed in more detail in succeeding chapters of this report.

CHAPTER 2

AUDIT FUNCTION SHOULD BE LOCATED AT A HIGHER ORGANIZATIONAL LEVEL

The Air Force Audit Agency is not placed high enough in the Air Force organization to allow its auditors maximum independence in selecting activities for audit, reviewing and evaluating Air Force operations, and reporting on the results of audit work.

Government agencies, if they are to receive the full benefits of internal auditing, must locate their audit functions at a high organizational level. This will help insure that auditors are insulated against internal agency pressures so they can conduct their auditing objectively and report their conclusions completely without fear of censure or reprisal. In our opinion, the present organizational placement of the Air Force Audit Agency does not provide this assurance.

We have consistently advocated that the position of the internal auditor in an organization should be such that the auditor is

- independent of officials who are responsible for the operations reviewed and
- responsible to the highest practical organizational level, preferably the agency head.

These principles are emphasized in our standards for governmental auditing and in our statement on internal auditing in Federal agencies.

ORGANIZATIONAL PLACEMENT AND AUDITOR INDEPENDENCE

The Air Force Audit Agency is under the supervision and control of the Comptroller of the Air Force--three reporting levels below the agency head, the Secretary of the Air Force (as shown in app. I). The Comptroller and Auditor General are also members of the Air Staff, which formulates Air Force plans and policy through various boards and councils.

In the Air Force chain of command, certain organizational placement of the internal audit function can weaken the independence of the internal audit organization. For

example, an individual or group of individuals who formulate plans and policy and exercise line responsibilities for other functions normally subject to audit should not supervise the audit function. Such placement can also deny to top level management evaluations needed to exercise effective management control over Air Force operations.

The National Security Act 1947, as amended (10 U.S.C. 3014, 5061, and 8014) established three positions--Comptrollers of the Army, Navy, and Air Force--and included internal audit as one of their responsibilities. We believe, from a management viewpoint, that this arrangement is undesirable in the Air Force, because the Comptroller, as a member of the Air Staff, does not report directly to the Secretary of the Air Force, but to the Air Force Chief of Staff and the Assistant Secretary of the Air Force (Financial Management).

CONCLUSIONS

The current organizational placement of the Audit Agency does not comply with our standards which advocate that the audit function be located at the highest practical organizational level. With the audit staff reporting to the Comptroller, there are three reporting levels between the Audit Agency and the Secretary of the Air Force. Accordingly, the Audit Agency is too far removed from the Air Force top management to insure maximum audit independence and effectiveness and appropriate management attention to audit findings.

Locating the internal audit function under one of the Assistant Secretaries of the Air Force would also be objectionable, because it would place the auditors under an official having responsibility for operations they review. Audit independence would be increased as would the potential for more objective auditing if the audit staff were placed directly under the Secretary or the Under Secretary.

RECOMMENDATIONS TO THE SECRETARY OF DEFENSE

We recommend that, to provide for greater audit independence as advocated by our standards, the Secretary of Defense use his reorganization authority under 10 U.S.C. 125 to relocate the Air Force Audit Agency under the Secretary or Under Secretary of the Air Force and have the audit staff report directly to that official.

RECOMMENDATION TO THE CONGRESS

In order to assure that the greater audit independence recommended is maintained in the future, we also recommend that the Congress amend the National Security Act of 1947, as amended, to place the internal audit functions of the three military departments under the Secretary or Under Secretary of the respective departments and have the internal auditors report directly to those officials. This recommendation was made in a previous report. (FGMSD-77-49, July 26, 1977).

DOD COMMENTS

The Assistant Secretary of Defense (Comptroller) said in his letter of September 26, 1977, that the Air Force Audit Agency will report directly to the Secretary of the Air Force, with direct access to the Chief of Staff, and will receive technical guidance and supervision from the Assistant Secretary (Financial Management).

We believe that this change, if properly implemented, will give the Audit Agency direct access to the highest management levels in the Department of the Air Force and is consistent with our standards.

CHAPTER 3

SCOPE OF INTERNAL AUDITS

SHOULD NOT BE LIMITED

Limitations placed on the Air Force Audit Agency in planning and conducting its audit work have resulted in a lack of audit coverage and reporting of important areas of Air Force operations. Our statement on internal auditing in Federal agencies points out that, for internal auditing to be of maximum usefulness, the scope of the internal auditor's activity should not be restricted, but should extend to all agency activities and related management controls.

In keeping with these principles, the mission statement of the Air Force Audit Agency (app. II) provides that it should audit all Air Force activities. Although the Audit Agency is generally able to select its own audit areas, it has sometimes been limited in planning and reporting on audit work by the Comptroller and members of the Air Staff System Selection Committee, who review audit plans and approve audit reports prior to their final release. In addition, the Audit Agency has been precluded from performing audits in important areas also subject to inspection by the Air Force Inspector General.

LIMITATIONS ON PLANNING AND AUDIT WORK

In May 1975, the Comptroller directed the Auditor General to cancel an audit of the F-16 weapons system acquisition, because the Air Staff System Selection Committee, a group established to set priorities for Inspector General operations, had selected that system for review by the Air Force Inspector General.

Previously, the Auditor General, in a letter to the Comptroller, stated that a substantial investment had been made in developing an audit plan representing a comprehensive approach for auditing the F-16. The Comptroller, who is a member of the Air Staff System Selection Committee, acknowledged the preliminary work by the Audit Agency, but directed the Auditor General to provide the Inspector General with knowledge gained through his initial efforts on the F-16 and to select another system for audit. No explanation or reason why the Audit Agency could not or should not perform the audit was given. Furthermore, the inspection did not start until January 1976, although the Audit Agency was prepared to start its audit in July 1975.

The Auditor General told us the Audit Agency could have performed the audit of the F-16 system regardless of the Air Staff Committees' decision if the Agency considered it necessary. In view of the circumstances, however, we believe that the Comptroller gave the Audit Agency no choice other than to cancel this audit.

SCOPES OF AUDIT AND INSPECTION SHOULD BE SPELLED OUT

The Air Force regulations governing efficiency, economy, and effectiveness aspects of audits and inspections are similar, and it is difficult to determine how or where responsibilities of audit differ from inspection. Both audit and inspection operate in the same sphere of activity, and their regulations extend to all Air Force elements and functions. The regulations neither describe the scope nor contain an explanation of the differing nature of audits and inspections. (See apps. II and III.)

In actual practice, however, fundamental differences exist in the objectives, depth of coverage, and other aspects of audits and inspections.

In the Air Force efficiency, economy, and effectiveness inspections are generally done in less time and depth than audits and do not fully measure the extent of deficiencies noted. Audits, on the other hand, are designed to provide management with information on the extent of problems and their underlying causes so that corrective action can be taken.

DOD has determined that inspections and audits complement rather than duplicate each other. Also, Audit Agency and Inspector General officials have concluded that fundamental differences in concept, scope, emphasis, and methodology exist between audits and inspections. Thus, it is essential that all Air Force activities be subjected to both types of evaluations to insure completeness of coverage and responsiveness to the needs of Air Force management.

Canceling audits for inspections

The Air Force Audit Agency has canceled audits because the Inspector General had either planned an inspection or was conducting an inspection in the same area. In some of these areas the inspection function took precedence over the audit function. We found no evidence, however, that inspections had been canceled in favor of audits.

A joint regulation of the Audit Agency and the Inspector General requires, with some exceptions, that all audits be coordinated in advance of the initiation of field application and performance to eliminate or minimize overlap and duplication. Formal audit or inspection proposals already underway have priority over subjects being considered for coverage. To avoid unnecessary duplication, the Audit Agency and Inspector General policy is to separate audit and inspection reports covering the same subject or area by at least 1 year from the date of publication of a final inspection report and the date a draft summary report of audit is forwarded to management for comment.

We noted four instances in which audits were canceled in favor of inspections to avoid so-called duplication and overlap.

1. An audit of Air Force modifications to aircraft was canceled because the commander desired an inspection which Audit Agency officials said would duplicate their proposed audit. The Audit Agency had submitted its proposed audit plan for this review 6 weeks prior to the commander's request.
2. A proposed audit of Air Force maintenance engineering was canceled because of possible duplication with an inspection scheduled for the same time--about January 1975. In coordinating with the Audit Agency, an official of the Inspector General's office said a degree of overlap may exist with the planned inspection. He recommended that the Audit Agency reschedule its audit for early 1976 to preclude the possibility of duplication and insure that conflicting findings and recommendations were not made. If the delay of the audit was impractical, however, the official said they should coordinate their observations to avoid conflicting opinions or recommendations. The inspection was made and the audit canceled.
3. Both the Audit Agency and the Inspector General had formal plans to evaluate a maintenance analysis and structural integrity information system about the same time. Audit Agency correspondence indicated that no strong, clear argument exists in

favor of either proposal and that no acceptable method of revising either or both proposals to permit coordination was identified. The audit was canceled in favor of the inspection.

4. An audit of the reduction of data products was terminated because, according to Audit Agency correspondence, 2 weeks after the Audit Agency sent the proposed audit notice to the Inspector General, the Inspector General amended his schedule and announced an inspection of computer output products. A meeting was held with Inspector General representatives to discuss the potential conflict between their inspection and the audit. Based on that meeting, the auditors concluded that although the two projects were quite close together, a good possibility still existed for continuing both efforts. The inspection was made and subsequently the auditors decided against performing the audit.

We believe that the similarity, and hence ambiguity, of regulations dealing with audits and inspections may have contributed to or caused confusion regarding the nature of the respective functions. The joint regulations requiring coordination of audits and inspections may also have contributed to this confusion.

For example, Audit Agency documents indicated that, in a planned audit of one weapons system, the Auditor General considered planned audit and inspection efforts to be complementary. The auditors tried to work out such an approach for reviewing the system. The Inspector General staff considered the system to be an inspection assignment, however, and was not willing to accept the auditors complementary efforts.

Audit and inspections are usually complementary and, except for scheduling conflicts in the same spheres of activity, are not duplicative. In our opinion, in order to provide objective and timely information to both DOD and Air Force management, the Audit Agency must not consider audits and inspections to be mutually exclusive. Instead, it must determine the propriety of continuing an audit regardless of whether an inspection is planned or in progress.

LIMITATIONS ON REPORTING

Audit reports are reviewed by representatives of the Air Staff, which has responsibility for formulating policy and

plans through various boards and councils and other functional areas subject to audit. This practice has resulted in reports being modified to reflect the views of the Air Staff or of other external managers and in some cases findings being modified to show less significance.

The Audit Agency devotes a substantial amount of effort to multilocation audits of systems, programs, and functions performed at two or more commands. These are known as "centrally directed audits."

Air Force Regulation 175-4 requires that summary reports of audit, the most frequent product of a centrally directed audit, be addressed in draft form to the appropriate Air Staff and major command officials. The regulation also requires the auditors to discuss the report with these officials and to coordinate and include Air Staff and major command official comments in the final reports. Final reports are processed through the Air Staff for release to the Assistant Secretary of the Air Force or higher DOD levels.

Audit Agency reporting policy, which implements the regulations, requires that full concurrence from responsible Air Force elements will be obtained by auditors on findings, conclusions, and recommendations in their reports. Nonconcurrences, with few exceptions, must be resolved by convincing management that the Audit Agency is more correct or by changing the report. We were told that nonconcurrences are almost always resolved by changing the report.

In one case, for example, auditors in their draft report showed that 321 military vehicles may have been in excess of Air Force requirements based upon mileage achieved versus goals established for their use. After discussion with the Air Staff, the wording in the report was changed to read underutilization of vehicles. Audit Agency correspondence showed that the change was made primarily because Air Staff personnel were concerned that agencies outside the Air Force (DOD and GAO) would interpret the findings incorrectly, resulting in unwarranted action. The changes did dilute the auditor's findings in this case since the term "excess" connotes too many, whereas underutilization implies that the vehicles were not being used according to some standard.

