

DOCUMENT RESUME

07697 - [C3188293]

[Review of Internal Audit Function of the Postal Service Inspection Service]. GGD-79-6; B-114874. November 8, 1978. 3 pp. + enclosure (8 pp.).

Report to William F. Bolger, Postmaster General, Postal Service; by Allen R. Voss, Director, General Government Div.

Issue Area: Internal Auditing Systems (200).

Contact: General Government Div.

Budget Function: General Government: Other General Government (806).

Congressional Relevance: House Committee on Post Office and Civil Service.

The internal audit function of the Postal Service Inspection Service was reviewed to determine the effectiveness of internal auditing from an organizational and operating standpoint. The integration of internal auditors and inspectors within the Inspection Service has limited the benefits of the internal audit function and increased the cost to the Postal Service. The primary mission of the Inspection Service is investigation of criminal matters and ensuring the security of the mails. Internal auditing has a lesser priority, and the resources devoted to auditing have slowly declined, especially for operational/functional types of audits. In addition, about 61% more in retirement costs are incurred by having inspectors perform the audit function because of the early retirement benefits that inspectors are eligible to receive. Many potential benefits that could be realized are lost because written responses are not always required on all unresolved audit recommendations, and management's followup procedures to assure implementation of audit recommendations are inadequate. The Postmaster General should establish the internal auditing function as an independent group separate from inspection within the Inspection Service. He should require: postal management to provide written responses to all unresolved audit recommendations, auditors to check reports of corrective actions taken on major audit recommendations, and the Inspection Service to report continuing deficiencies to higher management levels in order to obtain needed corrective action on its recommendations.

(RRS)



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

8293

GENERAL GOVERNMENT
DIVISION

B-114874

November 8, 1978

The Honorable William F. Bolger
Postmaster General
United States Postal Service

Dear Mr. Bolger:

We recently completed a review of the internal audit function of the Postal Service Inspection Service. The objective of our review was to determine the effectiveness of internal auditing from an organizational and operating standpoint.

There is a need for strong internal audit as well as inspection in the Postal Service. Each has an important role but not to the exclusion of the other. The integration of internal auditors and inspectors within the Inspection Service, however, has limited the benefits of the internal audit function and increased the cost to the Postal Service.

The primary mission of the Inspection Service is investigation of criminal matters and ensuring the security of the mails. Internal auditing has a lesser priority and, as a result, the resources devoted to auditing have slowly declined, especially for operational/functional types of audits. Further, the Service incurs about 61 percent more in retirement costs to have inspectors perform the auditing function because of the early retirement benefits inspectors are eligible to receive.

Internal audits are important to an organization because they supplement routine management controls by furnishing independent information and analyses on how well the organization is doing its job and by recommending improvements. We found that many of the potential benefits that could be realized through more efficient and effective operations are lost because written responses are not always required on all unresolved audit recommendations and the Inspection Service's and management's follow-up procedures to assure implementation of audit recommendations are inadequate.

GGD-79-6
(22063)

We believe that internal auditing could serve the Postal Service more effectively if it were carried out by an independent internal audit group which is an equal partner with inspections within the Inspection Service, and if better controls were established to assure management implemented audit recommendations. We recommend, therefore, that you:

- Establish the internal auditing function as an independent group separate from inspection within the Inspection Service.
- Require (1) postal management to provide written responses on all unresolved audit recommendations, (2) auditors to check reports of corrective actions taken on major audit recommendations, and (3) the Inspection Service to report continuing deficiencies to higher management levels in order to obtain needed corrective action on its recommendations.

The details of our review are discussed in enclosure I. Audit work was performed at Postal Service Headquarters in Washington, D.C.; at regional offices in Chicago, Illinois, and Memphis, Tennessee; and at district offices located in Washington, D.C.; Louisville, Kentucky; Columbus and Dayton, Ohio; and Indianapolis, Indiana.

