
BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Director
United States Information Agency**

**The Audit And Inspection Functions
At The United States Information Agency
Need Management Attention**

GAO found that neither audits nor inspections were being fully used to improve USIA management. Agency officials were not adequately addressing and resolving management deficiencies identified by auditors and inspectors, and the Agency's recommendation follow-up and compliance systems were not working well. Also, inspection activities especially needed improvement in developing and using criteria, standards, and methods which are understood by and acceptable to management.

GAO made a series of recommendations designed to improve audit and inspection operations and the effectiveness of their results. USIA has acted or is taking action on these recommendations and has appointed an Inspector General reporting to the Director.



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APRIL 4, 1984

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

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

The Honorable Charles Z. Wick
Director, U.S. Information
Agency

Dear Mr. Wick:

This report discusses problems with, and points out opportunities to improve, USIA's audit and inspection functions. Neither function was used as effectively as it could have been by management to improve USIA operations.

This report contains recommendations to you on page 27. As you know § 31 USC 720 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, not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the cognizant congressional appropriation and authorization committees; and others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Director

D I G E S T

The United States Information Agency (USIA) is a worldwide organization with a staff of almost 8,000 and an annual budget of over \$600 million. Management in such a large enterprise needs an evaluation function to let it know how well it is doing. This report discusses the activities of two USIA staffs--one for audits, the other for inspections--which carry out this function. GAO made this review because of the importance of evaluation in maintaining adequate management control over agency programs and activities.

The audit activity in USIA was not as effective as it could be because Agency officials were not adequately addressing management deficiencies identified by auditors and there was a lack of timely and aggressive follow-up on audit recommendations.

Also, the effectiveness of the audit function was impaired because of:

- its location at too low a level in the organization,
- insufficient funding and staffing of audits and
- inadequate scope of audit activities.

In addition, USIA's inspection activity--a separate management evaluation resource for appraising overseas programs--was perceived by many management officials as ineffective because of the way inspections were designed and carried out.

USIA MANAGEMENT NEEDS TO RESOLVE
AUDIT FINDINGS

USIA officials were not adequately addressing and resolving problems identified by auditors.

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The audit recommendation follow-up system required by executive branch guidelines had not been properly implemented by USIA. (See p. 4.)

Over the years, USIA auditors have identified management problems in numerous areas throughout the agency. Areas of recurring concern have involved personnel, payroll, and travel operations and cash, property, contract, and grant management. (See pp. 4 to 11.)

Management, however, has not always aggressively followed up on audit findings and resolved them in a timely fashion. Consequently, some problems continued for years after they were first questioned by the auditors, and the number and dollar amounts of unresolved recommendations have been increasing in recent years. USIA management needs to develop an effective system for following up and resolving audit recommendations. (See pp. 11 to 15.)

CHANGES NEEDED IN AUDIT
ORGANIZATION, STAFFING, AND OPERATIONS

USIA's audit function could be a stronger management resource by organizing and operating it more in accordance with generally accepted government auditing standards issued by GAO. The audit function was impaired because:

- It was organizationally placed too low within USIA, reporting to a management level which also had direct responsibility for many activities subject to audit such as budget, finance, personnel, and property management. (See p. 16.)
- The staff of nine auditors was too small and insufficient travel funds were available to support overseas work. (See p. 17.)
- It had placed insufficient emphasis on expanded scope audit work to permit adequate coverage of the economy and efficiency of operations and the results of programs as well as financial and compliance activities. (See p. 18.)

Also, audit program development and workpaper documentation in support of specific audit assignments needed improvement. (See p. 19.)

CONCERNS ABOUT INSPECTIONS

USIA inspections are supposed to help management assess the efficiency and effectiveness of programs at the Agency's overseas posts. This activity differs from an expanded scope audit activity because inspectors respond primarily to operating managers' current needs and concerns about USIA programs, and generally do their work only at overseas locations. However, inspection activity was perceived as ineffective by many Agency officials because they believed inspectors did not use adequate criteria, standards, and methods. Specifically, they felt:

- Inspectors had preconceived ideas about programs which hindered their abilities to perform objective evaluations. (See p. 22.)
- Inspectors conducted unsatisfactory exit conferences with post officials and recommended actions which would not be effective. (See p. 23.)

USIA's Chief Inspector told GAO that he could not disagree with the complaints of the post officials regarding the inspection process. GAO was unable to independently assess the quality of inspections because of the lack of sufficient documentation. However, GAO's examination of available documents tended to confirm these concerns about inspections. (See p. 20.)

Additionally, management was not effectively following up and resolving inspection findings. (See p. 24.)

RECOMMENDATIONS

GAO recommended that the Director, USIA

- Appoint an inspector general qualified to carry out USIA audit activities in conformance with governmental audit standards.
- Support the inspector general's audit activities with adequate staffing and funding.
- Develop and implement an effective audit recommendation and follow-up compliance system and have the inspector general monitor the effectiveness of the system.

- Direct the audit staff to prepare and maintain complete and proper workpapers and supporting evidence, and cross-reference the facts to a completed report to ensure accuracy and supportability.
- Establish a permanent professional inspection staff trained in management analysis.
- Direct the Chief Inspector to develop standards and criteria for the inspection process, after consulting with the Director and area officials to satisfy their inspection objectives, and to provide an uniform inspection approach.
- Develop and implement an effective inspection follow-up and compliance system.

AGENCY COMMENTS AND GAO'S EVALUATION

In commenting on a draft of this report, the Director, USIA, outlined a series of actions he had taken or planned, including

- Appointment of an Inspector General.
- Increasing the audit staff by three positions.
- Provision for adequate travel funds for audits and inspections.
- Actions expected to result in full compliance with audit resolution guidelines.
- A review of USIA's inspections process, including the inspections standards and evaluation methods, and the mechanisms for informing management of inspection recommendations and compliance actions.
- Establishing an Agency Oversight Committee, chaired by the Deputy Director, to advise the Director on open audit and inspection issues.
- Steps by the audit staff to improve its workpaper preparation and related reporting activities.

If properly implemented, these actions should help correct the problems discussed in this report. For example, an inspector general-type

function established in accordance with generally accepted government auditing standards would clearly signal top management's commitment to and insistence on operational effectiveness. Since GAO's work was completed, the Director, USIA, has appointed an Inspector General who reports directly to him. More specific information on the Director's comments is included in the appendix.

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ABBREVIATIONS

GAO	General Accounting Office
OMB	Office of Management and Budget
PAO	Public Affairs Officer
USIA	United States Information Agency
VOA	Voice of America