In another case the Audit Agency, through one of its divisions, initiated an audit of a contractor-operated program. The audit, performed at 12 Air Force bases, showed that (1) the contractor was overbilling the Air Force by at least \$100,000 for parts not listed on standard price

lists, (2) the contractor was not passing on discounts to the Air Force, (3) some documents supporting contractor claims had been altered, and (4) the contractor was not using the lowest prices available for parts.

Instead of issuing a Summary Report of Audit, normal for this kind of review, the division issued a letter to the Air Force Deputy Chief of Staff for Logistics outlining its findings. According to Audit Agency correspondence, this was done to keep the data within Air Force channels and to allow the Air Force to clean up the problem area before an audit of the entire program operation was performed and reported directly to the Secretary of Defense.

As part of its reporting procedures, the Audit Agency is required to notify the Office of Special Investigations when potential fraudulent acts are found. The responsible audit division delayed for about 5 months before notifying the Office of Special Investigations. The Auditor General told us that a letter report was issued because the scope of the audit involved only one contractor, not as a means of suppressing information concerning fraud. The correspondence, however, shows that Audit Agency personnel were, in our opinion, too concerned with the Air Force image in these circumstances. This concern dictated the type and level of reporting and resulted in delays in notifying the proper investigative officials.

CONCLUSIONS

Internal auditing should extend to all agency activities. The Air Force auditors are in the best position to identify and select activities that should receive their audit attention. With consideration for management's information needs, the auditors should be free to do so without interference.

Moreover, we rely on internal audit coverage in planning our work and have access to all internal audit reports. Air Force inspection reports, however, are not routinely made available to us. Thus, preventing the Air Force Audit Agency from auditing functional areas by substituting inspections of these functions could result in significant problems not being surfaced or reported to top DOD and Air Force management and our office and could substantially increase our need for auditing these activities.

A more serious impairment of independence results when individuals external to the Audit Agency modify, or cause

to be modified, the meaning of internal audit reports to avoid what they perceive to be unwarranted conclusions by higher level command or external organizations. Changing the meaning of audit reports can distort the information needed by top level commanders to manage their operations effectively. It impairs the independence of the auditor when he is unable to report conclusions and recommendations based upon objective, verifiable evidence. Further, such practices are inconsistent with our audit standards.

RECOMMENDATIONS

We recommend that the Secretary of Defense direct the Secretary of the Air Force to:

- Clearly specify in the mission statement of the Air Force Audit Agency that the Agency has no limitations in selecting the activities for audit, determining the scope of audit work, and reporting its audit results.
- Revise Air Force regulations to specify the respective scope of internal audits and inspections, explain differences between them, and emphasize that they are complementary rather than duplicative.

DOD COMMENTS

In his reply, the Assistant Secretary of Defense (Comptroller) agreed that within the context of proper audit management, no restrictions should exist in selecting audit subjects, determining the scope of work, or reporting audit results. He said that:

- Air Force regulations specifying that all Air Force components, functions, activities, and operations subject to audit will be amended to reinforce that the Air Force Audit Agency will have no limitations in the selection and scope of audit subjects or the reporting of audit results.
- Applicable Air Force regulations will be reviewed and revised as appropriate to delineate the differences between the audit and inspection function, emphasize their complementary nature, and describe the scope of each function.

We believe that these actions, if properly implemented, should provide for more independent, indepth audit coverage of a broader range of functional areas that are important to top level Air Force managers and should eliminate any confusion of the respective responsibilities of the Auditor General and the Inspector General.

In its response to the Secretary of Defense on "Limitations on Reporting" (discussed on pp. 43-45), the Air Force said that the Audit Agency supports and adheres to the GAO standards on reporting. This reporting standard advocates that report drafts be made available for advanced review and comments by persons or officials whose operations are discussed in the report draft and that comments on the report drafts should be objectively considered and evaluated and appropriate recognition given to them.

The Air Force inferred that we objected to soliciting agency comments. We did not intend to infer that--what we objected to was the changing of reports to avoid misinterpretation or criticism from outside sources.

CHAPTER 4

THE AIR FORCE AUDITOR GENERAL

SHOULD BE A CIVILIAN

The position of the head of the Air Force Audit Agency should be filled with a qualified civilian. Contrary to DOD policy, the Audit Agency is headed by a high ranking military officer.

DOD Directive 1100.4 states that the military services should employ civilians in positions that do not

- require military incumbents for reasons of law, training, security, discipline, rotation, or combat readiness;
- require a military background for successful performance of the duties involved; or
- entail unusual hours not normally associated or compatible with civilian employment.

DOD Directive 1100.9 states that the management positions in professional support activities should be designated as military or civilian according to the following criteria.

"Military--when required by law, when the position requires skills and knowledge acquired primarily through military training, and experience, and when experience in the position is essential to enable officer personnel to assume responsibilities necessary to maintain combat-related support and proper career development.

"Civilian--when the skills required are usually found in the civilian economy and continuity of management and experience is essential and can be better provided by civilians."

In an article for the Defense Management Journal in October 1976, the Assistant Secretary of Defense (Manpower and Reserve Affairs), stated:

"Defense Department policy is that each position be filled by a civilian unless it can be proven that a military person is required. As a result, the burden of proof is on the Services to show that each

position programmed as a military space can only be filled by a military person."

DOD policy and regulations notwithstanding, the Air Force has followed the practice of appointing a high ranking military officer to the position of Auditor General. Because military officers are subject to periodic rotation, many officers have held this position. The Audit Agency has had four different Auditor Generals since 1970.

CONCLUSION

Because the position of Auditor General of the Air Force entails skills found in the civilian community and does not require the factors set forth by DOD criteria for using military personnel, this position should be filled by a qualified civilian. This arrangement would not only be consistent with DOD policy but would also, in all likelihood, provide a longer tenure for incumbents of the position, resulting in greater continuity of management policies and procedures.

A similar conclusion was reached by an Advisory Committee to the American Institute of Certified Public Accountants in 1970. The committee's analysis of the audit function in DOD was prepared for the Blue Ribbon Defense Panel and included as an appendix to the Panel's July 1970 report to the President. The committee recommended that the head of each of the audit groups in DOD (including the Air Force Audit Agency) be a civilian, preferably a GS-18 with considerable expertise in audit management. According to the committee, this recommended change

"* * * would provide a longer period of tenure for the head of the audit group, assuring greater continuity of audit policy and direction than is likely to be attained under the present arrangement of having the group headed by a military officer who usually has had little or no professional experience in internal auditing."

RECOMMENDATION

We recommend that the Secretary of Defense direct the Secretary of the Air Force to fill the position of Auditor General of the Air Force with a professionally qualified civilian.

DOF COMMENTS

In his reply the Assistant Secretary said DOD would reassess having a civilian Auditor General position after appointing civilians to the Air Force Audit Agency.

We believe this is inconsistent with prior positions taken by the Assistant Secretary in two respects. First, in prior action both he and the Secretary of the Army agreed with us that the head of the Army Audit Agency should be a civilian. Accordingly, the Army replaced the military chief of the Agency with a qualified civilian. Our recommendation that the Air Force Auditor General be a professionally qualified civilian was identical to that made in a July 26, 1977, report to the Congress. 1/

Second, the Assistant Secretary and the Secretary of the Air Force have agreed that almost 500 other military positions in the Air Force Audit Agency will be converted to civilian ones over the next 3 to 4 years beginning with fiscal year 1978. (See p. 20.) This position is in agreement with our recommendation and in accordance with the same criteria--DOD regulations and policy. It is, on the other hand, inconsistent with the Assistant Secretary's current position on hiring a civilian for Auditor General.

We know of no compelling reason why the position of Auditor General of the Air Force should not be filled with a professionally qualified civilian in accordance with DOD regulations and policy. We therefore continue to believe that the Secretary of Defense should direct the Secretary of the Air Force to appoint a professionally qualified civilian as Auditor General of the Air Force.

1/"Why the Army Should Improve Its Internal Audit Function" (FGMSD-77-49).

CHAPTER 5

THE AIR FORCE SHOULD APPOINT CIVILIANS

AS MILITARY INTERNAL AUDITORS

The Air Force Audit Agency can realize significant savings, contribute to the career development opportunities and the continuity of its staff, and conform to Public Law and DOD regulations and policy by appointing civilians to staff positions held by military internal auditors.

Congressional appropriation language contained in Public Law 93-365, dated August 5, 1974, states that:

"* * * It is the sense of Congress that the Department of Defense * * * shall use the least costly form of manpower * * * consistent with military requirements and other needs of the Department. * * *"

Congressional appropriations language and DOD policy and directives notwithstanding (see p. 15), the Audit Agency currently maintains a staffing mixture of approximately 50 percent military and 50 percent civilian as follows:

	<u>Military</u>	<u>Percent</u>	<u>Civilian</u>	<u>Percent</u>
Audit and technical	453	54	380	46
Administrative and support	<u>37</u>	<u>21</u>	<u>141</u>	<u>79</u>
Total	<u>490</u>	48	<u>521</u>	52

An Air Force task group, convened in 1972 to establish an appropriate mixture of personnel, determined that the staffing mixture in the Audit Agency should be approximately 50 civilian and 50 military. The task group concluded that these percentages were needed to satisfy rotation, policy, career development, and staffing requirements for military staff assigned to the Audit Agency. However, the group considered that only the rotation requirement was relevant to determining a specific numerical requirement for military auditors.

OPPORTUNITY TO REALIZE SAVINGS

The Air Force could streamline the internal audit function and reduce operating costs by about \$2.14 million annually if the Audit Agency were staffed entirely by civilians.

We made a comparison of civilian and military personnel costs using the Senate Committee on Appropriations' (DOD Appropriation 13.11, 1976) analysis of relative comparability of civilian and military compensation and benefits as of October 1, 1975. Although the committee's analysis included both direct and indirect compensation, we did not take into account additional costs to the Air Force required to maintain the Audit Agency's rotation of military personnel. These costs do not include permanent change-of-station movements of military staff and their household goods and dependents, amounting to about \$294,378 in 1976.

Our comparison shows that, from the rank of Staff Sergeant to Major General, the average total annual compensation and benefits of military personnel exceeds that of civilians in comparable grades by amounts ranging from \$3,160 to \$13,465.

In computing the cost savings based on the equivalency of rank and grade, we multiplied the differences in total compensation and benefits per equivalent rank and grade by the average number of personnel assigned as of June 30, 1975, and March 31, 1976. This computation shows a potential costs savings of \$2.14 million a year if the Audit Agency were staffed entirely with civilians.

CONCLUSIONS

Military auditor positions entail skills found in the civilian community and do not meet requirements set forth in DOD criteria for using military personnel. (See p. 16.)

By converting military positions to civilian ones, as contemplated by congressional appropriation language and DOD directives, the Air Force Audit Agency could save an estimated \$2.14 million annually and reduce turnover resulting from frequent relocation of military personnel.

We recognize that a limited number of positions for junior officer training and development may be desirable. These positions, if deemed necessary, should be categorized as auditor-intern or management-intern positions with limited policymaking and audit management responsibilities. We know of no compelling reason, however, that 50 percent of the positions need to be military.

RECOMMENDATION

We recommend that the Secretary of Defense direct the Secretary of the Air Force to take the necessary action to

bring the Air Force Audit Agency into compliance with DOD directives by converting internal auditor and audit management positions now filled by military personnel to civilian.