In conducting our review we examined the organizational structure, auditing instructions, audit manuals, and audit programs relating to the Inspection Service's internal auditing activity, and verified the implementation by management of recommendations contained in selected audit reports issued in fiscal years 1975 through 1976.

- - - -

Copies of this report are being sent to the Chairman, House Committee on Post Office and Civil Service; Chairman, Senate Committee on Governmental Affairs; Chairman, House Committee on Government Operations; and to the Chairmen of the House and Senate Committees on Appropriations.

B-114874

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "AR Voss".

Allen R. Voss
Director

Enclosure

NEED TO STRENGTHEN THE
INTERNAL AUDITING FUNCTION

BACKGROUND

A study performed in 1953 showed that the internal auditing function was diffused among four different bureaus of the Post Office Department, and that the operating bureaus and management were not being furnished reports or equivalent information on the aggregate result of the internal audit effort. As a result of the study an Internal Audit Division was established in 1954 in the Bureau of the Controller.

On August 1, 1957, the Internal Audit Division was transferred to the Bureau of the Chief Postal Inspector. The Internal Audit Division continued to operate as a separate entity until July 1, 1973, when the Division was abolished and the auditors were converted to inspectors and integrated into the inspector workforce by being given training provided to inspectors, having their job titles changed and their overall level of compensation increased, and having guns issued to them.

The Postal Inspection Service is headed by the Chief Inspector who is one of eight officials reporting to the Postmaster General. The four main operating offices of the Inspection Service are Criminal Investigations, Security, Audit, and Administration, each headed by an Assistant Chief Inspector. A Regional Chief Postal Inspector is situated at each of the Service's five regional headquarters with an Assistant Regional Chief Inspector heading up each of the four main operating offices within the region. The Regional Chief Postal Inspectors report directly to the Chief Inspector in Washington, D.C.

The Inspection Service's personnel strength in fiscal year 1977 was 5,451, composed of the following categories of employees.

ENCLOSURE I

ENCLOSURE I

	<u>Employees</u>	<u>Costs</u> (000)
Security force (guards)	2,574	\$ 48,416
Postal Inspectors/Special Investigators	1,850	49,597
Support and other personnel	904	15,856
Headquarters staff	123	3,439
Overhead costs	-----	<u>13,748</u>
TOTALS	<u>5,451</u> -----	<u>\$131,056</u> -----

In fiscal year 1977, inspectors devoted 73 percent of their time to criminal activities and 27 percent to audits. About 395 staff-years were devoted to audit activities.

The 1977 Inspection Service expenditures of over \$131 million had \$49 million allocated to criminal investigations, \$61 million to security activities, and \$21 million to auditing activities.

EFFECTIVENESS OF INTERNAL
AUDIT FUNCTION LIMITED

The assignment of the auditing function to the Inspection Service in fiscal year 1974, has resulted in (1) a deemphasis of the internal auditing role and (2) increased costs because the auditing function is now being performed by inspectors who are eligible for earlier retirement.

Internal auditing is not
given equal emphasis by
Inspection Service

Assigning internal auditing to the Inspection Service has resulted in a deemphasis of the internal audit function because investigation of criminal matters and assuring the security of the mails receive higher priority. Internal auditing is relegated to the third level in the organization. As a result, the staff-years devoted to auditing have declined and, within the auditing category, the type of work formerly done by inspectors receives more emphasis than operational/functional types of audits.

Auditing staff-years declining

One indication of the relative importance attached to each activity is the number of assigned staff on a year-to-year basis. Since 1972, the Inspection Service has been decreasing the portion of its staff-year budget devoted to auditing. The downward trend in staff-years devoted to auditing is shown in the following table.

Comparison of staff-years devoted to criminal and audit activities

<u>Fiscal year</u>	<u>Criminal</u>		<u>Audit</u>		<u>Total</u>
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	
1972	1,066	70.4	449	29.6	1,515 a/
1975	1,093	71.4	437	28.6	1,530
1977	1,070	73.0	395	27.0	1,465

a/Taken from Postal Service data showing combined totals, although internal audit was a separate division in the Inspection Service until July 1, 1973.