CHAPTER 1

INTRODUCTION

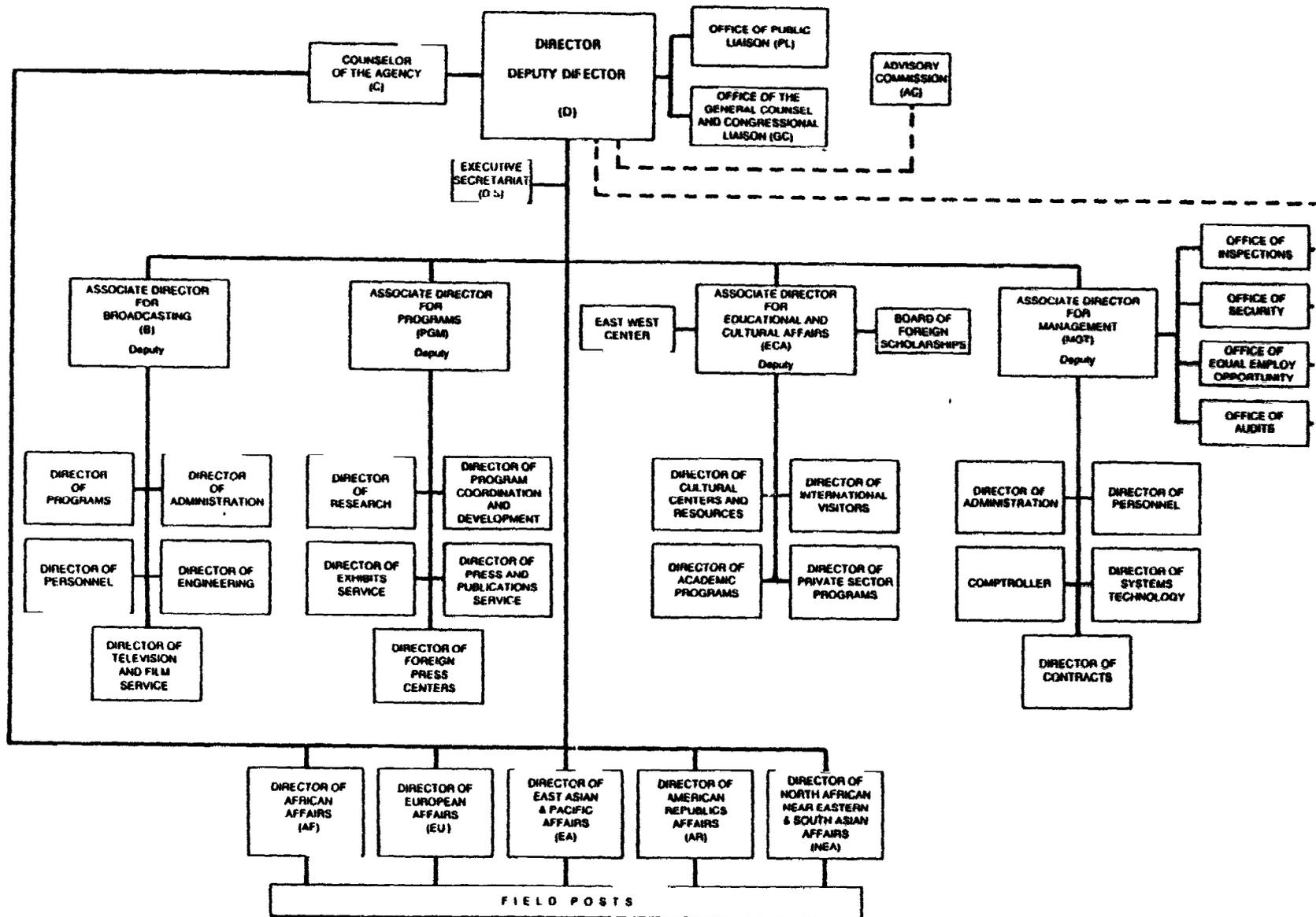
This is the fourth in a series of reports reviewing inspector general functions in foreign affairs agencies.¹ Two reports concerned the Department of State and the other covered the Agency for International Development. Unlike the Department of State and the Agency for International Development, the United States Information Agency (USIA) does not have a statutory inspector general. Instead, the inspector general functions are performed by separate entities--Offices of Audits, Inspections, and Security. All three offices report to the Associate Director for Management, who in turn reports to the Director, USIA, and the Deputy Director. The Office of Audits is responsible for auditing and reporting on the efficiency, effectiveness, and integrity of USIA programs. The Office of Inspection oversees program and managerial aspects of the Agency's overseas posts. The Office of Security is concerned with personnel and physical security activities, and also investigative work within USIA. Much of the security office's overseas work is done by the Department of State's Office of Security under an interagency agreement. A chart of USIA's organization at the time our work began is shown on page 2.

USIA is a worldwide, decentralized agency. Its role is to explain U.S. society and politics, and it maintains 206 posts in 126 countries. It is staffed by about 7,800 employees (approximately one-half are in the United States) who are engaged in cultural affairs, press information, publishing, and broadcasting activities designed to "tell America's story." This is done in different ways in the various host countries, but usually involves the Voice of America (VOA), the radio broadcasting facilities of USIA, and educational and cultural exchange programs. USIA was authorized \$559 million for these activities during fiscal year 1983; and \$697 million for fiscal year 1984.

Statistical data regarding USIA's audit and inspection activities during recent fiscal years are shown on page 3.

¹State Department's Office of Inspector General, Foreign Service, Needs to Improve Its Internal Evaluation Process (ID-78-19) Dec. 6, 1978; Review of Inspector General Functions in Agency for International Development (GAO/ID-82-9) May 19, 1982; and State Department's Office of Inspector General Should Be More Independent and Effective (GAO/AFMD-83-56) June 2, 1983.

USIA ORGANIZATION CHART



	Fiscal year		
	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Audits</u>			
Size of audit staff (including support staff)	12	12	12
Audits performed	49	49	38 ^a
Staff travel and cost for work performed by other agencies	\$79,553	\$96,638 ^b	\$129,885 ^c

Inspections

Size of inspection staff (including support staff)	12	11	11
Inspections performed	25	17	15 ^a
Travel costs for staff and re-employed annuitants	\$127,023	\$97,575 ^b	\$125,198 ^c

^aNumber performed through July 15, 1983; the number of audits does not include 33 whistleblower cases.

^bIncludes foreign currency amounts of \$14,303 for audits and \$22,650 for inspections.

^cFiscal year 1983 funds allocated.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed and evaluated the organization and functions of USIA's Offices of Audits and Inspections to identify any impediments to carrying out their responsibilities. We did not review the Office of Security since most of its work involves personnel and physical security matters. The review was made in accordance with generally accepted government auditing standards during July 1982 to June 1983.

We made the review in Washington, D.C., and overseas. In Washington, we discussed each function with the Chief Auditor, Chief Inspector, and other USIA officials. We analyzed available documents, reports, and statistics from the planning phase to end results. Also, we interviewed auditors and inspectors to obtain their views. Overseas, we visited USIA missions in Italy, West Germany, India, Thailand, the Philippines, Chile, and Uruguay, where we obtained the views of field personnel on the adequacy and quality of the audits and inspections and ascertained the process used to implement report recommendations.

CHAPTER 2

USIA MANAGEMENT NEEDS TO RESOLVE

AUDIT FINDINGS

The USIA audit function was not used as effectively as it could have been by management because (1) management officials did not adequately address and resolve problems identified by the auditors, and (2) the required audit recommendation follow-up and compliance system had not been properly implemented.

USIA officials need to be more responsive to audit recommendations and the deficiencies identified in audit reports. These deficiencies frequently involved

- inappropriate personnel practices,
- inadequate management of personal service contracts,
- controller operation deficiencies,
- cash management weaknesses,
- administrative operation problems, and
- contract and grant management weaknesses.

AUDIT FINDINGS AND RECOMMENDATIONS NOT ADEQUATELY ADDRESSED

The USIA audit office was not used as a management tool to obtain maximum benefits from resources used, or to improve management. We reviewed a sample of 40 USIA audit reports which pointed out various opportunities for improving management. Management officials in USIA's General Counsel, Comptroller, Contracts, Personnel, Administration, VOA, Area Directors, and Public Affairs offices, however, responded inadequately to matters brought to their attention by the audit office, and numerous areas continued to be vulnerable to waste and abuse.

Overpayments for unofficial lunch period not resolved

In December 1980, auditors reported that foreign service national employees at the Kavala station worked a straight 8-hour day with no official break for lunch. The employees, both administrative and operational, ate during work hours.

The audit staff also reviewed the work day operations in the Rhodes, Tangiers, Liberia, Munich, and Bangkok stations. All these stations were scheduled on a straight 8-hour workday, with no break for lunch. USIA management reported that stations in Colombo, Botswana, and the Philippines were all scheduled the same way. The annual cost to USIA of the lunch period during an 8-hour work day was substantial. At the nine stations, the cost for fiscal year 1983 was over \$573,000.

Although the foreign service national employees were not working the full 8 hours for which they were paid, the station managers signed time cards verifying that employees were working a full 8 hours. Some managers acknowledged that they knew the employees were not working 8 hours. The auditors pointed out to the managers that they could be signing fraudulent time cards.

On July 2, 1982, 1-1/2 years after the first report was issued concerning the need to address the 8-hour work day problem, the audit staff met with the Director of Personnel for the VOA.¹ According to the Chief Auditor's record of the meeting, the Director said that the auditors were insensitive to VOA problems and accused them of not having their facts straight. Further, the Director pointed out that the auditors had their priorities mixed up and suggested that the auditors get on to more serious work.

The VOA Director of Personnel issued a cable on July 14, 1982, instructing the relay station managers on how to handle this problem. However, the Office of Audits believed this guidance was unsatisfactory because the instructions were subject to misinterpretation by the station managers and thus the same problems could continue. The cable essentially stated what was in the prior guidance, with no further clarification. This finding is still open almost 2-1/2 years after the first report and as yet has not been properly addressed.