DOD COMMENTS

The Assistant Secretary agreed with our recommendation and said the Air Force will convert 100 military auditor positions to civilian positions in fiscal year 1978. According to the Assistant Secretary, continued progress toward this goal of converting to civilian auditors will be effected during the next 3 to 4 years.

We believe this change, if properly implemented, will provide an orderly transition from military to civilian positions, with the least disruption of mission-related functions of the Audit Agency.

CHAPTER 6

IMPROVEMENTS NEEDED TO BRING ABOUT

MORE EFFECTIVE USE OF STAFF

To meet its internal audit responsibilities and carry out its primary mission, it is imperative that the Air Force Audit Agency be prudent in using its staff resources. In our opinion, the Audit Agency can more effectively use its staff by improving its organization structure and eliminating or reducing audit work that is not sufficiently productive to warrant allocation of scarce staff resources.

PRIMARY AUDIT RESPONSIBILITY

The Audit Agency's responsibility, as set forth in Air Force Regulation 23-38, is to provide the Air Force at all levels with an independent and objective internal audit service that evaluates the effectiveness with which the Air Force resources are being controlled and managed. Implicit in this mission statement is the mandate that the Audit Agency is primarily concerned with management's control of funds appropriated by the Congress.

RESIDENT AUDITOR CONCEPT REDUCES AUDIT EFFECTIVENESS

The Air Force Audit Agency should consider reorganizing under a regional or district audit concept similar to those of the Army Audit Agency and the Naval Audit Service. Unlike the Army and Navy audit organizations, the Air Force Audit Agency maintains 2 regional and 87 resident audit offices at major commands and bases worldwide. Army and Navy auditors are highly mobile within regional or geographical boundaries of specified districts, but Air Force auditors remain, for the most part, in fixed locations.

The principal advantage of a regional office concept over that of the resident audit office is the ability of audit managers to identify and concentrate scarce audit resources on the most important functional areas of management concern. We noted in the Air Force Audit Agency that this management control feature is lacking, because about 45 percent of direct audit time available to the Audit Agency is necessarily dedicated to discretionary use by its resident auditors. The discretionary audit time is used by the resident auditor to examine base level operations the auditor deems appropriate and to perform commander-requested and nonappropriated-fund audits. The latter two

kinds of audit work consume 17 percent of direct audit time available to the Audit Agency.

During the quarterly planning process, the Audit Agency attempts to coordinate the discretionary time used by resident auditors into its overall plan for coverage of all major functional areas. The Audit Agency has not been able to meet audit frequency objectives for major functional areas prescribed by DOD, however, and on occasion has canceled or deferred audits of these areas because of a shortage of qualified supervisors and staff. We also noted that several major functional areas received only a small percentage of available audit time as follows.

<u>Functional area</u>	<u>Percent of direct time</u>
Systems acquisition	7.6
Automatic data processing systems	2.1
Communications	1.0

In our opinion, the Audit Agency's resident auditor concept and resulting allocation of a significant portion of direct audit time to discretionary use by resident auditors contributes to increased audits in less important areas and may result in delays or cancellations of audit work in important functional areas. Further, it deprives Air Force management of the full benefit of auditing in evaluating major functional areas of Air Force operations.

COMMANDER'S AUDIT PROGRAM

The Audit Agency is allowed to spend up to 15 percent of staff time on audits specifically requested by Air Force commanders. These audits, which are evaluations of local problems already identified by commands, result in reports with limited distribution and low visibility. The audits are performed on a privileged basis, in that reports are distributed only to requesting commanders and no followup on recommendations is made. Consequently, corrective action is at the discretion of commanders.

The Audit Agency's policy is to encourage command requests for audits to (1) insure the availability of personalized audit service in areas of primary concern to local commanders and (2) improve audit service to commanders as well as the relationship between the Audit Agency and all levels of Air Force management.

Although the commander requests do benefit local commanders in varying degrees, our review of selected program reports showed that auditors were performing tasks usually associated with normal management staff functions, such as legal research and compilation of statistical data. We noted that Comptroller organizations are established at each level of command and are required by statute to assist commanders in these functions. Comptroller organizations, through their management analysis functions, have become a primary source for supplying data to commanders and their operating staffs for planning, organizing, and carrying out their missions.

NONAPPROPRIATED-FUND AUDITS

The Air Force Audit Agency devotes 9 percent of its direct audit time to audits of nonappropriated-fund activities, such as commissaries and clubs which are operated for the benefit of military personnel and their dependents. The Audit Agency is not reimbursed by the audited activities for the cost of this work, estimated to be about \$1.8 million.

Under DOD and Air Force policy, 25 percent of the Air Force clubs and open messes are audited by independent public accountants, who are paid for their services from the profits of these nonappropriated-fund activities. The Air Force Audit Agency is responsible for auditing the remaining 75 percent of these activities on a nonreimbursable basis. According to DOD instructions, each significant nonappropriated-fund activity is supposed to be audited at least once every 2 years, which is the same frequency goal DOD has set for significant appropriated-fund activities.

Until April 1976, the Audit Agency followed a more conservative practice of auditing funds not audited by public accounting firms annually, regardless of need, because of improper activities in these funds in the Far East and Europe and the subsequent notoriety they received in 1969. Since April 1976, however, audits of nonappropriated funds are made on a 2-year cycle as prescribed by DOD instructions. Under this reduced audit coverage, the Audit Agency is still able to meet audit frequency goals for nonappropriated funds, while audits of some appropriated activities have been canceled because of limited staff availability.

CONCLUSIONS

The Audit Agency's use of scarce staff resources for secondary efforts and its organizational structure requiring

large amounts of staff time for discretionary use of resident staff has significantly reduced its capability to perform its primary mission and decreased its value as a management tool.

The resident audit office concept followed by the Audit Agency is questionable from a management viewpoint, because it results in relatively uncontrolled use of large blocks of staff time for audits of base level activities at a time when the Audit Agency has experienced difficulty in meeting audit frequency objectives for major functional areas.

A similar conclusion was reached by the American Institute of Certified Public Accountants Committee (discussed on p. 16). The committee concluded that the Audit Agency should be organized on the basis of large groups (organized by regions as in the Army and Navy). The committee said that under its present structure it is difficult for the Audit Agency to assign personnel with appropriate audit experience; on-the-job experience suffers from inadequate supervision; transfers, retirements, and resignations have serious impact on the small audit groups; and these small groups tend to limit promotional opportunities for civilian employees.

The Audit Agency's policy of conducting audits requested by commanders on specific local problems, with reporting limited to the requesting commanders, results in reduced effectiveness of the auditing and reporting functions of a central audit agency. These types of efforts appear to be within the scope of internal review or Comptroller responsibilities.

Using internal auditors to audit nonappropriated-fund activities is also questionable from a management viewpoint, because these audits represent a free service provided at taxpayer expense to activities set up to be largely self-supporting. It is important to note that audit frequency goals for these activities are being met, but similar goals for appropriated-fund audits, the Audit Agency's primary mission, are not being met.

RECOMMENDATIONS

We recommend that the Secretary of Defense direct the Secretary of the Air Force to improve the Audit Agency's organizational structure and system of management control to bring about more effective use of staff. Among the alternatives to be considered are

- significantly reduce the number of commander-requested audits performed as well as staff used for nonaudit functions,

- reduce audits of nonappropriated-fund activities. and
- reorganize the Air Force Audit Agency along the regionalized lines employed by the Army Audit Agency and Naval Audit Service.

DOD COMMENTS

The Assistant Secretary, although not disagreeing with our recommendation to reduce commander-requested audits significantly, pointed out that these audits consume about 8 percent of the total Audit Agency effort. He said that most of these audits produce independent appraisals of local functions and activities for installation commanders, and about 25 percent are performed for commanders above the installation level. Although the Assistant Secretary did not say that these audits would be reduced, he did say that he will reemphasize the need to devote additional resources to mission-oriented audits.

On performing nonappropriated-fund audits, the Assistant Secretary commented that he will continue to require the central audit organizations to perform a limited number of these audits and to monitor the quality of audits by others. He also said the Air Force Audit Agency is currently applying only 7 percent of its resources to these audits and is taking additional measures to apply fewer resources, such as extending audit cycles from 2 years to 3 or 4 years.

In his reply, the Assistant Secretary commented in part that he is aware of the differences between the Air Force audit residence concept of operations and the predominantly regional concepts used by the other DOD audit organizations. He said that since the audit approach used by the Air Force does not exactly parallel the audit approaches used in the Army and Navy, the regional concept may not be appropriate for Air Force audit operations.

The Assistant Secretary continued that recent deactivation of some 25 residencies and their absorption by larger residencies represents a movement toward a regional concept. According to the Assistant Secretary, the Air Force is currently evaluating this configuration and will continue to adjust the organization to achieve the most effective use of staff.

The Secretary of the Air Force, in his reply to the Assistant Secretary, however, stated in part that at present the Air Force believes that such factors as the distribution

of audit workload and travel costs tend to favor the current deployment of personnel.

Although we did not review this matter in depth, we nevertheless were concerned primarily with the most effective use of staff and the best organizational arrangement to achieve this. As we stated on page 22, a significant portion of available staff time is dedicated to residencies to be used at the resident auditors' discretion.

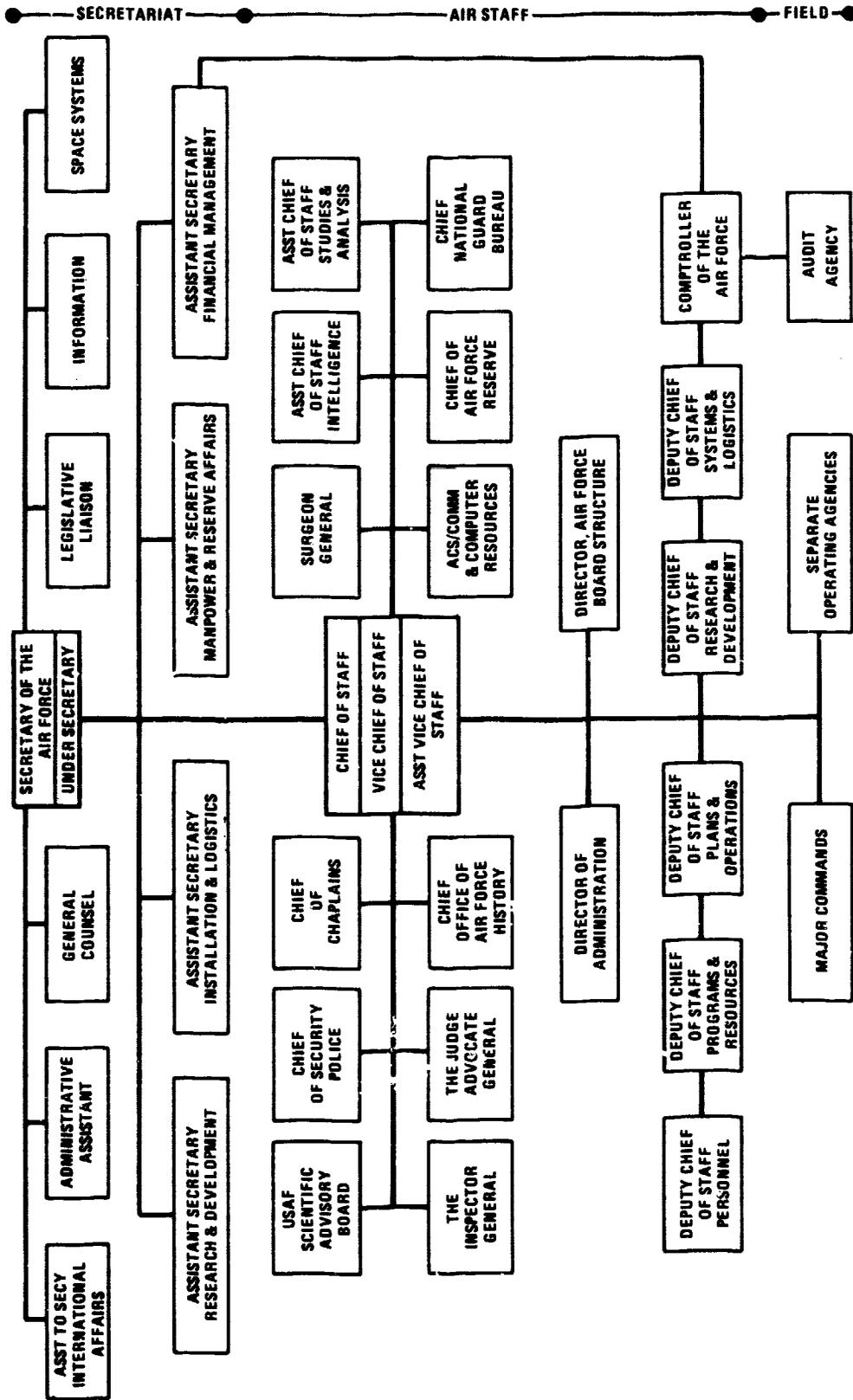
We agree that such factors as distribution of audit workload and travel costs are factors to be considered when assessing the cost to benefits of one approach versus another. However, we are not aware that the Air Force has made such a study.

