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Staffing Shortages within the Defense Audit Service.
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Report to Rep. Jack Brooks, Chairman, House Committee on Government Operations: Legislation and National Security Subcommittee; by Robert F. Keller, Acting Comptroller General.

Issue Area: Internal Auditing Systems: Sufficiency of Federal Auditors and Coverage (201).

Contact: Financial and General Management Studies Div.

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Organization Concerned: Department of Defense: Defense Audit Service.

Congressional Relevance: House Committee on Government Operations: Legislation and National Security Subcommittee.

The authorized staffing level of the Defense Audit Service makes it incapable of conducting required audits. However, in July 1977, the Secretary of Defense ordered that the staff be reduced by 25%, from 357 to 268. Findings/Conclusions: According to documented workload estimates prepared by the Defense Audit Service, a staff of 762 is necessary to provide the required audit coverage. Although the workload estimates appear to be conservative, it is unlikely that additional staff will be provided to meet the projected workload requirements. Audit coverage for some of the major Defense agencies and programs has been inadequate over the last 6 years. The audit function has been cost effective in identifying over \$100 in potential savings for every dollar spent on audit. The 25% staff reduction ordered by the Secretary of Defense was not based on any type of detailed analysis, but instead was estimated by personnel officials from the Office of the Secretary of Defense based on their knowledge of audit based on their knowledge of audit operations and requirements. Although the staff reduction was rescinded, the Audit Service is still staffed at only half its required strength. Defense managers should be prepared to accept the increased risks and consequences that accompany reduced staffing and reduced audit coverage. Recommendations: The Secretary of Defense should assess the risks involved when too few auditors are given too large an audit burden and should attempt to bring the staff capability into balance with the identified workload requirements. (Author/SC)

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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Staffing Shortages Within The Defense Audit Service

The authorized staffing level of the Defense Audit Service makes it incapable of conducting required audits.

Staff reductions have been made and planned for the Service without a detailed evaluation of the extent of coverage required and the risk involved.

The Service has been unable to provide adequate coverage in the past because of staffing shortages and is currently staffed at half the required strength.



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

B-134192

The Honorable Jack Brooks, Chairman
Subcommittee on Legislation and
National Security
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

Your August 1, 1977, letter asked us to review the Defense Audit Service workload estimates and to evaluate the effect of a 25-percent staff reduction mandated by the Secretary of Defense.

Our review indicated that,

- according to documented workload estimates prepared by the Defense Audit Service, a staff of 762 is necessary to provide the required audit coverage;
- although the workload estimates appear to be conservative, it is unlikely that additional staff will be provided to meet the projected workload requirements;
- audit coverage for some of the major Defense agencies and programs has been inadequate over the last 6 years; and
- the audit function has been very cost effective in identifying over \$100 in potential savings for every dollar spent on audit.

INSTABILITY OF STAFFING WITHIN
THE DEFENSE AUDIT SERVICE

The Defense Audit Service has had several recent staff reductions. These reductions have usually been justified on the grounds that they would bring about management improvements and efficiency by reducing the size of the Office of the Secretary of Defense. However, the reductions were based on across-the-board reductions by the Secretary of Defense, at predetermined percentage rates, rather than by detailed assessment of need, workloads, or staffing levels required to carry out the Audit Service mission.

The following schedule shows the number of staff reductions made in the Audit Service since August 1976.

<u>Date</u>	<u>Positions before reduction</u>	<u>Percent reduction</u>	<u>Positions reduced</u>	<u>Positions authorized after reduction</u>
10/76	416	a/15.0	49	a/367
5/77	367	2.7	10	357
7/77	357	25.0	98	268

a/The 15-percent reduction was applied only to 117 positions acquired from the Deputy Assistant Secretary of Defense (Audit) and 174 positions from the Defense Supply Agency and not to 125 positions acquired from the military services.

In our report to the Congress, "Suggested Improvements in Staffing and Organization of Top Management Headquarters in the Department of Defense" (FPCD-76-35, Apr. 20, 1976), we noted that because of significant staff shortages, the internal audit staff could cover only part of its workload responsibilities. We recommended that across-the-board reductions in audit staff not be made because serious staffing problems can result when an already understaffed program is further reduced without a commensurate reduction in workload.

In our report, "Actions Needed to Strengthen the New Defense Internal Audit Service" (FGMSD-77-11, Jan. 27, 1977), we pointed out that it is important for audit staffs to be of adequate size to perform required audits within established time frames. We also stated that we considered matching of staffing levels to workload in the Defense Audit Service to be critical to the success of the new organization. We recommended that the Secretary of Defense assess the minimum required workload and the capability of the staff to perform that work and that appropriate consideration be given to bringing workload and staff capability into balance.

In a subsequent report to you on the authority and resources of the Deputy Assistant Secretary of Defense (Audit) (FGMSD-77-52, July 14, 1977), we recommended that the Secretary of Defense carefully consider the required workload and capabilities of the staff to perform that workload and to bring the two into balance before making further staff reductions in the internal audit function.