Inappropriate management practices not corrected

The use of inappropriate personnel management practices by some top USIA field operating officials continues to be a problem. The auditors reported that purchase orders for contract personnel to supplement field posts had been used inappropriately. However, no serious attempts have been made by Agency officials to address this problem, although the practice is contrary to USIA regulations and defeats the purpose of reducing personnel costs to save USIA funds.

¹VOA, while part of USIA, maintains a separate and independent personnel system.

The attitude of some field officers seemed to be that "anything goes" to get the job done. Inappropriate use of personnel service contracts has been reported over the years in Colombia, Pakistan, Italy, Uruguay, and Chile. Findings in two recent audit reports, one on India and the other on France, illustrate the problem.

In March 1981, the USIA post in India was ordered to cut 60 positions from its authorized ceiling to save USIA resources. Post officials decided to handle this problem by creating new positions, promoting designated employees one grade into the new positions, then abolishing the new positions. This resulted in higher severance or retrenchment pay for the released employees. The action was later declared illegal by USIA but we were told that USIA officials in Washington decided not to attempt to recover the additional money paid to the released employees, i.e., salaries above what they would have received had they not been first promoted then released.

After the positions were abolished, the Public Affairs Officer (PAO) contracted with 16 of the former employees to do the same jobs they had held. When contract payments were combined with annuities, 12 of the former employees made more than their original salary; as much as 65 percent more for one of them.

The PAO told us that some aspects were cleared with Washington before the cut and that he thought everything had been approved. He noted that, although USIA Washington cleared the transaction, it was complicated and that possibly a misunderstanding occurred. After the audit report was issued, the PAO reduced the contract employees' payments to the level they would have earned if they were still on USIA's payroll. Since the original purpose of the employee cut was to save USIA resources, this adjustment of pay did not satisfy the purpose the USIA-directed cut of personnel. In commenting on a draft of this report, Agency officials told us that only five former employees remained under contract at the USIA post in India.

A January 1983 report on the USIA Post in France noted the following personnel administration problems.

"(a) The information provided to the Embassy contracting officer as to actual services to be provided is not realistic, and the duties expected to be performed do not always relate to actual services contracted for.

"(b) Contract personnel are not being treated as independent contractors,

but are being supervised by American and Foreign Service National (FSN) personnel.

"(c) Payments are made either on a time basis or on the basis of rigged end product statistics for other purchase order and contract personnel. The end product statistics are based upon a FSN equivalency rather than actual work performed.

"(d) USIA program officers are knowingly certifying for services received which according to invoice are fraudulent in nature."

A senior PAO told us that personnel contracting has always been a problem in the agency. According to this individual, the prevailing attitude among field management people was that the posts are forced to "sham" contracts, usually with former employees, in order to have sufficient staff available. Similar questionable personnel practices--using purchase order contracts to supplement USIA work staff--were discussed in our August 10, 1982 report, Weaknesses In Procurement Practices to Obtain Outside Professional Talent Services (ID-82-46).

The extent of this problem was further emphasized during a discussion with a junior officer at an overseas mission. We were told that during the recent audit of the officer's operation, a USIA auditor pointed out that a personnel decision made by the officer was against USIA regulations. The officer said that the auditor was correct; however, disregarding the regulation was a wise decision. In following up on this point at the same mission, we interviewed a senior PAO with over 25 years of experience who told us that "it's 'ok' to bend the rules if that's what it takes to get the job done."

We asked the Director of Personnel in Washington about the attitude of officers who use such questionable personnel management practices. The Director said that there is a peer review system in the foreign service in USIA. Officers try to please their superior rather than follow good personnel management practices. The India case is a good example. The Director expressed the opinion that the PAO and executive officer knew better, but went ahead anyway. The Director said she tries to keep the various headquarters officials informed but can take no specific actions in such cases because decisions are made at scattered points in the agency by officials who have a vested interest in the problem area.

Numerous other audit findings require management attention

USIA audit reports contain other examples in which USIA management did not resolve the audit findings or take timely corrective action.

<u>Subject or activity</u>	<u>Amount involved</u>	<u>Comments</u>
Saudi Arabia	\$1,120	Auditor questioned payment of transportation to fly a PAO's personal servants from the Philippines to Saudi Arabia. USIA's Comptroller approved the payment. In commenting on a draft of this report, USIA officials said that the issue of paying for servants' travel was being referred to the Interagency Committee on Joint Regulations.
Burundi	\$5,192	Duplicate payment for lease and purchase of same property during July to December 1980. Auditors recommended collection action. The USIA Comptroller, however, agreed to drop the matter. In commenting on a draft of this report, Agency officials told us that the matter has been referred to USIA's General Counsel for a legal opinion on whether there was an overpayment and, if so, what recovery action should be taken.
USIA Correspondent Bangkok	\$2,500	The USIA correspondent maintained \$5,000 in an imprest fund. The auditor demonstrated that only an average of \$1,400 a month was used and recommended the fund be cut to \$2,500. USIA rejected the recommendation. In commenting on a draft to this report, Agency officials noted that the audit staff will again review the imprest fund when Bangkok is re-audited in 2 years.
USIA Correspondent Munich	\$7,500	The correspondent kept \$10,000 in an imprest fund but the audit showed that the correspondent needed only \$2,500. USIA rejected

the recommendation. In commenting on a draft of this report, Agency officials said that the fund will be reduced by 50 percent.

Payroll \$70,000

The auditors recommended centralizing payroll operation in USIA because the system was fragmented and decentralized and internal controls were weak. USIA officials did not resolve this recommendation in a timely manner. (Recently a USIA officer received 54 duplicate paychecks for over 2 years before discovery. The case is under investigation.) In commenting on a draft of this report, Agency officials noted that the Department of State and USIA are evaluating a proposal to centralize payroll processing for all American employees.

East West \$1,028,178
Center

The auditor reported that the grantee double-billed the U.S. government and that interest income earned by the grantee on government funds was not returned to the U.S. Treasury promptly. This finding was outstanding for a number of years before action was taken to resolve it. In commenting on a draft of this report, Agency officials said that the Center has agreed to pay \$850,000 immediately, with the balance offset against future appropriations.

Auditors' continuing concerns
about USIA operations

The USIA audit reports pointed out numerous areas vulnerable to waste and abuse; for example, cashier operations, voucher payments, claims for reimbursement, and travel vouchers. Based on our review of USIA reports and recommendations, the following areas were of recurring concern to the auditors.

Controller operations

The Agency should ensure that

- payments on invoices are to legitimate vendors for goods or services actually received;
- payroll disbursements are made to bonafide employees for proper amounts;
- overtime payments are for authorized, actual hours worked;
- employees' travel vouchers are bonafide and proper; and
- employees are properly and expeditiously repaying accounts receivable for overpayment, loans, travel advances, etc.

Cash management

The Agency should ensure that

- interest earned on advances to contractors or grantees is refunded;
- cashier funds do not exceed a reasonable level and cash is disbursed only for authorized expenditures; and
- contractor/grantee advances do not exceed immediate requirements.

Administrative operations

The Agency should ensure that

- property management is conducted in accordance with appropriate regulations and good management principles;
- leasing of property is restricted to justifiable needs, conforms to applicable regulations, and is managed in a cost-effective manner--particularly housing and office space; and
- representational funds are used in accordance with regulations.

Contract/grant management

The Agency should ensure that

- competitive procurement procedures are used to the maximum extent possible;
- determinations to use particular grantees and contractors are valid;
- performance is within terms of the contract and on a timely basis;
- full value is received for funds expended for service; and
- questioned and/or disallowed costs are promptly and properly adjudicated in accordance with contract or grant terms.

We also examined documents in the USIA files which related to various phases of the audit process and found other examples of management problems which were not yet in audit reports. For example, a USIA officer and his family were being transferred from Montevideo, Uruguay, to Washington, D.C., and were authorized travel to their designated home in Iowa. The officer and his family traveled by various means, including the Delta Queen riverboat from New Orleans to St. Louis. Four first class fares at \$3,190 each cost \$12,760. An additional \$1,680 cost was incurred to continue on the riverboat to their home in Iowa. Thus, this one segment alone cost \$14,440. If travel costs had been determined based on constructive travel costs for a usually travelled route, the U.S. government transportation costs for the trip would have amounted to \$3,348 in estimated air fare, plus incidental expenses.