In our opinion the additional travel costs could be more than offset through effective use and control of resident auditors' discretionary time for more important work on a geographical basis.

We believe the Secretary of Defense should direct the Secretary of the Air Force to study this matter further and, if warranted, direct the Audit Agency to reorganize along the regional lines employed by the Army Audit Agency and Naval Audit Service.

We also believe that the Secretary of the Air Force should direct the Audit Agency to reduce its coverage of commander-requested audits significantly while the study is underway.

DEPARTMENT OF THE AIR FORCE



DEPARTMENT OF THE AIR FORCE
Headquarters US Air Force
Washington DC 20330

AF REGULATION 175-4

16 December 1974

Auditing

AUDITING IN THE AIR FORCE

This regulation states the basic concepts, objectives, policies, and scope for internal auditing in the Air Force as prescribed in AFR 23-38. It implements DOD Directive 7600.2, 12 August 1965, DOD Instructions 7600.3 and 7600.6, 4 January 1974, and GSA Federal Management Circular 73-2, 27 September 1973.

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1. Terms Explained:

a. Internal Audit. The independent, objective and constructive review and appraisal of the effectiveness and efficiency with which managerial responsibilities (financial, operational, and support) are carried out at all levels of Air Force management.

b. Commanders Audit Program. Established by the Air Force Audit Agency (AFAA) for responding to requests by commanders for audit assistance.

c. Report of Audit. Identifies the scope of the audit and conveys the auditor's findings and recommendations to the responsible manager(s) for appropriate action. Reports of audit may result from the auditor's evaluation of (1) management systems in being or (2) management systems under development, test, or major modification. (See attachment 1 for types of reports.)

2. Basic Concepts of Audit Operations:

a. Internal audit is directed toward determining whether management controls and procedures are adequate in concept, effective in application, and that they provide financial integrity, effective use of resources, and efficient accomplishment of management objectives.

b. The existence of an internal audit staff in no way relieves other personnel of duties and responsibilities. Commanders are responsible for proper management; for protection and use of resources; for compliance with

directives from higher authority; and for the accuracy, propriety, and legality of their actions.

c. The internal auditor does not have the authority to change or to order changes in the procedures or operations of the activities audited. He is not responsible for developing systems, methods, and procedures, nor for the performance of any regular or additional duties constituting a part of line or staff operations. Such responsibilities would tend to give him a biased viewpoint since, in the course of audits, he would be appraising his own work. The auditor may call attention to problem areas concerning procedures or operations of the activities audited and provide advisory assistance to system development personnel.

d. Management determines what action will be taken on audit findings and recommendations and effects the required action. The internal auditor follows up on recommendations to determine whether they were given adequate consideration. He determines that management's orders to accomplish changes and correct deficiencies are effective.

e. Cyclical detailed audits of all activities are impractical and unnecessary. The frequency of audit and the extent of audit coverage depend on a balancing of audit resources with:

(1) Requirements of laws and higher level directives.

Supersedes AFR 175-4, 14 Nov 1972. (For summary of revised, deleted, or added material, see signature page.)

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(2) Needs of management, susceptibility of assets to loss or misuse, and the distribution of Air Force resources.

(3) Appraisals of the adequacy of systems, procedures, and internal controls.

f. Requests by commanders for audit assistance will be accommodated to the extent audit priorities and resources allow.

3. Acceptance and Use of Audit. Air Force commanders will:

a. Support internal audit as an important element of the managerial control system.

b. Not require audit personnel to provide them or their subordinates with advance notification of an unannounced audit. The element of surprise is crucial in certain audits.

c. Cooperate with auditors in providing:

(1) access to personnel, documents, records, and installation work areas, and,

(2) office facilities and arrangements to accomplish the audit mission.

d. Accord prompt and constructive management action to findings and recommendations reported by auditors. (See para 8.)

e. Establish followup systems to assure accomplishment of the above by all management levels involved. (See AFR 175-2.)

f. Advise the Air Force Office of Special Investigations of audit findings indicative of violations of trust. (See AFR 124-8.)

4. AFAA Audit Objectives:

a. To perform internal audits, as directed by higher authority, in the scope and depth required for effective management.

b. To perform internal audits of all Air Force operations, systems, functions, areas, and activities.

c. To assist in improving Air Force operations by providing internal audit service to all levels of management.

d. To report the results of internal audit to the appropriate level of management.

e. To determine that planned corrective actions in response to audit reports are completed by Air Force managers on a timely basis.

f. To evaluate the effectiveness of actions taken by managers to correct deficiencies presented in audit reports.

5. Audit Policies. To meet audit objectives the AFAA will:

a. Program internal audits commensurate with management needs and audit resources.

b. Emphasize audits of activities which hold assets that are susceptible to loss or misuse, and audits in areas which represent the bulk of Air Force investments in funds, property, or other resources.

c. Exercise centralized management and program control over decentralized audit operations.

d. Give primary concern to the prevention of deficiencies, and secondary concern to the detection of deficiencies and errors which occurred in the past.

e. Bring deficiencies to the attention of managers and accountable, responsible, or custodial officers promptly upon disclosure.

f. Discuss audit results with responsible commanders or their designated representatives to improve mutual understanding of those results before issuing a report of audit.

g. Address reports of audit to the management level which has the authority and responsibility to assure that appropriate corrective action is taken on audit findings and recommendations. Address and distribute reports under the Commanders Audit Program only to the commander requesting audit assistance. (Subject to the limitations of para 8a(4).)

h. Followup on the adequacy of action taken to correct deficiencies reported in reports of audit issued at installation level, within a reasonable time after completion of the audit. Followup in the depth necessary, considering the importance of the area audited. Verify the effectiveness of the commander's followup system (see para 3e). If corrective action was not taken or if action was not adequate to correct the deficiencies, a report of audit explaining the current status of the deficiencies will be sent to the addressees of the original report.

i. Keep other governmental audit, inspection, and investigative agencies apprised of AFAA activities. The nature, quality, and scope of the audits performed by the AFAA are considerations affecting the manner in which those other agencies discharge their audit, inspection, and investigative responsibilities. Close coordination of audit plans and schedules reduce unnecessary overlap of audit, inspection, and investigation. Consultation between the AFAA and other governmental agencies on audit, inspection, and investigation plans, procedures, methods, and techniques promotes a better understanding of each other's objectives. This improves the overall audit, inspection, and investigation plan. Audit plans should be coordinated with the Air Force Office of Special Investigations and the Air Force Inspection and Safety Center.

j. Review other governmental audit and inspection agencies' planning documents and reports as source data in planning the breadth, scope, and coverage of audits. Assure that problem areas reported by those agencies are provided audit attention.

6. Scope of Audit Activities:

a. All Air Force organizational components, functions, activities, and levels of operations (with exceptions specified in AFR 23-38) are subject to comprehensive audit which includes:

(1) Examining and appraising the soundness, adequacy, and effectiveness of policies, systems, procedures, records, and reports relating to

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programming, budgeting, accounting, procurement, supply, financial or business transactions of all kinds, and other operations having an impact on the expenditure of funds, use of resources, or accomplishment of management objectives.

(2) Appraising performance under, and ascertaining the extent of compliance with established policies, procedures, regulations, laws, and so forth.

(3) Ascertaining whether resources (funds, personnel, materiel, real property, and so forth) are properly justified, used, accounted for, disposed of, and safeguarded from loss.

(4) Disclosing inefficiency, waste, and other improper conditions.

(5) Reviewing and evaluating management systems which are under development or major modification.

(6) Ascertaining the reliability and timeliness of management data, and evaluating the need and usefulness of such data in relation to cost.

b. Audits within combat theaters will emphasize the adequacy and effectiveness of the support furnished combat forces and the controls in being to prevent unauthorized diversion of equipment, supplies, or other resources. Functions to be covered, to the extent feasible, will include logistics functions (supply, procurement, maintenance, construction, and so forth), assistance to allied military forces, and administrative support activities. Audits will not interfere with combat operations nor obstruct related United States purposes.

c. While the scope of internal audit is broad, it does not include criticism of management decisions based on after-the-fact substitution of the auditor's judgment for that of responsible management. Most management decisions involve some degree of risk and uncertainty. Thus, the fact that later events prove a decision to be wrong is not, taken by itself, a subject for audit reporting. It becomes a subject, however, if the decision indicates inefficient operations, inadequate procedures, or other deficiencies, the reporting of which would lead to system or procedural improvements or the avoidance of errors. The following are illustrative:

(1) Erroneous decisions made on the basis of incorrect or incomplete data because of deficiencies in the information system.

(2) Erroneous decisions arising from failure to consider data which were available at the time the decision was made.

(3) Decisions resulting in actions which were contrary to law, policy, or regulations. (See para 8a(5).)

AFR 123-1 1 August 1975

SECTION A — OBJECTIVE, CONCEPT, AND SCOPE OF THE INSPECTION SYSTEM

1. System Objective. The Air Force inspection system provides the Secretary of the Air Force; the Chief of Staff, USAF; the MAJCOM commanders; and the commanders of SOAs:

- a. A capability to maintain continuing surveillance over the status of readiness within the commands.
- b. A measure of effectiveness and efficiency of management systems.
- c. A management technique to identify, assess, and resolve significant problems and to recognize exceptional managers and management practices.
- d. An evaluation of the adequacy of safety and occupational health programs to include applicable provisions of the Occupational Safety and Health Act (OSHA), Public Law 91-596; E.O. 11807, 28 September 1974; and AFR 127-12.
- e. Factual information on which to base action if a management system is not achieving maximum effectiveness.

2. System Concept:

a. Inspection is an inherent responsibility of command and a proven management control system. The success of a command inspection system varies proportionately with the commander's personal emphasis.

b. Findings and observations resulting from inspections must be factual and objective. It is important to:

(1) Identify existing problems. Determining and enforcing compliance with regulatory requirements is primarily a staff responsibility. Widespread non-compliance may indicate an underlying management problem and should be identified by inspections; however, purely compliance-oriented inspections are to be avoided.

(2) Attempt to determine the root causes of significant problems.

(3) Assess the impact of problems on mission accomplishment. Only significant problems should be cited in the formal inspection report. Minor deficiencies should be provided separately and, while requiring correction, do not require response.

(4) Attempt to recommend corrective action for permanent resolution of problems.

(5) Identify exceptionally innovative and effective personnel and management techniques or procedures.