The primary mission statement of the Inspection Service lists its basic functions as being security, investigative, law enforcement and audit; however, Inspection Service officials told us that criminal activities always take precedence over audit activities. Presently, inspectors are diverted from audit to criminal work whenever necessary.

Operational auditing deemphasized

Of the Inspection Service's three major categories of audits (installation, investigative, and operational) operational audits--those aimed at evaluating management performance--receive the least emphasis. Installation and investigative audits were inspector functions before the Internal Audit Division was abolished and they continue to receive more emphasis.

Only one-fifth of the Inspection Service's auditing effort in 1977 was devoted to operational audits, and the number of staff-years devoted to operational auditing has slowly declined since fiscal year 1971, as shown below.

Audit staff-years by type of audit

<u>Fiscal year</u>	<u>Total</u>	<u>Staff-Years</u>	
		<u>Operational</u>	<u>All other</u>
1971	432	106	326
1973	424	94	330
1976	427	85	342
1977	395	80	315

The largest block of time--202 staff-years--within the "all other" category for fiscal year 1977 was devoted to installation audits. Of the remaining 113 staff-years, about 37 staff-years were used to investigate accidents, about 35 staff-years were used to investigate irregularities in postal revenues, and 41 staff-years were used to investigate complaints on some aspect of postal operations.

Each year an audit workload plan is prepared by the Inspection Service for each audit category. Inspection Service headquarters establishes the priority sequence for operational audits, based in part on suggestions received from each of the five postal regions, and a committee of top echelon operating personnel including Inspection Service personnel.

A comparison of the Inspection Service's audit plans with actual audit work done indicates that installation audits receive preference over operational audits. The shift of planned staff-hours out of operational audits to meet installation and other audit goals for fiscal years 1975-77 is shown in the following table.

<u>Audit Staff-hours</u>						
<u>FY</u>	<u>Installation Audits a/</u>			<u>Operational Audits</u>		
	<u>Work Plan</u>	<u>Actual</u>	<u>INCR(DEC)</u>	<u>Work Plan</u>	<u>Actual</u>	<u>INCR(DEC)</u>
----- (000) -----						
1975	639	697	58	218	184	(34)
1976	661	688	27	214	173	(41)
1977	680	632	(48)	187	161	(26)

a/Includes all audits except operational, contract, and financial audits.

In fiscal year 1977 planned staff-hour goals for neither installation nor operational audits were met; however, installation audits were reduced only 7 percent whereas operational audits were reduced 14 percent. The above schedule shows that the brunt of any shortfall in planned audit goals has been borne by operational audits.

Higher costs incurred by
assignment of the audit
function to inspectors

The assignment of the internal audit function to the Inspection Service results in higher costs because inspectors, who serve primarily as auditors, are eligible for the same early retirement benefits as inspectors who devote the major part of their time to criminal matters.

The determination of whether inspectors will devote most of their time to auditing or investigative work is made early in their careers. During their 16 weeks of basic training courses, new inspectors are schooled in both criminal and auditing techniques. The basic training courses include training in the use of firearms, self-defense tactics, the rules of evidence, search and seizure, report writing, and audit procedures. After initial training, inspectors spend the next 3 years participating in both criminal and audit assignments. At the end of this period, the majority of inspectors specialize in one of these areas.

Inspection Service instructions specify that only experienced personnel who have demonstrated expertise in specialty areas of audit be utilized for auditing and that 80 percent or more of their time is to be devoted to their specialty. In addition, 90 percent of all audits must be done by specialists.

An examination of time charges of inspectors specializing in audits at three divisional offices showed that over 85 percent of their time was devoted to audit work. However, all persons designated as inspectors, including those engaged predominantly in auditing, are eligible for early retirement.