All of these areas need close attention and stronger response from management officials if management problems are to be minimized and resources adequately protected in the agency operations.

AUDIT RECOMMENDATION FOLLOW-UP AND COMPLIANCE SYSTEM WAS INEFFECTIVE

The Office of Management and Budget's (OMB's) Circular A-73 states that timely action on audit recommendations is an integral part of an agency's management system and requires that agencies establish follow-up systems in accordance with Circular A-50. The key requirements call for

- a top management official to be in charge of the program,
- recommendations to be resolved within 6 months,

- specific written plans for corrective actions,
- accurate records on the status of recommendations,
- a mechanism to resolve major disagreements, and
- semiannual reports to the agency head on the status of all unresolved audit reports over six months old.

On June 1, 1983, the Comptroller General issued audit resolution standards. The standards require managers to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established timeframes, all actions that correct or otherwise resolve the matters brought to management's attention.

The USIA audit recommendation follow-up and compliance system was not implemented in accordance with OMB's requirements, and did not comply with standards established by the Comptroller General in June 1983.

Lack of timely and aggressive follow-up on audit recommendations

USIA's Manual of Operations and Administration requires action to be taken on recommendations within 60 days (domestic offices) or 45 days (overseas posts). After an additional 30 days, a second report is required on actions not completed at the time of the first response. Unresolved issues are to be referred to either the Agency's General Counsel for legal interpretation or to senior management for decision. Both the audit report and information about its final disposition are to be sent to USIA's Director.

USIA management was not receiving the benefits of the audit process because some audit recommendations were not implemented or were implemented too slowly. USIA's audit recommendation follow-up and compliance system lacked

- appropriate mechanisms for assuring that recommendations were resolved within 6 months,
- specific written plans for corrective actions,

- follow-up and verification of corrective actions on audit recommendations,
- effective procedures for resolving disagreements, and
- a mechanism for notifying the Agency head of unresolved audit recommendations.

As a result, problems continued to exist in the programs even after they were identified. The Office of Audits was aware of the audit resolution problem but had been unable to bring it to the attention of the Director because of the office's relative position in the Agency, the low priority given this requirement by management, and the office's lack of staff to verify compliance.

OMB Circular A-50 requires federal agencies to have procedures for resolving audit recommendations. The main element of the Office of Audits' procedures in this area was a semiannual report to the Associate Director for Management which lists reports with open recommendations. Both OMB and USIA's Manual of Operations and Administration consider an audit recommendation unresolved if it remains open over 6 months. The number of reports with open recommendations were increasing. Also, the average dollar value of unresolved recommendations has increased since 1981, and the time needed to resolve audit recommendations was steadily increasing. There were 16 reports with open recommendations as of March 2, 1980. By September 30, 1982, however, there were 21. During the same period, the number of reports with recommendations open one year or more increased from 7 to 14. The Acting Chief Auditor expected this trend to continue. Examples of the longstanding nature of open recommendations are outlined below.

On August 18, 1978, the Office of Audits issued a report on the International Theatre Institute's management of eight grants it received from USIA's Bureau of Educational and Cultural Affairs. The audit disclosed \$300 of unallowable costs and \$10,025 of unexpended funds, a total of \$10,325, which should have been returned to USIA. The grantee returned \$524. The recommendation to recover the rest of the money was given to the Office of Contracting, which sent a letter to the grantee requesting the money be returned (within the month) but took no further action. The 6-month audit resolution time passed without return of the money. The Office of Audits requested further action. On April 9, 1980, the contracting officer asked the grantee for further information. Over 2 years more passed before the contracting officer decided the grantee could keep the money as a "partial recovery" of the administrative costs. Thus, it took 4 years to settle the matter.

In 1977, the USIA became responsible for the administration of a grant agreement for the operation of the East-West Center in Hawaii. USIA and the Center executed a Budget and Cost Principles Agreement on an interim basis subject to audit. That audit was issued on June 25, 1979, and disclosed a number of weaknesses in the Center's handling of grant funds. Two audit findings concerning about \$1 million for interest income due the U.S. government and a double billing by the grantee resulted in a long, drawn-out disagreement with the Center. The first major effort to resolve the problem did not begin until February 7, 1980--7 months after the report was issued--when the contracting officer wrote the Center seeking "possible means to resolve" the recommendations. A series of letters and memorandums were written back and forth, and meetings were held during the summer of 1980. The report and its recommendations became a year old without resolution. In June 1981, 2 years after the report was issued, the contracting officer sent the matter to the Comptroller General for resolution. A decision was issued in September 1982 which supported the auditors' findings. It took over 3 years to settle the problem.

On December 9, 1981, the Office of Audits issued a report covering the financial and management operations of USIA, Germany. The post was required to respond to the recommendations within 45 days from that date but did not do so. The Office of Audits queried the post several times about the lack of response, but to no avail. In the fall of 1982, we discussed the matter with the Director of European Affairs (the area director), and found that he was unaware a response had not yet been made. He said that he had no way of knowing whether any of his posts had responded or not. In October 1982, we discussed the matter with the PAO and the executive officer at the post. They acknowledged that no response had been made but said it did not matter since they were already aware of the problems identified by the audit. In any event, they agreed to provide us with a response before we left the Post. No response was provided. They then promised us a response by mid-November, but again no response was provided. As of March 1983--some 15 months after the report was issued--the post still had not responded to it. In commenting on a draft of this report, Agency officials told us that a response had been prepared and was being reviewed at headquarters.

The Office of Audits issued a report in August 1979 on the American Cultural Association in Morocco; a bi-national center with large English teaching programs. Two of the findings required USIA's General Counsel to determine whether (1) the U.S. government was legally liable for the financial irregularities of the Association and (2) legal actions should be initiated against responsible officials. Due to the sensitive nature of the matter, it was sent to the General Counsel in April 1979, 4 months before the report was issued. The 6-month period for

recommendation follow-up expired February 1980 without a decision from the General Counsel. In fact, the matter was still unresolved (despite repeated requests for action by Audits) at the time of our audit, almost 4 years after General Counsel received the case. Approximately \$30,000 was at stake. In commenting on a draft of this report, Agency officials said that this case had been closed for several years. Their summary of the case is on p. 45, together with our comments.

The USIA report, Audit of FY/1979 Financial Statements pointed out that internal management controls were inadequate and the agency was more vulnerable than necessary to fraud, waste, and mismanagement. Of the 44 recommendations for management action, 11 were unresolved as of March 1983--almost 3 years after the report was issued.

All of the auditors considered follow-up to be a major weakness. A typical comment was:

"Follow-up is a severe weakness in USIA, both in the field and at headquarters. VOA for example, ignores the audit function. Also, constant rotation of personnel means that no one is accountable or responsible for follow-up, and as a result management deficiencies continue into the next audit. These management deficiencies recur world-wide."

The USIA auditors did not verify that their findings and recommendations were implemented, but they acknowledged they should do so because they had found instances of promised action without actual implementation.

USIA's Office of Audits issues a semiannual report on unresolved audit recommendations, but the report does not go to the Director or the Deputy Director of the Agency. Instead, it goes to the Associate Director for Management who may or may not alert the Director to the findings and recommendations. Our review disclosed only one instance--in 1979--where a major audit recommendation was referred to the Director.

CHAPTER 3

IMPROVEMENTS NEEDED IN ORGANIZATION, STAFFING, AND OPERATIONS OF THE OFFICE OF AUDITS

The audit function at USIA does not provide independent oversight of Agency resources. USIA's Audit Office would be a stronger management resource if it were organized and operated more in accordance with generally accepted government auditing standards.¹ One of the general standards for audit organizations is that it should be independent. This concept of independence includes the organizational placement of the audit function and the availability of adequate resources for performing audits. Other standards deal with the need for audit coverage to extend to the economy and efficiency of operations and the results of programs as well as to financial and compliance activities. There are also standards guiding the performing and reporting of audit work.