(6) Provide clear and concise reports.

(7) Evaluate the adequacy of corrective actions.

3. System Scope. The inspection functions of HQ USAF, the MAJCOMs, and SOAs constitute the inspection system. Except as authorized in AFR 20-68, inspection functions below HQ USAF are centralized at the MAJCOM and SOA level. Through this system, factual evaluations of the effectiveness and economy of Air Force policies, plans, operations, procedures, and safety programs are provided. The

inspection system extends into every field of Air Force affairs. The system includes inquiries into:

a. The adequacy of Air Force preparedness to carry out an assigned role as a national defense agency.

b. The state of training, readiness, combat capability, and logistic support.

c. The ability of units and individuals to perform their missions and functions effectively and economically.

d. The leadership, discipline, morale, health, and welfare of units and individuals.

e. The management of Air Force occupational safety and health programs to include all aspects of the implementation of statutory federal safety and health legislation such as the OSHA, Public Law 91-596.

f. The development and execution of Air Force programs, including the computation of requirements.

g. The management of research and development and system acquisition programs to insure that Air Force needs are fulfilled promptly, efficiently, and economically.

h. The effectiveness and economy of management practices and procedures. This includes identifying those meriting recognition or consideration for use by other Air Force organizations.

i. The effectiveness of unit inspection and complaints programs.

j. Security programs, including the:

(1) Security of Air Force installations, resources, and weapon systems.

(2) Maintenance of military law and order.

(3) Administration of confinement and retraining facilities.

(4) Safeguard of classified information and material in the custody of military units and Department of Defense (DOD) contractors.

k. The administration of personnel, pay, classification, and assignment; the management of the human and personnel reliability programs; the application of military justice; the treatment of military personnel in confinement; and the supervision of voluntary educational programs (AF Education Services Program).

l. The economical and effective use of personnel materiel, installations, facilities, and funds, with emphasis on the safe and economical maintenance and operation of weapon systems and associated equipment. (See United States Property and Fiscal Officer (USP&FO) inspection procedures, in paragraph 14q(1), for ANG units.)

m. All aspects of materiel and services procurement. This includes planning, programming, and controlling materiel and services, and the legality and economy of contract negotiations and administration.

n. Compliance with laws and regulations, and the determination if these publications are ineffective, impracticable, uneconomical, or otherwise deficient.

o. Mission and management effectiveness in Air Force components of unified or specified commands.

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(1) When directed by the Secretary of Defense or Joint Chiefs of Staff to conduct an inspection, request other services to provide personnel to serve on the inspection team.

(2) When requested by other services, evaluate the requirement for and the selection of personnel for joint inspections to be conducted by those services.

p. Air National Guard (ANG) and United States Air Force Reserve (USAFR) management to assure compliance with the Total Force Policy as directed by the Secretary of Defense. When ANG or USAFR units are converting to new missions, conversion plans at all levels of responsibility should be covered in enough detail to assure that the Total Force Policy was properly considered in the planning process.

q. Other subjects as directed by the Secretary of the Air Force; the Chief of Staff, USAF; or the commander concerned. The Chief, NGB and Chief, Air Force Reserve may request special inspections of ANG and USAFR activities. The Inspector General will direct the inspection to be conducted by the appropriate inspection agency.

4. Activities Subject to Inspection:

a. All functions and activities of a headquarters, wing, base, or unit are subject to inspection.

b. All organizations and activities will be inspected. Each MAJCOM and SOA inspector general will establish a plan for regular inspection of subordinate units. The maximum interval between inspections will be determined by the MAJCOM and SOA commander. EXCEPTIONS:

(1) Nuclear capable units must receive Nuclear Capability Inspections (NCI) at least every 18 months (AFR 123-9).

(2) ANG units will be inspected annually (once each calendar year) for those functions specifically identified in 32 U.S.C. 105 and 708.

(3) All subordinate organizations below squadron level not collocated with the parent unit need not be inspected regularly. As a minimum requirement, however, major commands should arrange to have a sample of such units inspected to assure that the missions are being accomplished satisfactorily.

c. The parent command and the gaining command for ANG and USAFR units (except medical units) are responsible for inspecting tenant activities; however, this responsibility may be met by the host command through use of host-tenant agreements (AFR 11-4).

(1) The host commander may inspect tenant activities on an installation under his command if he makes an advance agreement with the parent command. If the host is responsible for providing support to the tenant (such as security, supply, explosive ordnance disposal, and transportation), the tenant's parent command inspection prerogative is limited to determining the adequacy and quality of the support rendered. For example, if the host has a single-manager responsibility for weapon system security (AFR 11-4), the tenant's parent command will

limit its inspection to requirements of Air Force security directives as they apply to tenant resources. The tenant command evaluation will be limited to normal security, except for essential ORI evaluations (such as mass nuclear weapons loadings) which have been coordinated by the commands concerned.

(2) The host's parent command is responsible for determining the overall effectiveness of the host Security Police unit, including the support provided to both host and tenant resources under emergency security operations.

(3) All host and tenant activities engaged in explosives operations will be inspected by the host command for compliance with explosives safety. Each parent command should be provided results of the other's inspection.

5. Intercommand Unit Transfers. Unless prior inter-command arrangements are made, the losing command is responsible for completing the following inspections of units affected prior to the actual transfer date:

a. Any inspection due prior to the programmed transfer date.

b. Any inspection that will become due within 90 days after the programmed transfer date.

6. Access to Information. Each inspector is authorized access to any material related to the inspection commensurate with his security clearance and special access authorization (for example, Crypto, CNWDI, SSIR). Access to classified material will be on a need-to-know basis as directed by the commander ordering the inspection.

SECTION B — PERSONNEL POLICIES

7. Appointment of Inspectors. Inspectors general and inspectors are appointed by and are responsible directly to their commanders. Commanders having authority to appoint inspectors general are specified in AFR 20-68.

8. Inspector Qualifications. Inspectors should be selected only from personnel who are fully qualified in their AFSCs and are widely experienced in their utilization fields. When personnel are selected for inspection duties they should be scheduled immediately to attend The Inspection School. Personnel normally will complete the course prior to performing inspector duties.

EXCEPTIONS:

a. Class quota limitations or duty emergencies may preclude preinspection attendance. However, the course must be completed within 90 days of assignment.

b. Inspectors assigned to USAFE will attend the first available course offered in their area.



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

26 SEP 1977

Mr. Donald Scantlebury
Director, Financial and General Management
Studies Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Scantlebury:

This is in response to your letter of June 23, 1977, requesting comments on the recommendations in the GAO draft report titled, "The Air Force Audit Agency Can Be Made More Effective." The report stresses the vital nature of internal audit in a good management control system. In the report, the GAO auditors conclude that Air Force managers can obtain greater benefits from internal auditing by placing the audit function at a higher organizational level; eliminating all restrictions on audit selection, scope and reporting; converting the position of audit chief and military auditor positions to civilian; and making some revisions to audit priorities and operational concepts.

In general, we agree with the GAO recommendations and plan to take the following actions: The Air Force Audit Agency will report directly to the Secretary of the Air Force with direct access to the Chief of Staff, and will receive technical guidance and supervision from the Assistant Secretary (Financial Management). We will convert at least 100 military auditor positions to civilian positions in Fiscal Year 1978 and continued progress will be effected toward the goal of civilianization during the next three to four years. Civilianizing the Auditor General position will be reassessed as civilianization of the Air Force Audit Agency is accomplished. Appropriate regulations will emphasize our policy that there should be no restrictions on the scope of audit or reporting of results. The feasibility of using a more regionalized organizational approach within the Air Force Audit Agency will be re-evaluated. More specific comments on the recommendations addressed to the Secretary of Defense are contained in the attachment to this letter. Detailed comments by the Department of the Air Force also are attached for your information.

We appreciate this opportunity to comment on the GAO draft report, and will work closely with the Air Force in acting on the audit recommendations.

Sincerely,

Fred P. Wacker
Assistant Secretary of Defense

Enclosures



DoD Comments on GAO Draft Report"The Air Force Audit Agency Can Be Made More Effective"Recommendation

". . . relocate the Air Force Audit Agency under the Secretary or Under Secretary of the Air Force and have the audit staff report directly to that official."

Comment. Concur. The Air Force Audit Agency will report to the Secretary of the Air Force, have direct access to the Chief of Staff, and receive technical guidance and supervision on audit policy and management matters from the Assistant Secretary (Financial Management).

Recommendation

". . . clearly specify in the mission statement of the Air Force Audit Agency that there will be no limitations on the Agency in the selection of activities for audit, determining the scope of audit work, and reporting of audit results."

Comment. We agree that, within the context of proper audit management, there should be no restrictions in selecting audit subjects, determining the scope of work, or reporting audit results. Air Force regulations specifying that all Air Force components, functions, activities and operations are subject to audit will be amended to reinforce that there are no limitations on the Air Force Audit Agency in the selection and scope of audit subjects or reporting of audit results.

Recommendation

". . . revise Air Force regulations to specifically delineate the respective scope of internal audits and inspections, explain differences between them and emphasize that they are complementary rather than duplicatory."

Comment. Applicable Air Force regulations will be reviewed and revised as appropriate to delineate the differences between the audit and inspection functions, emphasize their complementary nature, and describe the scope of each function.

Recommendation

". . . fill the position of Auditor General of the Air Force with a professionally-qualified civilian."

Comment. The Air Force will reassess the recommendation as civilianization of the Air Force Audit Agency is accomplished.

Recommendation

". . . convert internal auditor and audit management positions now filled by military personnel to civilian."

Comment. Concur. The Air Force will implement a program to civilianize the Air Force Audit Agency during the next three to four years. As a start, at least 100 military auditor positions will be converted to civilian in FY 1978.

Recommendation

". . . significantly reduce the number of commander-requested audits performed."

Comment. Commander-requested audits consume about 25 percent of the total Air Force Audit Agency effort. Although most of this work produces independent appraisals of local functions and activities for installation commanders, about 25 percent of the commander-requested audits serve Air Force officials above the installation level, and over 80 percent of the time is applied to high-priority (mission related) areas. We will, however, re-emphasize the need to devote additional resources to mission-oriented audits.

Recommendation

". . . reduce audits of nonappropriated fund activities."

Comment. Congressional guidance requires the Department to support troop morale and welfare services, and audits are one critical management control of this requirement. Thus, we will continue to require the central audit organizations to perform a limited number of nonappropriated fund audits and monitor the quality of audits performed by others. Air Force Audit Agency is currently applying only 7 percent of its resources to these audits (down from 11 percent in FY 1975) and is taking additional measures to apply fewer resources to these audits, e.g., extending audit frequencies or cycles from two years to three or four years.

Recommendation

". . . reorganize the Air Force Audit Agency along the regionalized lines employed by the Army Audit Agency and Naval Audit Service."

Comment. We have continuously been concerned about the proper placement of the DoD audit organizations and the cost effectiveness of their deployment of auditors. We are aware of the difference between the Air Force audit residence concept of operations and the predominantly regional concepts used by the other DoD audit organizations. Since the audit approach used by the Air Force does not exactly parallel the audit approaches used in the Army and Navy, the regional concept may not be as appropriate for Air Force audit operations. There have, however, been some recent changes in Air Force audit concept and approach which have resulted in the deactivation of 25 audit residencies (a 22 percent reduction, from 112 to 87) during FY 1976. The absorption of smaller resident offices by larger resident offices represents a movement toward a regional concept. The Air Force is currently evaluating this configuration and will continue to adjust the organization to achieve the most effective use of staff.