On May 24, 1977, the Secretary of Defense directed the Defense Audit Service to undertake a comprehensive analysis of its organization and staffing levels with the specific objective of significantly reducing the number of assigned personnel. In his memorandum directing the analysis, the Secretary said that his overall objective was to reduce the size of the Office of the Secretary of Defense and subordinate organizations by 20 to 25 percent and told the Director to develop a plan to realign/reduce the Audit Service consistent with the memorandum.

Personnel officials of the Office of the Secretary said that a detailed study of the staff requirements had not been made in arriving at the 25-percent reduction goal. Instead, the 25-percent figure was based upon "management's knowledge of audit operations and requirements."

In the memorandum directing the reduction in the Defense Audit Service personnel ceiling from 357 to 268, the Secretary told the Director that he should avoid taking an undue proportion of the reduction from military personnel. Instead, he said a balance between military and civilian appropriate to the functions of the Director's office should be maintained. We noted that no military personnel were assigned to the Audit Service.

WORKLOAD EVALUATION

Based on recommendations in our previous reports and your request to the Secretary of Defense, the Defense Audit Service has completed an evaluation of its internal audit workload and estimates that a total staff of 762 would be needed to provide adequate audit coverage using 2- to 5-year audit cycles as a basis. We reviewed the Audit Service evaluation and have concluded that, in general, the evaluation appears to be conservative and adequately documented.

The Defense Audit Service workload covers four major categories of work as illustrated in the following schedule. (See apps. I and II for more detail.)

<u>Activities</u>	<u>Workload</u>		<u>Staffing required (note a)</u>
	<u>Audit cycle</u>	<u>Direct staff-years</u>	
Defense agencies	2 and 4 years	257	343
Interservice audits	5 years	199	265
Security assistance	2 years	31	41
Command request audits	<u>b/LE</u>	<u>85</u>	<u>113</u>
Total		<u>572</u>	<u>762</u>

a/Staffing required includes a factor of 25 percent for indirect support.

b/Level of effort determined by request volume.

Under the request audits category, staff-years projected in the evaluation are about 100 percent higher than that experienced over the past 4 years and is the result of efforts by the Defense Audit Service staff to promote this kind of audit to higher management levels. In July, when the evaluation was made, about half the then existing staff of the Audit Service were working on request audits.

The Defense Audit Service is still in the process of organizing its program, and this situation could change in the future. In our opinion, however, if such a high volume of request work is continued, it will likely be at the expense of coverage of other programs.

The Defense Audit Service included an indirect support factor of 25 percent of staff-years in its calculations to arrive at projected staff needs of 762. Our review of supporting data, however, shows that a more realistic indirect support factor would have been at least 30 percent. This would have the effect of increasing the total estimated staff needs from 762 to 817.

Historically, no major category of audits has received full audit coverage by the Defense Audit Service or its predecessor audit organizations within the 2- to 4-year audit cycle prescribed by policy directives. Instead cyclical coverage ranges from 6 years for several agencies having few auditable entities to as long as 90 years in agencies with many auditable entities. As could be expected with limited

staff, some programs and activities received much less coverage than others. For example, 68.5 percent of Defense Logistics Agency programs were covered in the 6-year period ending June 30, 1977, while 8 of 10 Defense agencies received less than 30-percent coverage during the same period. The average annual audit cycle is almost 15 years, which means that only 6.8 percent of the auditable entities are covered each year. (See app. II.)

STAFF CUT RESCINDED

On September 3, 1977, after presenting the results of its evaluation to the Secretary of Defense, the 25-percent staff reduction ordered in July 1977 by the Secretary was rescinded. The Audit Service was organizationally moved for administrative support purposes from the Office of the Secretary of Defense to the Defense Contract Audit Agency.

The transfer for administrative support is consistent with the interest of the Secretary of Defense in reducing staff assigned to his direct support. It has the effect of retaining Defense Audit Service staffing at a level of 367 positions while removing these positions from the support roles of the Office of the Secretary of Defense. Instead of claiming only a 25-percent reduction in strength in the Audit Service, the Secretary can now count all 367 Audit Service positions in calculating his overall reduction. Practically speaking, however, no reductions in authorized staffing levels of the Audit Service were made. We were also told that realistically, the Audit Service cannot expect to receive additional staffing to meet its workload requirements no matter what its evaluation shows the need to be.

Since the order to reduce staffing by 25 percent was rescinded we made no further attempts to evaluate its effect on the audit operation.

We continue to believe that given the present authorized staffing level of 367, the audit service cannot be expected to accomplish all of the work that needs to be done in a reasonable period of time.

AUDIT BENEFITS VERSUS MANAGEMENT CONTROL RISKS

Potential dollar savings resulting from recommendations by the Defense Audit Service and its predecessor organizations

in recent years have been significant as illustrated in the following schedule:

<u>Fiscal year</u>	<u>Potential savings</u>	<u>Audit costs</u>	<u>Ratio of savings to costs</u>
	(millions)		
1974	\$ 959.9	\$6.4	\$150 to \$1
1975	1,003.9	6.4	157 to 1
1976	690.8	6.8	102 to 1

Internal audit is an essential element of management control. It is readily apparent from this schedule that significant benefits can be achieved when management recognizes and relies on this control mechanism.