USIA's Office of Audits was impaired because it (1) was misplaced within the Agency's organization, (2) had inadequate audit resources to accomplish its assigned duties, and (3) did not put enough emphasis on expanded scope audit work.

Audit program and workpaper development in support of specific audit assignments also needed improvement.

AUDIT OFFICE MISPLACED IN USIA ORGANIZATION

The audit standards specify that the head of internal audit should report to the head or deputy head of the agency to achieve maximum independence. The standards state that auditors' independence can be affected by their place within the structure of the entity to which they are assigned and that the audit function should be organizationally located outside the staff or line management function of the unit under audit. Further, the standards require that auditors should be sufficiently removed from political pressures to ensure that they can conduct their audits objectively. OMB's Circular A-73 also requires non-statutory audit organizations to report to the head or deputy head of the agency in order to provide the appropriate degree of independence.

USIA's audit staff was located in the Office of the Associate Director for Management, one of four major associate directorates (see p. 2). This office is responsible for most of

¹Issued by the Comptroller General in Standards For Audit of Governmental Organizations, Programs, Activities, and Functions, February 27, 1981.

the support activities subject to audit, including contracts and procurement, property management, comptroller, budget and finance, personnel, training and development, and system technology and computer operations. This organizational arrangement (1) made it difficult for auditors to objectively review an operation managed by their Associate Director, especially if the audit was critical of the Associate Director for Management's own support responsibilities, and (2) reduced the prospects of appropriate response to any management weaknesses that need attention.

AUDIT RESOURCES INADEQUATE

The audit standards require that the audit activity be free from external impairments to independence, including restrictions on funds or other resources. The USIA Audit Office can be strengthened if top management would support it by providing adequate audit resources. The audit function was understaffed and travel fund limitations had a detrimental impact on audit work, specifically on overseas assignments.

Insufficient staff

The audit staff has grown little from 1960 to 1983--from eight professionals in 1960 to nine by 1969. In January 1983 there were still only nine professionals. The staff remained the same for approximately 20 years, while the workload increased beyond its capability.

In 1969 we reviewed the audit function and reported that "it seems evident that the audit staff, which at September 30, 1968, comprised of nine auditors, is insufficient to adequately perform the overall audit function in a manner responsive to management's needs . . ." In January 1983, 14 years later, the professional staff consisted of the same number of auditors. However, in the intervening years, the number of audits and the dollar value of the audit workload expanded rapidly, well beyond the capacity of the small staff which was inadequate even prior to the workload increase. For example, in 1977, the Bureau of Education and Cultural Affairs was transferred from the Department of State to USIA. This sharply increased the audit workload. The Bureau had about 756 grants outstanding, 26 of them in the \$1 million to \$28 million range and there were 126 grants over \$100,000. In addition, limited audit effort has been applied to other education and cultural affairs activities. There appeared to be a need for increased audit attention in view of some of the issues raised by the auditors. In one audit, the auditors questioned the costs charged to the government in a \$948,000 double billing.

Inadequate travel funds

A severe strain was placed on overseas audit assignments because of inadequate travel funds. We were told by audit officials that, although per diem rates rose sharply at many posts, travel funds in the budget were not adjusted to keep pace with inflation. Over the last 8 years, the travel budget for audit staff increased less than 50 percent while inflation in many countries where audits are performed increased up to 100 percent. The cost of travel for the 8 years is shown below.

<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
\$59,390	\$58,285	\$48,800	\$52,317	\$53,767	\$71,636	\$76,638	\$87,885

In fiscal year 1982, 12 of 30 planned overseas audits were not performed because of travel fund shortages. Further, the Fulbright Commissions (there are over 40) have been added to the overseas workload. The larger commissions require a minimum of 2 weeks of audit work. Currently, only 2 or 3 days is allowed for this work.

In addition, the Congress recently passed legislation regarding English-teaching programs overseas. This legislation allows post operating officers to reuse the revenue generated by the program. The handling of this revenue will require additional audit staff attention.

EXPANDED SCOPE AND OTHER AUDITING IMPROVEMENTS NEEDED

The audit standards require expanded scope auditing of government organizations, programs, activities and functions. The USIA audit staff should, but does not, perform expanded scope audits--to examine the economy and efficiency of operations and the results of programs, as well as assess financial and compliance activities. We analyzed 30 agency reports and found that most audits were confined to financial, contract, and property accounting activities. The reports were focused primarily on whether the audited activity complied with the requirements of the management operating manual.

We believe the audit staff could be more effective and useful to management by performing work beyond financial and compliance audits. The staff should be directed to perform more evaluations of programs and activities for effectiveness, efficiency, and economy at both domestic and overseas posts. VOA has requested that the audit office expand the scope of its audits to include such areas as personnel operations and management, inventory control and equipment maintenance. The audit effort did not give VOA management the information needed to identify and correct operational problems.

In 1969 the Director of USIA, in response to our recommendation about expanded scope audits, stated that:

"there will be increased emphasis on operational [i.e., expanded scope] audits without forgetting the financial and accounting requirements. The broadening of these responsibilities will apply to both the domestic and foreign activities."

Some 14 years later there was little indication that the audit staff was moving toward performing expanded scope audits.

Also, in doing its work, the audit staff needed to pay more attention to the audit standards for field work, especially in the development and use of individual audit programs and supporting workpaper documentation.

The auditors used a standard audit program which was designed for use at overseas posts. Although the standard program was helpful to the auditors, each audit should have at least a brief individual audit program setting out the objectives and work steps necessary to perform the audit. In reviewing workpaper files of domestic or functional audits, we found that often no such audit program was prepared, but that each auditor independently decided what was necessary to complete the assignment.

We reviewed the supporting documentation for 10 audits and found that a number of procedural aspects of workpaper preparation needed improvement. Many of the workpapers lacked headings, dates, statements of purpose, and index codes, making it difficult and time-consuming to trace the supporting evidence from the workpapers to the facts in the report. Also, most of the files did not have an indexed report to relate the workpaper support to the report facts.

CHAPTER 4

EXTENSIVE CONCERN ABOUT THE VALUE OF INSPECTIONS

AS AN EFFECTIVE MANAGEMENT RESOURCE

The Office of Inspections is a separate and distinct management activity in the Agency's evaluative process. Its function is to help management appraise efficiency and effectiveness of programs at overseas posts. This function differs from a properly organized expanded scope audit activity because inspectors respond primarily to operating managers' current needs and concerns about USIA programs and generally do their work only at overseas locations.

The USIA inspection activity was perceived by many Agency officials as ineffective because they believed inspectors

- did not use adequate criteria to measure post operations,
- did not use adequate standards and uniform methodology to carry out inspections,
- had preconceptions concerning country programs, and
- conducted unsatisfactory exit conferences and made ineffective recommendations.

USIA's Chief Inspector said he could not disagree with the complaints of the post officers regarding the inspection process.

Due at least in part to these perceived problems, management had no adequate follow-up system to track inspection findings and resolve them. For the inspection process to serve as an effective and useful management evaluation activity, USIA management needs to correct these deficiencies. Most officers believed that inspections were needed and agreed that their main benefit was in preparing for them because it forced them to analyze the results of what they were doing.

We were unable to independently assess the quality of inspections in any comprehensive way since supporting documents were usually destroyed when an inspection was closed. However, our examination of available inspection documentation tended to confirm these concerns. We found little supporting evidence for inspection conclusions and, overall, the evidence was weak. For example, the evidence in one case consisted of a questionnaire which was not filled out completely and some memorandums written by post officers concerning problems at the post as they viewed them.

INADEQUATE INSPECTION CRITERIA,
STANDARDS AND METHODS

Post officers believed that inspectors did not use adequate criteria for measuring posts operations and programs. Acceptable criteria, in their view, would be the objectives and goals for programs included in the approved country plan. The country plan was or should have been developed by the PAO and other officers and approved by the ambassador and the USIA area director. Therefore, the officers believed that the approved plan provided fair and proper criteria for measuring their activities, as shown in the following observations.

"The inspectors should accept the post program approved in the country under review and start at that point to see how well the program is being carried out or where the flaws are in a given program and not try to decide for the PAO and Area Director if it is the right program." (A senior officer, Far East.)