DEPARTMENT OF THE AIR FORCE
WASHINGTON 20330

OFFICE OF THE SECRETARY

AUG 18 1977

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: GAO Draft Report, dated June 23, 1977, "The Air Force Audit Agency Can Be Made More Effective" (OSD Case #4573-A)

The Air Force has been requested to provide comments to your office on this GAO report, the stated purpose of which was to review Audit Agency (AFAA) operations and organization in relation to the GAO audit standards.

A summary of the Department of the Air Force position on the GAO recommendations follows; details are provided in the attachments.

o Relocate AFAA Under Secretary of the Air Force.

The Air Force recommends that the organizational placement of the Air Force Audit Agency be changed by the Secretary of Defense to provide that the Auditor General will report to the Secretary of the Air Force, have direct access to the Chief of Staff, and receive day-to-day staff supervision from the Assistant Secretary for Financial Management. (Atch 1)

o Remove Limitations on the Scope of Internal Audits.

Air Force regulations and AFAA actions clearly show that the Auditor General complies with GAO standards in selecting audit subjects, conducting audits and reporting audit results. Auditor/inspector planning coordination promotes efficient use of critical resources. The procedure of correcting draft audit reports when new evidence is surfaced during client/auditor discussions is in accordance with GAO reporting guidance. However, Air Force directives will be modified to strengthen the audit mission statement and clearly specify the complementary relationship between audit and inspection. (Atch 2)

o Convert Auditor General to a Civilian Position.

At present, when the composition of audit personnel is largely military, we believe it would be best to continue the existing arrangement of having a general officer in the Auditor General position and a senior civilian (GS-17) in the Deputy Auditor General position. However, as described below, during the next four years, the Air Force has committed

itself to changing the military/civilian mix so that AFAA will become substantially a civilian organization. As that occurs, and prior to the normal rotation date of the military incumbent, we will carefully reassess the advantages of designating a civilian as the Auditor General. (Atch 3)

o Convert Almost 500 Military Auditor Positions to Civilian.

The Air Force agrees with this GAO recommendation and will proceed with the civilianization of the Air Force Audit Agency. At least 100 military audit positions will be converted to civilian positions in fiscal year 1973 and continued progress will be effected toward the goal of civilianization during the next 3 to 4 years. (Atch 4)

o Reorganization Along Regional Lines.

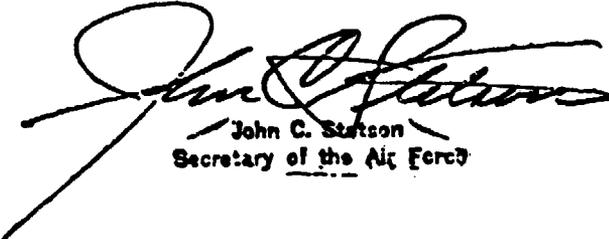
The Air Force recognizes that there are significant advantages in organizing the Audit Agency in terms of regional offices. During the past three years, the Audit Agency has eliminated 35 resident offices and assigned the remaining audit workload in these offices to nearby audit installations. In principle, this represents a movement toward a regional or area audit organization. At present, we believe that such factors as the distribution of audit workload and travel costs tend to favor the current deployment of personnel; however, we will continue to adjust the organization to achieve the most effective use of staff. (Atch 5)

o Reduce Commander-Requested Audits.

The Air Force concurs that the use of audit resources on commander-requested audits should be reduced significantly below 15% of staff time. During the last two years, AFAA has devoted only about 8% of its resources to this program. The Air Force believes that these audits serve to satisfy the GAO guidance to provide audit service to all levels of management and also contribute to the cyclical audit coverage required by DODI 7600.3. (Atch 6)

o Reduce Nonappropriated Fund Audits.

The Air Force concurs in reducing audits of non-appropriated funds and has recently reduced these audits to less than 7% of the total AFAA effort. Additional measures (i.e., a 3 or 4 year versus the current 2 year cycle) will be considered in order to further reduce resources expended on these audits. (Atch 7)


John C. Statson
Secretary of the Air Force

7 Attachments

GAO DRAFT REPORT
CHAPTER 2THE AIR FORCE AUDIT FUNCTION SHOULD BE LOCATED
AT A HIGHER ORGANIZATIONAL LEVEL

GAO RECOMMENDATION: The Secretary of Defense should use his reorganization authority under 10 USC 125 to relocate the Air Force Audit Agency under the Secretary or Undersecretary of the Air Force and have the audit staff report directly to that official.

AIR FORCE POSITION: Concur.

DISCUSSION: In response to the recommendation, the Air Force has determined that an alternate organizational arrangement will serve to enhance the image of AFAA's independence and will make the Agency's independence more visible throughout the public and private sectors. Accordingly, the Air Force proposes that the Air Force Auditor General will report directly to the Secretary of the Air Force, have direct access to the Chief of Staff, and will receive day-to-day staff supervision on audit policy and management matters from the Assistant Secretary of the Air Force (Financial Management).

Attachment 1

GAO DRAFT REPORT
CHAPTER 3

THE SCOPE OF INTERNAL AUDITS SHOULD NOT BE LIMITED

GAO RECOMMENDATION. The Secretary of Defense should direct the Secretary of the Air Force to:

" . . . clearly specify in the mission statement of the Air Force Audit Agency that there will be no limitations on the Agency in the selection of activities for audit, determining the scope of audit work, and reporting of audit results, and"

" . . . revise Air Force regulations to specifically delineate the respective scope of internal audits and inspections, explain differences between them and emphasize that they are complementary rather than duplicatory."

AIR FORCE POSITION.

a. Concur. Currently, paragraph 6a, Air Force Regulation 175-4, specifically states that all Air Force organizational components, functions, activities, and levels of operations are subject to comprehensive audit. We will, however, adjust Air Force regulations to specifically include the GAO phraseology "That there will be no limitations on the Agency in the selection of Air Force activities for audit...and reporting of audit results."

b. Concur. Air Force regulations will be reviewed and revised as appropriate to clearly explain the scope and nature of audit and inspection.

DISCUSSION.

1. The GAO report alleges/infers that: (a) limitations placed on the Agency have resulted in lack of coverage in important areas; (b) audit planning is subject to Comptroller and Air Staff review and revision; (c) audit subjects are indiscriminately cancelled due to Inspector General influence; and (d) the Air Staff reviews and approves Agency audit reports.

a. The GAO contention that limitations placed on audit planning and reporting have resulted in decreased audit coverage of important areas is unfounded. It is acknowledged that many important areas within the Air Force are not audited; however, the reason is not due to the alleged external limitations but internal resource limitations. Because the Agency does not have sufficient resources to audit all areas, it must prioritize and

be highly selective in choosing subjects. In this environment, the Agency must take maximum advantage of reviews accomplished by other evaluation groups as encouraged by GAO guidance (see quote, paragraph 2 below).

b. The Agency has authority to choose audit subjects, and Air Staff officials do not have the authority to cancel audit subjects. While on occasion the AFAA does defer or even cancel an audit subject, this is an independent Agency action, based on judgment, which takes into account audit resource availability, significance of the area, and planned, on-going, or recent coverage by other review groups.

2. "Limitations on Planning and Audit Work." The AFAA deferred (not cancelled) their planned audit of the F-16 and directed audit resources to another weapon system. The manner in which this deferral occurred was a rare exception; however, contrary to GAO opinion the final decision was made by the Auditor General and not the USAF Comptroller or the Air Staff System Selection Committee. The Auditor General's decision was not intended to exclude the F-16 from future audit. In fact, in November 1976, the Auditor General approved the scheduling of an F-16 audit which is currently under development. The AFAA action was in accord with the GAO standard which states:

"Where functional staff groups exist in an agency which are regularly concerned with such matters as organizational efficiency and personnel use and the making of related studies, the internal auditor should recognize such work and avoid any duplication of effort."
(Reference page 7, Internal Auditing in Federal Agencies, GAO, 1974)

3. "The Scope of Audit and Inspections Should be Spelled Out." Air Force regulations and directives concerning the mission of audit and inspection are quite similar. The scope of internal audit is specifically defined in paragraph 6 of AFR 175-4, Auditing in the Air Force, which implements DOD 7600.2, DODI 7600.3, DODI 7600.6, and Federal Management Circular 73-2. These directives place no restrictions on the scope of internal audit. The complementary relationship that exists between the audit and inspection functions is not specifically addressed in Air Force directives; this relationship will be addressed.

4. "Cancelling Audits for Inspections."

a. The allegation that the AFAA subordinates its audit program to the Inspector General's program is not empirically supported. We concur that deferrals/cancellations of audits (as well as inspections) are sometimes initiated as a result of audit/inspection coordination meetings; however, the numbers of occurrences are insignificant in relation to the total program. The GAO cited a total of five deferral/cancellation actions which date back to August 1974. Placed in proper perspective, we

find that 340 audit subjects were coordinated with the Air Force inspectors over the three year period 1 July 1974 - 30 June 1977. Of these, only seven audits were deferred or cancelled due to inspections planned, underway or completed. Within the past year (1 July 1976 - 30 June 1977), the Agency deferred only one subject and the inspectors deferred or cancelled four subjects. Additionally, our records indicate three recent examples where audits and inspections of similar activities/programs were purposely pursued during the same time frame. The dual evaluation from different perspectives was warranted considering the importance of the areas in question. Auditors and inspectors exchanged observations and data during these reviews.

b. As a rule, when potential subject selection conflict occurs, an audit (or inspection) may be deferred initially to await the respective results. Subsequently, a cancellation action may be taken if in our professional judgment the area in question has been properly evaluated.

c. The AFAA has established an effective coordination program with Air Force inspectors as well as other evaluative groups. This coordination is essential to the efficient application of audit resources and is in compliance with the GAO booklet: Standards for Audit of Governmental Organizations, Programs, Activities, & Functions and the GAO pamphlet, Internal Auditing in Federal Agencies, which state respectively:

"... Many governmental entities have internal review activities identified by other names, such as inspection, appraisal, investigation, organization and methods, and management analysis. These activities are often in the nature of management services, and in varied ways they assist management in currently supervising, advising, and reviewing designated functions. To prevent duplication of effort, all auditors--regardless of their level of government-- should use, to the maximum practical extent, the work that other auditors or internal review personnel have previously performed."

"Where functional staff groups exist in an agency which are regularly concerned with such matters as organizational efficiency and personnel use and the making of related studies, the internal auditor should recognize such work and avoid any duplication of effort."

d. The cooperative interaction between Air Force auditors and inspectors should not be interpreted as a subordination of either mission. Instead, it should be recognized as compliance with the GAO standards for internal auditing.

5. "Limitations on Reporting." GAO infers that AFAA procedures are improper because management comments are solicited, and audit reports are occasionally changed. This is not clear since AFAA follows the GAO audit standard on report content:

"One of the most effective ways of ensuring that reports are fair, complete, and objective is through advance reviews and comments by persons or by officials of the organizations, programs, functions, or activities whose operations are discussed in the reports. This produces a report which shows not only what was found and what the auditor thinks about it but also what the responsible persons think about it and what, if anything, they are going to do about it. This kind of report is more useful to the recipient . . . when the advance comments oppose the auditor's findings or conclusions and are not, in his opinion, meritorious, the auditor should state his reasons for rejecting them. Conversely, he should drop a point or modify a position if he finds the argumentation to be meritorious."