The hazardous duty retirement provisions of Public Law 93-350 permit a retiree to receive 50 percent of his "high-three" average salary at age 50 with 20 years service. To obtain comparable retirement benefits, other civil servants have to work 27 years and be 60 years of age. The costs attributable to early retirements of inspectors functioning

predominantly as auditors are not readily ascertainable. However, Civil Service Commission studies show that the annual costs for early retirements average 61 percent greater than regular retirement.

Conclusions

The assignment of internal auditing to the Inspection Service has resulted in a deemphasis of the internal audit function because of the subordination of audits to inspections, and the emphasis given to installation audits and other audits traditionally performed by inspectors. The deemphasis of auditing, and of operational auditing in particular, is a result of the integration of the internal audit and inspection functions. Higher retirement costs are also a direct consequence of the integration of internal auditors and inspectors.

It is unrealistic, in our view, to expect auditing to be given the same priority as investigation activities as long as internal auditors are also inspectors. To be fully effective, internal auditing should be performed by an independent internal audit group which is an equal partner with inspections within the Inspection Service.

Recommendation

We recommend that the Postmaster General establish the internal audit function as an independent group separate from inspection within the Inspection Service.

NEED TO FOLLOW-UP ON IMPLEMENTATION OF AUDIT RECOMMENDATIONS

The Inspection Service issued over 5,500 audit recommendations during fiscal year 1976, pointing out to management potential improvements in its operations. However, our selective review of audit reports indicated that many of the benefits that could have been realized through more efficient and effective operations were lost because

- management did not always implement the corrective actions it promised it would take,
- management did not always respond to audit recommendations, and
- the Inspection Service reports continuing deficiencies to the same management level.

Management's promised corrective
action not always implemented

At the conclusion of an audit, a decision is made whether management had taken or would take corrective action on the audit findings, or whether a written response would be requested from management as to the disposition of the audit findings. In 8 of 15 cases we examined, promised corrective action was not implemented.

The Inspection Service does not follow-up to verify that reported corrective actions were implemented. Consequently, uncorrected deficiencies are not discovered until the next scheduled audit, which could be several years later.

Management does not always
respond to recommendations

The Service has no specific guidelines to deal with management officials' actions that are nonresponsive to audit recommendations. In 3 of the 15 cases we reviewed, management made no response to audit recommendations.

The guidelines on responses to audit recommendations are contained in the Postmaster General's Regional Instructions 727-G-78, dated July 24, 1973, which state that:

"The report addressee is responsible for reviewing the report and submitting a written response within 60 days after receipt of the report when requested by the Inspection Service. The reply shall include a concise statement indicating concurrence in or other reaction to each of the recommendations and the action that has been or will be taken with respect to the content of the report. When recommendations are accepted but implementing action is to be deferred, the response should state the reasons for deferment. If any finding or recommendation is not concurred in, the reasons for non-concurrence should be given. If special assistance is required in carrying out the recommendations, the reply should include an explanation of the special assistance required." (Emphasis supplied.)

Inspection Service personnel advised us that some follow-up action should have been taken; however, auditors are not required to do follow-up reviews.

Need to report continuing
deficiencies to higher levels

Reviews of selected PS forms 615, "Summary of Financial Findings," which are attached to financial audit reports, showed a continuing failure by some postal installations to correct audit findings disclosed in prior audits.

Four of the 15 reports we examined contained recurrent deficiencies, but the reports were issued to the same level of management as the prior reports. Uncorrected deficiencies should be taken to the highest level necessary to get them resolved.

Recommendations

To obtain maximum benefits from audits, we recommend that the Postmaster General (1) require postal management to provide written responses on all unresolved audit recommendations, (2) require auditors to check reports of corrective actions taken on major audit recommendations, and (3) provide for reporting to the highest management level necessary to obtain corrective action on continuing deficiencies.