"Inspectors should determine if the post is doing what USIA wants done by referring to the country plan. The country plan identifies bilateral problems, states U.S. positions on area and world issues, and develops a plan and goals for the USIA to follow in relation to the problems and issues. The post should be measured and held accountable for only the country plan." (A senior officer, Near East.)

"The team was deep in details before they got off the plane. They never looked at the post's goals or whether these goals were being met. They ran at the post with details they already had in their background and never asked how an activity met overall post goals." (A senior PAO.)

The same type of observations were expressed by a number of other senior officers. It appeared that agreed-upon criteria were necessary to give the process a high degree of credibility and professionalism.

Most of the PAOs and many senior officers were also highly critical of the lack of standards and uniform methodology in the inspection process. They complained that inspections were inconsistent and that the inspectors used personal and non-uniform standards.

The following are typical comments expressed by seasoned officers, some who have been on both sides of the inspection process--being inspectors, as well as being inspected.

"Strongly believe that the inspectors need ... ground rules by which to operate so that everyone involved, the inspectors as well as the inspected officers know what to expect. Currently the ground rules are imprecise ... For example, when inspectors recommend that a particular program should be operated in a different way to get better results--this is only the inspectors' views, and not necessarily supported by hard evidence. What determines that the inspectors know what is best for the post?" (A senior officer with 15 years experience.)

"The inspection process is flawed, it lacks realistic parameters. Currently, the inspectors judgments rely too much on 'gut' feeling and not enough on solid evidence, data and support for its conclusions and recommendations. This is poor technique." (A senior officer with over 25 years experience.)

"Inspection process needs better focus and broad guidelines to make the inspection consistent. They are not consistent now with the result that an inspection is whatever the inspectors want it to be. The USIA top management should establish precisely what inspections should be doing and how it should be done ..." (A PAO with over 30 years experience and an inspector at one time.)

The gaps in the inspection process caused by not using (1) acceptable criteria for evaluating efficiency and effectiveness of programs and (2) standards and methods for guiding such evaluations, could result in personal opinion and unsupported, subjective judgment having great weight. A significant number of field officers complained about inspectors' preconceptions of how programs should be carried out. They believed that the inspectors did not make an objective evaluation of their programs and that the evaluations were shallow and conclusions were "off-base." Officers made the following observations concerning recent inspections:

"Nothing in the report was of substance and the inspectors had no back up evidence on my program except their own preconceived ideas which were wrong. Specific criticism is that the inspectors made subjective judgments without supporting evidence. Inspection was shallow--not in depth." (A senior officer with 10 years experience.)

"The inspection was poorly organized. Many things were not professionally done. Inspectors seemed to pay a lot of attention to their personal travel interests . . . the inspectors on this review did not have enough experience to judge the issues. They came here with preconceptions." (A senior PAO with over 30 years experience.)

"The inspector couldn't remove himself from his past own experience to assess this post in the context of its own programs. There was displeasure among a number of us about the mental baggage carried by the inspectors on the last inspection." (A senior officer, Europe.)

"Inspectors had preconceived ideas about the areas they were inspecting and went out to get evidence to support their ideas." (A senior officer, Thailand, with 15 years experience.)

COMPLAINTS ABOUT UNSATISFACTORY EXIT CONFERENCES AND INEFFECTIVE RECOMMENDATIONS

Post officers at inspected posts expressed concern about exit conferences and recommendations. They indicated that the exit conferences were short and vague and did not reflect what was in the final report. The officers also complained that recommendations were poor and impractical and some were useless. A cross section of observations follows.

"A couple of things disappointed us--we wanted inspections to suggest where we should pull up our socks but brevity of the report led only to flattering generalizations and then weak points." (A PAO, Europe.)

"There should be no surprises in the report. This team did not have an exit conference with the Deputy Chief of Mission or Ambassador. They had a perfunctory exit conference with me. They did not go into the critical element of the inspection report." (A PAO, Europe.)

"Report should contain important major findings, things that are important to top management. Too many inspection reports have piddling little findings and recommendations." (A PAO, Latin America.)

PERMANENT PROFESSIONAL INSPECTION
STAFF COULD ENHANCE INSPECTIONS

At times, the inspection staff had been considered within the Agency as a way to temporarily employ unassigned officers; at other times, re-employed auditors and officers on loan from their post assignments had been used to perform inspections. Based on our field work and discussions with officials in offices overseas, and results of inspections in the Agency, we believe that a permanent well-trained professional inspection staff is needed to provide a proper and acceptable inspection mechanism in USIA. Establishing a permanent staff will help overcome the history of unattractiveness associated with the inspection role in USIA.

According to some field officers, USIA would have to change its career path/reward system to attract the caliber of people acceptable to them as credible inspectors. In commenting on a draft of this report, Agency officials noted that the entire inspection process, including the qualifications and training of inspectors, was being reviewed.

OFFICE OF INSPECTIONS
HAD NO EFFECTIVE FOLLOW-UP SYSTEM

Responsibility for enforcing inspection report recommendations is given to the various area directors, and the decision to accept or reject inspection recommendations is left to the Counselor. (A new post and, essentially, another deputy director.) There was no verification by the Office of Inspections, the area directors, or the Counselor that recommendations were actually implemented.

The problem of inspection follow-up and resolution was discussed with 49 USIA officials at seven posts around the world. The majority of senior officers--those familiar with the system--believed that the inspection system was not being properly used as a management resource because, among other reasons, there was no effective follow-up procedure. Below are typical comments.

India

"Recommendation/follow-up procedure is poor; recommendations are not followed up. So many levels of Washington management handle the recommendation it becomes clouded, and final decision is left to the area director. No one in high authority follows up on, or follows through with the recommendations. To get results, you need an

evaluator with leverage in the Agency. When the PAO disagrees with a recommendation, he generally forgets it."

Philippines

"A main weakness of the inspection process is that recommendations do not receive adequate follow-up. Follow-up should be in the hands of the Inspection staff with direct lines to the Director. There is lack of verification that recommendations were actually implemented and action taken. Giving follow-up authority to Inspections would stop this lying."

Chile

"At present, little or no compliance. Follow-up should be greatly improved to make an effective review mechanism . . . Inspection reports not used for decision making . . . Agency management's interest in internal review varies greatly depending on who the Director and Deputy Director happens to be."

The development of an adequate follow-up system will be made more difficult by Inspections' recent change to its reporting system. It no longer makes recommendations; rather, it now reaches "conclusions" which the PAO and area director are free to accept or not. Thus, USIA now has an Office of Inspections which makes no recommendations, has no follow-up authority, and does not verify whether or not its "conclusions" are accepted or otherwise resolved.

CHAPTER 5

CONCLUSIONS, RECOMMENDATIONS, AGENCY COMMENTS, AND OUR EVALUATION

USIA's audit function was not as effective as it could be. Audit effectiveness had been impaired because agency officials did not adequately address and resolve the management deficiencies identified by the auditors. Management reluctance persisted despite recurring problems which contributed to wasting resources. Management's inattention to audit is illustrated by:

- Lack of timely and aggressive follow-up on audit recommendations.
- Misplacement of the audit activity in the organization.
- Insufficient funding and staffing of audit activities.
- Inadequate scope of audit activity.

This situation needed to be changed. Although USIA is not required to have an inspector general, this type activity--when adequately staffed and funded, organizationally placed to report directly to the agency director or deputy director, and given expanded scope audit authority--could help

- improve economy, efficiency, and effectiveness of programs and activities,
- detect and deter fraud and abuse in program operations, and
- keep top management adequately informed about problems and their correction.

Establishing an inspector general-type function which is appropriately chartered, organizationally placed, and funded and staffed would signal top management's commitment to, and insistence on, operational effectiveness. This could be done by having the director appoint an inspector general who could staff and carry out the audit function in accordance with generally accepted government auditing standards.

In commenting on a draft of this report the Director, USIA, announced his intention to appoint an Inspector General. Since that time an Inspector General has been appointed. The Director must now see that the new Inspector General's audit activities conform to government auditing standards.

USIA also needed to improve the image and usefulness of its inspection activity. Deficiencies within the inspection process, involving such matters as the absence of criteria, standards, and uniform methodology, caused concerns about the value of inspections. To enhance the value of inspections, management needs to correct these problems through a professional, thoroughly trained, permanent inspection staff.