(Reference page 47, Standards for Audit of Governmental Organizations, Programs, Activities & Functions, GAO 1972)

AFAA supports and adheres to these standards. Modifications are the result of discussions where management points out facts that the auditors may have overlooked, new information which has become available affecting findings and recommendations, or system changes that are to be made in the near future.

a. Agency reporting policy is contained in Audit Agency Regulation 175-102, Management of Centrally Directed Audits. Paragraph 9-5 addresses nonconcurrences. It is not Audit Agency policy to require that full concurrence be obtained from responsible Air Force elements on audit findings and recommendations. Where management's position is supported by factually meritorious data, AFAA policy is to change the report; otherwise, the nonconurrence is elevated to higher management for resolution or included in the report, as appropriate. These procedures are in consonance with GAO guidance concerning audit report content.

b. The March 1974 AFAA draft report finding involving excess/underutilized vehicles, cited in the GAO draft, was revised based on additional data provided by the Air Staff. These data established that certain shortages and excesses existed at various locations. A need to redistribute rather than dispose of vehicles was the resultant finding. Before and after versions of the AFAA report were as follows:

DRAFT: The above computations were based solely on accumulated mileage versus goals; therefore, other factors such as mission and physical layout of the installation must be considered before a determination can be made whether the vehicles were true excesses to requirements. However, this type of analysis did provide management with a strong indication of possible problem areas.

FINAL: Other factors such as mission and physical layout of the installation must be considered before a determination can be made whether the underutilization of vehicles was justified. However, this type of analysis would provide management with a strong indication of possible problem areas.

The GAO states that the above change was made primarily to accommodate the Air Staff and resulted in a dilution of the findings. The full context of the passage from the Audit Agency correspondence cited by GAO does not support this allegation:

"(1) Paragraph 4. AF/LGTN personnel objected to the chart which indicated that the Air Force had excess vehicles. The primary reason for their objection was that they were concerned that agencies outside the Air Force (DOD, GAO) could interpret the finding incorrectly and then unwarranted actions would result. Therefore, the chart was revised to reflect significant underutilization of vehicles rather than number of excess vehicles. Since our intention of presenting the chart was to show that analysis of utilization by vehicle group would provide management indication of possible problem areas and not necessarily to identify excess vehicles, the revision did not affect the intent of the finding." (Underscoring supplied)

In our opinion, the draft report did not accurately convey the audit finding, and, contrary to GAO's opinion, the change did not dilute the findings.

c. AFAA's audit of the contractor operated program, cited in the GAO draft, was never intended to produce a Summary Report of Audit. From inception, this project was envisioned to produce statistics for investigative and/or legal action. While the project did produce numerous significant findings, all management actions were appropriate at base rather than Air Staff level, thus making a summary report inappropriate. While AFAA policy is to keep the Office of Special Investigations informed, requesting investigations is a function of management rather than audit. This management action was taken as a result of the letter to AF/LG cited in the GAO report. AFAA agrees that the delay in notifying the investigating agency was inordinate, but this was an isolated incident due to an administrative oversight. The Air Force has, in fact, estab-

lished coordinating procedures to avoid delays in the future.

6. While we question the examples used in the GAO report, we also acknowledge the ever present potential for compromise and recognize the need for constant vigilance. Accordingly, Air Force regulations will be reviewed and revised as described under the paragraph "Air Force Position" above.

GAO DRAFT REPORT
CHAPTER 4THE AUDITOR GENERAL OF THE AIR FORCE
SHOULD BE A CIVILIAN

GAO RECOMMENDATION: The Secretary of Defense should direct the Secretary of the Air Force to fill the position of Auditor General of the Air Force with a professionally qualified civilian.

AIR FORCE POSITION: The Air Force will reassess the recommendation as civilianization of the AFAA is accomplished.

DISCUSSION:

1. The GAO report supports the recommendation with three assertions:

a. Military staffing of the AFAA chief's position is in violation of DOD policy.

b. The Auditor General position entails skills found in the civilian community.

c. A civilian Auditor General could provide longer tenure and greater continuity of policy.

2. With respect to the first assertion, it is noted that DODI 7600.5 (not included in GAO evidence) specifically states that "The head of the audit organization may be either a qualified civilian or a military officer (preferably of General/Flag rank). When the organization is headed by a military officer, the position of deputy shall be occupied by a qualified civilian to provide necessary continuity." Since its inception, the Audit Agency has been effectively manned in this balanced configuration.

3. One provision of DOD Directive 1100.4 (quoted but not addressed by the GAO report) provides that civilians should be employed in positions which "do not require a military background for successful performance of the duties involved...". A provision of DOD Directive 1100.9 (also quoted but not addressed in the GAO report) specifies that management positions in professional support activities will normally be designated: "military. . .when the position requires skill and knowledge acquired primarily through military training and experience. . ." "Civilian. . .when skills required are usually found in the civilian economy. . ."

a. The broad scope of internal audit agency responsibilities, as established by GAO, requires an equally broad knowledge of Air Force activities, programs, policies, and objectives if audit resources are to be efficiently applied and Air Force management effectively served. It can be asserted that these qualifications are best acquired through military training and experience, and these skills are not "usually found in the civilian economy."

b. Further, the Air Force Auditor General is also the Commander of the Air Force Audit Agency--a separate operating agency, which was established, in part, to enhance auditor independence. In this capacity, the Auditor General serves as a Commander--a responsibility which requires a large portion of his personal effort, and is currently desirable in fulfilling the Audit Agency's mission.

4. The assertion--longer tenure is needed in the Auditor General's position--is made but is not supported by a discussion of the entire issue. While it is a subjective issue, it is important to recognize that the AFAA does have stability. The incumbent Deputy Auditor General (a GS-17) has been in place for 12 years. He provides continuity to Agency policy and procedures as well as assurance that Agency operations meet established professional standards.

5. In view of the above, and of the current predominance of military auditors in the AFAA, it is believed that military staffing of the Audit Chief's job is preferable at the present time for the efficient and effective operation of the Air Force audit function.

6. In sum, because the AFAA is presently staffed by predominately military auditors, the combination of a military chief and civilian deputy best serves the current needs of the Air Force. However, the staffing of the position will be reconsidered when the Audit Agency has been substantially civilianized (see Atch 4).

GAO DRAFT REPORT
CHAPTER 5

THE AIR FORCE SHOULD APPOINT CIVILIANS TO MOST MILITARY
INTERNAL AUDITOR POSITIONS

GAO RECOMMENDATION: The Secretary of Defense should direct the Secretary of the Air Force to bring the Air Force Audit Agency into conformance with DOD directives by converting military internal audit positions to civilian.

AIR FORCE POSITION: Concur. The AFAA will implement a program of civilianization during the next three to four years. As a start, 100 military positions will be civilianized by the end of FY 1978.

DISCUSSION: None.

GAO DRAFT REPORT,
CHAPTER 6

REORGANIZE ALONG REGIONALIZED LINES

GAO RECOMMENDATION. The Secretary of Defense should direct the Secretary of the Air Force to improve the Audit Agency's organizational structure and system of management control to bring about more effective use of staff. Among the alternatives to be considered is to reorganize the Air Force Audit Agency along the regionalized lines employed by the Army Audit Agency and Naval Audit Service.

AIR FORCE POSITION. Concur that the AFAA should give consideration to alternative organizational patterns which would bring about more effective use of staff.

DISCUSSION.

1. The GAO report implication that AFAA's residency structure is inefficient and causes nonproductive work to be performed at the expense of higher priority audits is not valid. The GAO draft does not contain empirical or relevant evidence to support that position.
2. The GAO report implies that because Army and Navy audit organizations are similar, they are preferable to that of the AFAA. However, as indicated in subsequent paragraphs, a number of comparative statistics on production, workload accomplishment, total costs, training costs, temporary duty costs, and direct time ratios (excluding travel time) cast the Air Force in a favorable light.
3. The GAO report attempts to equate the amount of discretionary time available to resident auditors as the basis for stating that regional offices are preferable to residencies. However, HQ AFAA can task up to 100 percent of each resident auditor's time without any change in the organizational structure. This level of tasking would degrade rather than enhance service to Air Force management, however. AFAA deliberately designs and directs a balanced program to include a portion of each residency's time as available to perform local audits in service to local and MAJCOM commanders. Local audits are scheduled on the basis of documented audit need and the priority of that need. Audit priorities are predetermined by the Audit Agency on the basis of Air Force mission importance (e.g., priority 1 accounts include

supply, maintenance, and other significant audit subjects -- less important accounts receive appropriate, lower priority). Based on that centrally determined priority, and local need, audits are scheduled and that schedule is reviewed by line supervisors both before and after performance. Statistics for the 21-month period ending 31 March 1977 on locally scheduled audits by audit priority follow:

<u>Priority</u>	<u>Percent of Locally Scheduled Hours</u>
1	63.5
2	17.7
3	8.9
4	8.1
5	1.8
Total	100.0

The preponderance of local time is used in high priority, mission areas of significant importance to Air Force managers. In their 1974 booklet Internal Auditing in Federal Agencies, GAO recognized the importance of internal auditing to smaller organizations:

"Internal auditing can be of special benefit to the management of smaller organizations, or of small segments of large organizations, where the customary division of duties among employees is not always economical or practical. The internal auditor can often provide additional internal checks and controls required for effective and efficient management.

"By reason of his knowledge of management policies and procedures and his contacts with officials and employees at all organizational levels, the internal auditor can render a valuable service by promoting better communication within an agency. He can obtain first-hand observations on the usefulness or effectiveness of prescribed policies and procedures and he can bring to top management's attention those needing modification, explanation, and interpretation. This type of service can contribute greatly to good management control."

Also, this same document provides:

"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."

AFAA subscribes to the above GAO policy.

4. The statement that 45 percent of direct time is available for discretionary use by resident auditors is misleading. Portions of the locally assigned workload are centrally scheduled, such as centrally controlled local audits where high priority local audits are coordinated with a goal of reporting to higher management levels. Agency-wide, resident auditors have approximately 27 percent of available time for discretionary use. The use of this time is subject to close supervision as explained in paragraph 3 above.

5. Additionally, the AFAA residency structure, unlike the Army and Navy structure, avoids the need for internal reviewers at installation level. Internal reviews performed by the AFAA ensure independence in this important area. Local audits are an important element in satisfying this responsibility. A table showing internal reviewer manning follows:

ASSIGNED MANPOWER

	<u>ARMY</u>	<u>NAVY</u>	<u>AIR FORCE</u>
Audit Agency Personnel*	891	572	1011
Internal Reviewers	<u>997</u>	<u>400**</u>	<u>0</u>
Total	<u>1888</u>	<u>972</u>	<u>1011</u>

*As of 30 June 1976

**Estimated

The foregoing table suggests that if the AFAA were to adopt the Army and Navy form of organization, it would be necessary for AF local installations and major commands to employ several hundred internal reviewers.

6. The GAO report states that the AFAA has cancelled audits or deferred audits because of a shortage of qualified supervisors and staff. While this is correct, the GAO report infers that these actions are a function of the residency structure rather than personnel shortages and audit workload that exceeds authorized resources. (See paragraph 7 below.) Similarly the GAO report cites three functional areas (System Acquisition, ADP Systems and Communications) as receiving only a small percentage of available audit time and infers that this too is a function of the residency structure. As mentioned above, the Auditor General can and does task his offices to distribute their resources to best satisfy the total Air Force mission. Auditor deployment does not dictate auditor employment. The following table clearly illustrates that AFAA auditor utilization under the residency structure compares favorably with AAA and NAS auditor utilization.

Application of Direct Audit Time
FY 76*

<u>Direct Audit Man-Years</u> <u>Application of Direct</u> <u>Audit Time</u>	<u>Total</u>	<u>Army</u>	<u>Navy</u>	<u>AF</u>	<u>DSA</u>	<u>OSD- AAO</u>
	1,709	589	327	612	117	64
	(Percent)					
Supply Management	17	11	14	23	28	12
Comptroller Services	21	32	22	13	9	3
Maintenance & Repair	7	7	7	9	1	3
Mgmt of Real Property	5	5	4	6	3	3
Procure & Contract Admin**	9	2	9	11	41	8
Pers Mgt & Payrolls	10	13	10	9	6	9
Nonappropriated Funds	7	6	7	9	2	2
Support Services	7	10	8	4	3	11
Manufacturing	0	0	1	0	0	0
Research & Development	2	5	1	0	0	3
ADP Systems	4	6	9	2	0	2
Mil Assistance Program	3	0	3	5	0	12
Communications	1	1	0	1	0	16
Transportation	3	1	2	5	3	2
Intelligence & Security	1	0	1	0	1	8
Other	3	1	2	3	3	6
Total	100	100	100	100	100	100

*Source - FY 76 Audit Operations in the DOD.