However, as noted previously, the Defense Audit Service average annual audit cycle is almost 15 years instead of the 2- to 4-year cycle recommended by its policy. The essence of management control is the action which adjusts operations to conform with prescribed or desired standards or requirements. To take this action, management needs timely and adequate information on performance. In our opinion, Defense managers need to fully understand and recognize the increased risks involved in maintaining reduced audit staffing and increased audit cycles which result.

There have been many examples in recent years of the kinds of risks that occur when too few Defense auditors have been given too large an audit burden to carry. These include first-time audits of permanent change of station movements for military personnel, utilization of Military Airlift Command aircraft crews, and validation of back-ordered materiel obligations, with potential savings of \$453 million.

CONCLUSIONS

The 25-percent staff reduction ordered by the Secretary of Defense was not based on any type of detailed analysis. Instead it was estimated by personnel officials from the Office of the Secretary of Defense, based on their knowledge of audit operations and requirements.

The overall estimated workload requirements developed by the Defense Audit Service, appear to be conservative and would require approximately twice the number of staff

authorized, even after the 25-percent reduction directed by the Secretary of Defense was rescinded.

The Defense Audit Service is inadequately staffed to perform its required audit work in a reasonable time frame. The coverage provided by the Audit Service and its predecessor organizations has been inadequate over the last 6 years. Even so, the Audit Service has identified potential savings which have far exceeded the costs of its operations. Defense managers should be prepared to accept the increased risks and consequences that accompany reduced staffing and reduced audit coverage.

RECOMMENDATIONS

We recommend that the Secretary of Defense assess the risks involved when too few auditors are given too large an audit burden and that he attempt to bring the staff capability into balance with the identified workload requirements.

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As arranged with your office, we are sending copies of this report to the Secretary of Defense, the Assistant Secretary of Defense (Comptroller), and the Deputy Assistant Secretary of Defense (Audit). We did not obtain written comments from the Department of Defense. Your office requested that we make no further distribution of the report prior to committee hearings at which the report will be used. We understand that these hearings may be conducted during the next session of the Congress.

Sincerely yours,

ACTING


Comptroller General
of the United States

DEFENSE AUDIT SERVICE'S ESTIMATED
AUDIT WORKLOAD AND STAFFING REQUIREMENTS

<u>Activities</u>	<u>Annual workload</u>		<u>Staffing required (note a)</u>
	<u>Cycle</u>	<u>Staff-years</u>	
Defense Logistics Agency	2	67	89
Defense Contract Adminis- tration	4	36	48
National Security Agency	2	51	68
Defense Mapping Agency	2	28	37
Defense Communications Agency	2	20	26
Defense Nuclear Agency	2	14	19
Defense Intelligence Agency	2	14	19
Defense Contract Audit Agency	4	3	4
Defense Investigative Service	2	3	4
Defense Civil Preparedness Agency	2	2	3
Defense Advanced Research Projects Agency	2	2	3
Office of the Secretary of Defense, Office of Joint Chiefs of Staff	2	15	20
Unified Commands	(b)	<u>2</u>	<u>3</u>
Total		<u>257</u>	<u>343</u>
Interservice	5	199	265
Security Assistance	2	31	41
Request Audits	(b)	<u>85</u>	<u>113</u>
Total		<u>572</u>	<u>762</u>

a/Staffing required includes a factor of 25 percent for indirect support.

b/Level of effort.

DEMOGRAPHIC DATA ON ACTIVITIES COVEREDBY THE DEFENSE AUDIT SERVICE

<u>Activity</u>	<u>Auditable entities</u>	<u>Entities audited 7/01/71 to 6/30/77</u>	<u>Percent audited</u>
Defense Logistics Agency	527	361	68.5
National Security Agency	125	24	19.2
Defense Mapping Agency	221	15	6.8
Defense Communica- tions Agency	57	8	14.0
Defense Nuclear Agency	19	4	21.1
Defense Intelligence Agency	44	10	22.7
Defense Contract Audit Agency	1	-	-
Defense Investigative Service	5	1	20.0
Defense Civil Prepared- ness Agency	4	4	100.0
Defense Advanced Re- search Projects Agency	11	3	27.2
Office of the Secretary of Defense, Office of Joint Chiefs of Staff	46	12	26.1
Unified Commands	49	49	100.0
Interservice Audits	259	69	26.6
Security Assistance	80	32	40.0
Special Request	-	-	-
Total	<u>1,448</u>	<u>592</u>	40.9

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

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</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
ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER):		
Fred P. Wacker	Sept. 1976	Present
Terence E. McClary	June 1973	Aug. 1976
Donald Brazier (acting)	Jan. 1973	June 1973
Robert Moot	Aug. 1968	Jan. 1973
DEPUTY ASSISTANT SECRETARY OF DEFENSE (AUDIT):		
Frank S. Sato	Aug. 1974	Present
Joseph P. Welsch	Sept. 1971	Aug. 1974

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