To further emphasize management's commitment to effective audit and inspection, we proposed in a draft of this report that the Director, USIA

- Issue a directive to agency personnel which strongly supports the audit and inspection functions.
- Express his concern to all management offices that they respond to audit and inspections recommendations and correct identified deficiencies.
- Direct the heads of the audit and inspection activities to report to him.

On July 19, 1983, the Director issued an instruction to all USIA employees to implement these proposals.

Our draft report also contained proposals that the Congress place USIA under a statutory inspector general and that a vulnerability study be completed to identify weakness in the Agency's programs deemed vulnerable to waste, fraud, and abuse. We have reconsidered these proposals because the congressional committee monitoring the inspector general functions is currently considering activities to strengthen internal audits in federal agencies which do not have statutory inspectors general. Also, the Federal Managers Financial Integrity Act (P.L. 97-255) addresses our vulnerability study proposal. The legislation requires heads of federal departments and agencies to evaluate their internal accounting and administrative control systems and attest annually to the President and the Congress that their systems meet the standards set by the Comptroller General. If the system falls short, the officials' reports must identify material weaknesses and outline corrective actions. The first annual reports were due December 31, 1983.

RECOMMENDATIONS

We recommend that the Director, USIA:

- Appoint an experienced and qualified inspector general to carry out USIA audit activities in conformance with governmental audit standards.

- Support the inspector general's audit activities with adequate staffing and funding.
- Develop and implement an effective audit recommendation and follow-up compliance system adhering to OMB circular A-50 and the Comptroller General's resolution standards, and have the inspector general monitor the effectiveness of the system.
- Direct the audit staff to prepare and maintain complete and proper workpapers and supporting evidence and index (cross-reference) the facts to a completed report to ensure accuracy and supportability.
- Establish a permanent professional inspection staff trained in management analysis.
- Direct the Chief Inspector to develop standards and criteria for the inspection process, after consulting with the Director and area offices to satisfy their inspection objectives, and to provide an uniform inspection approach.
- Develop and implement an effective inspection follow-up and compliance system.

AGENCY COMMENTS AND OUR EVALUATION

A draft of this report was sent to the Director, USIA, for comment. The Director outlined a series of actions addressing the deficiencies we reported. In addition to appointing an Inspector General and issuing a directive addressing support for audits and inspections, implementing recommended corrective actions, and organizational placement of audit and inspection activities; the Director,

- Increased the audit staff by three positions and said that adequate travel funds would be provided for audits and inspections.
- Took actions he expected to result in full compliance with OMB Circular A-50.
- Initiated a review of the Agency's inspection process, including the inspection standards and evaluation methods and the mechanisms for informing management of inspection recommendations and compliance actions.

--Established an Agency Oversight Committee, chaired by the Deputy Director, to advise the Director on open audit and inspection issues.

--Said the audit staff was taking steps to improve its workpaper preparation and related reporting activities.

If properly implemented, these actions should help correct the problems discussed in this report. More specific information on the Director's comments and our evaluation of them, is included in the appendix.

**United States
Information
Agency**

Washington D C 20547

Office of the Director



July 25, 1983

Dear Mr. Conahan:

I refer to your letter of June 24, 1983, transmitting a draft report prepared by the General Accounting Office on deficiencies in the USIA offices of audits and inspections.

I have read your draft report and am acting to correct the deficiencies you reported. On July 19 I issued an instruction to all USIA employees, strongly supporting the audit and inspection functions and reminding all employees to adhere to the highest standards of efficiency and good management in the conduct of Government business.

To assure the prompt and effective resolution of audit and inspection recommendations, and in compliance with the recommendations contained in your report, I have directed that the Chief Inspector and the Chief Auditor report to me. In addition, I have established an Agency Oversight Committee, which will be chaired by the Deputy Director of the Agency, to review all audit and inspection recommendations that have not been implemented or otherwise resolved, and to advise me on corrective action (Tab A).

I plan to appoint an Inspector General to head the Office of Audits in accordance with your recommendation No.3. We are now considering candidates for that position.

We are submitting two enclosures as part of our comments on your draft report. Tab B lists your 11 recommendations to the Agency (pp. 62-63 of the draft report) together with the Agency's response to each recommendation. You will note that we have already complied with most of the recommendations. One or two require further study.

Mr. Frank Conahan
Director
National Security and
International Affairs Division
U.S. General Accounting Office

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Many of the individual cases listed and deficiencies cited have been corrected in the normal course of operations during the 15 months that your review has been underway. In addition, Agency officials have met with your auditors on several occasions and have implemented their specific recommendations where possible.

At Tab C we are enclosing detailed comments on some of the cases mentioned and points raised in your draft, commenting on or updating the information as appropriate. I hope that your final report will reflect the current situation where corrective actions have already been taken.

Thank you for this opportunity to comment on your findings.

Sincerely,

A handwritten signature in black ink that reads "Charles Z. Wick". The signature is written in a cursive style with a horizontal line underneath it.

Charles Z. Wick
Director

**United States
Information
Agency**

Washington, D C 20547



Announcement No. 142

July 19, 1983

USIA Inspections and Audits

FOR: All Agency Employees

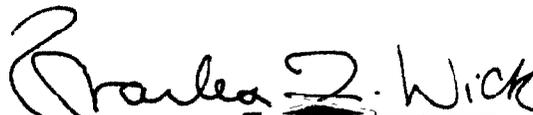
The orderly and efficient conduct of the Agency's business requires that all personnel adhere to the standards of sound management which have been set forth by the President, Congress and Agency leadership. These standards apply both to program operations and to administration, at home and abroad. In assuring that these standards are met, the Office of Inspections and the Office of Audits play a vital role.

I have concluded, in part through reading a draft report on a review of these offices by the General Accounting Office, that the importance of these functions needs to be reemphasized. In particular, there have been significant instances where compliance with findings and recommendations has been inadequate, incomplete or tardy.

Effective today I am directing the Chief Inspector and Chief Auditor to report directly to me. Concurrently, I am establishing an Agency Oversight Committee, which will meet regularly to review all audit and inspection recommendations that have not been implemented in full, or otherwise resolved. The Committee will be chaired by the Deputy Director and will advise me on the disposition of open audit and inspection issues.

To further strengthen the Agency's audit function and oversight of waste, fraud and abuse, I intend to appoint an Inspector General. The Office of Inspections, which is concerned with operational evaluations, will operate parallel to that of the Inspector General.

If we respond promptly to audit and inspection recommendations, our collective efforts will enable us to accomplish our mission more effectively. I look forward to the continued cooperation of all employees in achieving this goal.


Charles Z. Wick
Director

DISTRIBUTION: X - All Employees in U.S.
O - All Americans Overseas

USIA Actions on Recommendations
Contained in GAO Review of the
Audit and Inspection Functions
at the United States Information Agency

Point #1

GAO Recommendation:

"--issue a directive to all Agency components strongly supporting the audit and inspection functions."

USIA Response:

On July 19 the Director issued a notice to all USIA employees stating his support for the Agency's audit and inspection activities, and instructing them to adhere to the highest standards of conduct (see Tab A).

Point #2

GAO Recommendation:

"--communicate to all management offices his concern that they respond to the audit and inspection recommendations and take the necessary actions to correct the deficiencies."

USIA Response:

The Director's July 19 notice instructed Agency employees to respond promptly to all audit and inspection recommendations. The notice also announced the establishment of an Agency Oversight Committee chaired by the Deputy Director of the Agency, which will be responsible to assure the correction of deficiencies described in audit and inspection reports.

Point #3

GAO Recommendation:

"--administratively appoint an inspector general who is highly experienced and qualified, with strong management background and credentials, to improve the effectiveness of the audit function."

USIA Response:

The Director has announced (Tab A) his intention to appoint an Inspector General to direct the audit function and has initiated a search for candidates with the appropriate background.

-2-

Point #4

GAO Recommendation:

"--place the Audit Office under the inspector general and have the inspector general report directly to the Director."

USIA Response:

The Director has instructed the Chief Auditor to report directly to him. As soon as an Inspector General is appointed, he will be in charge of the Office of Audits and will report to the Director.