**Includes systems acquisition.

7. The Audit Agency, like all other DOD audit organizations, has not been able to meet audit frequency objectives. AFAA shortfall is comparable to other agencies as follows:

	<u>Est. Annual Workload*</u>	<u>Forecast of Direct Audit Time Available*</u>	
	<u>Direct (Man-Years)</u>	<u>Man-Years</u>	<u>Percent of Est. Workload</u>
Army	948	539	57
Navy	639	352	55
Air Force	1,115	589	53
DSA	126	118	94
OSD - Asst for Audit Ops	<u>295</u>	<u>66</u>	<u>22</u>
Total	<u>3,123</u>	<u>1,664</u>	<u>53</u>

*Source - FY 76 Audit Operations in the DOD.

8. The GAO conclusion that the resident office concept reduces the AFAA's capability to perform its primary mission is not supported by the record. The GAO report implies that the AFAA is less effective than the Army Audit Agency (AAA) and the Naval Audit Service (NAS). While not the only measure of productivity, the AFAA compares favorably with the other services in reports issued. AFAA issues more total reports and more summary reports -- the most comprehensive. Installation reports, which report on several base activities, are not used by AFAA. Other reports include single activities, interim reports, special reports, letter reports, and other types of documented audit results.

	<u>AFAA</u>	<u>AAA</u>	<u>NAS</u>
Summary Reports	76	35	28
Installation Reports	0	92	117
Other Reports	<u>5,346</u>	<u>694</u>	<u>339</u>
Total	<u>5,422</u>	<u>821</u>	<u>484</u>
Professional Auditors Assigned	<u>833</u>	<u>721</u>	<u>512</u>

9. The GAO implication that AFAA is less cost efficient than AAA or NAS is not upheld by the facts as reported in the FY 76 Audit Operations in the DOD.

	<u>AFAA</u>	<u>AAA</u>	<u>NAS</u>
Average Operating Expense Per Man-Year	\$ 20,300	\$ 23,600	\$ 23,700
Travel Costs - Total	\$600,000	\$2,900,000	\$1,300,000
Travel Costs Per Man-Year	\$ 600	\$ 3,100.	\$ 2,300

10. In addition to the recurring cost advantage of the residency concept, the AFAA estimates the one-time cost of regionalization to be about \$2 million. These calculations are predicated upon: (a) reducing the number of resident offices from 87 to 32 (same as the Naval Audit Service); (b) moving 50 percent of the work force; and (c) retaining the present military/civilian mix. The Air Force does not believe it appropriate to spend \$2 million to reduce AFAA proven effectiveness and efficiency.

11. Regionalization would also significantly increase AFAA travel costs while reducing the time available for on-site audits. Assuming that AFAA travel costs would approximate that of AAA and NAS, a 400-500 percent annual increase would result (see table, paragraph 9). Time spent in travel would decrease on-site time resulting in a greater inability to meet audit frequency requirements (see paragraph 7 above).

12. Regionalization would degrade audit's ability to be responsive to local problems. Resident auditors are responsible for maintaining awareness of conditions, problems, and unique operating procedures at their locations. Regionalization would eliminate this expertise which has been an important source of ideas for multi-site audits. Also, the nature of travel would require substantial advance planning of audits and would impair the Audit Agency's ability to schedule short lead time reviews based on audit need.

13. On the other hand, it is recognized that the regionalization concept does have certain advantages. For example, regionalization permits economies in administration, facilitates on the job training, and fosters a more detached attitude by auditors while performing work in a TDY status.

14. In summary, there is evidence that the Audit Agency residency configuration is cost effective, flexible, conducive to the attraction of a quality career audit force and responsive to the audit needs of all levels of Air Force management. The residency concept does not inhibit mobility and the Agency employs the mobile auditing concept whenever it results in the more effective use of audit staff. Nonetheless, it is recognized that, as the organizational elements and missions of the Air Force change, it is necessary for the AFAA also to change its organization. Thus, in the last three years the AFAA has deactivated thirty-five resident offices. In many cases, the work of smaller resident offices has been absorbed by larger resident offices so that the latter assume the characteristics of regional or area offices. We plan to continue that process so that more and more larger offices will be created which have the characteristics of a regional or area office.

CHAPTER 6

REDUCE COMMANDER-REQUESTED AUDITS

GAO RECOMMENDATION: The Secretary of Defense should direct the Secretary of the Air Force to improve the Audit Agency's organizational structure and system of management control to bring about more effective use of staff. Among the alternatives to be considered is to significantly reduce the number of commander-requested audits performed below 15 percent of staff time.

AIR FORCE POSITION: Concur that the use of audit resources in performance of commander-requested audits be reduced to less than 15% of staff time.

DISCUSSION:

1. While AFAA directives authorize resident offices to spend up to 15 percent of staff time on audits specifically requested by Air Force commanders, records show the following agency-wide expenditures by fiscal year (FY):

	<u>FY 76</u>	<u>FY 77</u>	<u>FY 77*</u>
Total Direct Hours	1,273,384	307,781	844,504
Total CAP** Hours	106,993	23,965	66,805
Percent CAP** Hours	8.40	7.78	7.91

*Through 31 May 1977

**Commanders Audit Program

The foregoing averages show that the application of audit resources, in practice, is significantly below 15 percent. Moreover, the AFAA has refrained from actively encouraging commanders to expand their current use of the program.

2. The GAO draft also infers that CAP work focuses on insignificant subjects. This inference is based on GAO's visit to only 3 of AFAA's 87 field offices and lacks statistical validity. During FYs 76 thru 77-2, 50 percent of all audit work done under the CAP program has been in priority 1 areas; 83 percent in priorities 1-3. Examples of priority 1 subjects are aircraft maintenance, supply and comptroller services; priority 2 includes civil engineering, personnel management, and data automation; priority 3 includes contract maintenance, flight simulator operations, and communications. Most CAP work contributes

to the cyclical coverage required by DODI 7600.3. Furthermore, audit work performed under the CAP program must, by AFAA policy, exceed the capability of the requesting commander's resources. Comptroller management analysis organizations do exist to gather data for commanders, but their responsibility to the local commander limits their independence to assure totally objective reviews. Also, DOD Instruction 7600.3, paragraph IIIG2d prohibits these organizations from performing independent or comprehensive audits.

3. Requesting commands do not view CAP products as "low visibility." In fact, many CAP requests are initiated at the MAJCOM level or higher, and results are reported to that level. Statistics for FY 76 through 77-2 substantiate this.

CAP Effort* by Recipient of Review

	<u>FY 76</u>	<u>FY 77</u>	<u>FY 77**</u>
Installation Commander	72.8(68%)	18.1(75%)	37.4(73%)
MAJCOM or Higher	34.2(32%)	5.9(25%)	14.0(27%)

*Hours in thousands

**Through FY 77-2

Further, where CAP reviews disclose irregular conduct, fraud, or other similar findings requiring higher management level action, reports are immediately elevated to the Assistant Secretary - Financial Management.

4. In summary, the resources currently used to do commander-requested audits are about 8 percent of the Agency total and are significantly below the installation-level ceiling of 15 percent. Over 80 percent of the time spent on commander-requested audits is used in Agency predetermined high-priority areas. Roughly one quarter of the time is spent to serve MAJCOM commanders or higher. This program is in keeping with the Agency's responsibility to serve all levels of Air Force management and also in consonance with GAO guidance on the benefits of internal auditing which states in part, "The numerous, complex administrative problems of large organizations impose on management the necessity of delegating a large degree of operating authority within the organizational structure. Management must keep informed on what is happening in the organization at its various levels. Internal auditing is an important means by which management can provide itself with such information and related evaluations." (Reference page 2, Internal Auditing in Federal Agencies). Also, page 5 of this same document provides: "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."

GAO DRAFT REPORT
CHAPTER 6REDUCE NONAPPROPRIATED FUND AUDITS

GAO RECOMMENDATION: The Secretary of Defense should direct the Secretary of the Air Force to improve the Audit Agency's organizational structure and system of management control to bring about more effective use of staff. Among the alternatives to be considered is to reduce audits of nonappropriated fund activities.

AIR FORCE POSITION: Concur.

DISCUSSION:

1. While the Air Force agrees that the efforts underway to reduce audits of nonappropriated funds should continue, we do not agree with the GAO inference that the Audit Agency has no responsibility to audit those funds. A primary responsibility of the Air Force is to provide morale and welfare (MWR) services to military and civilian personnel and their dependents (DODD 1330.2 and AFR 34-3). To fulfill this responsibility, MWR services are established and maintained by appropriated funds, within the limits of resource availability. Nonappropriated funds (NAF) are a supplementary source of program financing. They are Government funds (AFR 34-3, Volume II, paragraph 1-2), controlled by the Air Force, and subject to audit by the AFAA in accordance with DOD Instruction 7600.6.
2. The AFAA is chartered to serve all levels of Air Force management -- to perform internal audits of all Air Force operations, systems, functions, areas, and activities. Audit service is "free" (nonreimbursable basis) to all official Air Force functions/activities, whether directly or indirectly in support of the Air Force mission. Audits of nonappropriated funds are structured and performed to provide Air Force commanders and financial managers with visibility over activity operations, not to serve the fund membership.
3. With reference to financial auditing, we agree that the AFAA is primarily concerned with appropriated funds. For this reason, nonappropriated fund auditing has recently been reduced. While the reduction from 10 percent to about 7 percent is significant, additional measures are being taken to further reduce it, i.e., a 3 or 4 year cycle for nonappropriated fund audits versus the current 2 year cycle.

<u>Fiscal Year</u>	<u>NAF Audits*</u>
74	10.7
75	11.1
76	9.5
77	10.8
77 through 30 Jun 77	6.8

* As a percentage of total direct audit man-years.

PRINCIPAL OFFICIALS
RESPONSIBLE FOR ADMINISTERING ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<u>DEPARTMENT OF DEFENSE</u>		
SECRETARY OF DEFENSE:		
Harold Brown	Jan. 1977	Present
Donald H. Rumsfeld	Nov. 1975	Jan. 1977
William P. Clements, Jr. (acting)	Nov. 1975	Nov. 1975
James R. Schlesinger	July 1973	Nov. 1975
<u>DEPARTMENT OF THE AIR FORCE</u>		
SECRETARY OF THE AIR FORCE:		
John C. Stetson	Apr. 1977	Present
Thomas C. Reed	Jan. 1976	Apr. 1977
John L. McLucas	July 1973	Jan. 1976
CHIEF OF STAFF:		
Gen. David C. Jones	July 1974	Present
Gen. George S. Brown	Aug. 1973	July 1974
Gen. John D. Ryan	Aug. 1969	July 1973
COMPTROLLER:		
Lt. Gen. Charles E. Buckingham	Sept. 1975	Present
Lt. Gen. Joseph R. DeLuca	Oct. 1973	Aug. 1975
Lt. Gen. Duward L. Crow	Apr. 1969	Sept. 1973
AUDITOR GENERAL:		
Brig. Gen. Joseph B. Dodds	May 1976	Present
Brig. Gen. Thomas G. Bee	Dec. 1974	May 1976
Maj. Gen. Henry Simon	Mar. 1973	Aug. 1974