Point #5

GAO Recommendation:

"--provide the inspector general with the minimum professional audit staff needed to properly perform the audit work charged to this function and adequate travel funds to perform his planned work."

USIA Response:

Three additional positions for professional auditors are now being established by reallocating positions from elsewhere in the Agency. This represents a 30% increase in the audit staff. The need for additional resources is under consideration. Adequate travel funds will be provided for audits and inspections.

Point #6

GAO Recommendation:

"--develop and install an effective audit recommendation and follow-up compliance system, adhering to OMB circular A-50 and have the inspector general monitor the effectiveness of the system."

USIA Response:

The appointment of an Inspector General to head the Office of Audits and the establishment of an Agency Oversight Committee chaired by the Deputy Director to review the implementation of audit and inspection recommendations (Tab A) is expected to lead to full compliance with OMB Circular A-50.

-3-

Point #7

GAO Recommendation:

"--require that a vulnerability study be completed, as directed by the President, to determine the capacity of the Agency to prevent and deal with problems of waste abuse, and error, and to identify programs in the Agency deemed most vulnerable."

USIA Response:

After several months of preparation, the Agency issued a vulnerability assessment plan on June 28, 1983, in full compliance with the President's order and OMB guidance, which was provided to the Agency on May 26, 1983. We are now in the process of reviewing Agency activities to determine which are most vulnerable.

Point #8

GAO Recommendation:

"--establish a permanent, professional, inspection staff consisting of senior experienced officers, trained in management analysis and assessment, and evaluation techniques and have the Chief Inspector report to the Director."

USIA Response:

The entire operation of the USIA inspection process, including the nature of the qualifications and training most appropriate for this function, is now under review. The Director has already ordered the Chief Inspector to report to him.

Point #9

GAO Recommendation:

"--improve and strengthen the inspection process to be an accepted and useful management tool; and develop and install an inspection recommendation and compliance system which works and is useful to management."

-4-

USIA Response:

The Director has determined that the inspection staff should conduct domestic as well as overseas inspections. On the Director's order, the inspection staff has already conducted four separate domestic inspections of problem areas this calendar year and will do more in the future. The inspection process is being used as a management tool. The Agency is now reviewing the mechanisms for informing management of inspection recommendations and compliance actions.

Point #10

GAO Recommendation #10:

"--develop standards and criteria for the inspection process based on inputs from the Director, Area Offices, and the Chief Inspector to satisfy their requirements and needs for the inspection process, and to provide a uniform and standard professional inspection approach for the Agency."

USIA Response:

We are initiating a review of the Agency's inspection standards and evaluation methods, including the Inspection Handbook, to determine which methods may require revision.

Point #11

GAO Recommendation:

"--instruct the audit staff to prepare and maintain complete and proper workpapers and supporting evidence, and index (cross-reference) the facts to a completed report to ensure accuracy and supportability."

USIA Response:

The audit staff is taking steps to implement this recommendation.

**United States
Information
Agency**

Washington D C 20547



USIA COMMENTS ON DRAFT GAO REPORT
ON THE AUDIT AND INSPECTION FUNCTIONS AT USIA

The response of the USIA to specific comments in the 1983 draft GAO report entitled "Review of the Audit and Inspection Functions at the United States Information Agency" follows. The Agency responses are on the sections within each chapter of the draft report indicated by underlining. The Agency's response to Chapter 5, GAO recommendations, is at Tab B of the Director's letter to Mr. Conahan.

Chapter 1.

INTRODUCTION

The introduction of the draft report is imprecise on some items so we would like to provide the following clarifications.

The USIA's Director of Security is attached to the Bureau of Management but has direct access to the Director as a personal advisor on all security matters. The GAO auditors stated that they did not include the Office of Security in their review since it has "little to do with internal review and evaluation". It should be noted that the Director of Security shares responsibility for carrying out waste, fraud, and abuse investigations, and this responsibility requires internal review and evaluation activities. The relationship of the audit and inspection function to the Agency Director was underscored in Director Wick's July 19 announcement to all employees (Tab A).

Statistics provided for USIA in FY-83 should reflect that we maintain 206 posts in 126 countries with 8,600 authorized positions (of which 45% are in the U.S.). Our FY-84 budget request is for \$711 million.

GAO Comment

We agree that the Director of Security shares responsibility for carrying out waste, fraud and abuse investigations and this responsibility requires internal review and evaluation activities. However, at the start of our review the USIA investigative staff had just begun to identify and separately break out cases categorized as "whistleblowers". In fiscal year 1980 there was 1 such case, in 1981 4 cases, and in 1982 about 22. Many of the cases were still open. We excluded this function from our review because of the sensitivity of the open cases and our desire not to inadvertently compromise any of those cases which may be reported to the Department of Justice. Also, there were too few closed cases at the time of our review to draw valid conclusions on the effectiveness of this function. The report was revised to reflect the updated data provided by USIA.

The chart in the introduction should be adjusted to read:

	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>
<u>Audits</u>			
Size of audit staff (including support staff)	12	12	12
Audits performed	49	49	38 ¹
Staff travel and cost for work performed by other agencies	\$79,553	\$96,638 ²	\$129,885 ³
<u>Inspections</u>			
<u>Size of inspection staff</u> (including support staff)	12	11	11
Inspections performed	25	17	15 ⁴
Travel cost for staff and re-employed annuitants	\$127,023	\$97,575 ⁵	\$125,198 ⁶

¹ Number performed as of 7/15/83. The audit figures do not include whistleblower cases, of which there are 33 to date in fiscal year 1983.

² Includes foreign currency amounts of \$14,303 for Audits and \$22,650 for inspections.

³ Fiscal year 1983 funds allocated for these purposes.

⁴ See footnote 1.

⁵ See footnote 2.

⁶ See footnote 3.

GAO Comment

The report was revised to reflect this updated data.

Chapter 2

USIA MANAGEMENT OFFICIALS UNCONCERNED REGARDING AUDIT REPORTSUSIA Management Officials
Rationalize & Accept Poor Personnel Practices

This section deals primarily with contractual rather than personnel practices with India as a main case study of pending audit recommendations.

The State Department has an identical problem and has just received approval from the Office of Management and Budget for a pilot contracting procedure which would resolve the overseas contract problem outlined by the GAO auditors. We have been coordinating with State on this issue and are requesting approval from OMB for a similar USIA initiative. Under this pilot system we would obtain all commercial type services at overseas posts through contracts, either non-personal services or personal services contracts. This would be consistent with the principle underlying A-76, that workers who perform commercial functions do not need to be U.S. Government employees.

In those countries where there are no reliable outside contractors, or where the cost of an outside contract is not competitive with the in-house cost of providing the service, the post would contract directly with foreign nationals on a personal services basis. These employees would not be counted against the Agency's employment ceiling. Periodically, the function would be reviewed with the intent of identifying a reliable local contractor who could assume it.

The India example

The Agency and the PAO for India have been making a committed effort to resolve these audit recommendations, which have not been ignored or subverted. India had to apply an 18% reduction in force in 1981. Once the extent and dimensions of the RIF were established, the PAO made basic decisions which helped the post preserve efficient operations and a sensible organizational structure. This enabled us to emerge with a vigorous program and the stability needed to plan rationally for the rapidly-approaching day of sharply diminished resources, as the Rupee accounts run down.

While conducting the RIF, USIA India developed a master work force contract for computer operations, amended an already existing contract for distribution and reproduction services, and put the Wireless File/Teletype operators on a contract. These arrangements involved 13 RIF'ed employees. In addition, there were a miscellany of four: A proofreader, a documentary clerk, a library assistant, and a typist.

All 17 workers (16, the GAO report says) whose "Contract payment combined with their annuities resulted in their making more than their original salary" had their contract payments reduced within five days of the time the inspectors and auditors brought the fact to the PAO's attention on March 25, 1982.

Since that time, we have reduced the number of these former employees on contract to five--one proof-reader, and four people on master work force contracts. In accordance with an agency Directive, written justifications for these were submitted to the Office of the General Counsel, well before a September 30, 1982, deadline.

Additional comments on the India example:

--The 65 percent increase-in-pay example: The PAO learned this on March 25, 1982, and the worker's contractual payments (under a master work force contract) were cut back on April 1 to the point where he ended up making zero percent more that year than he had as a regular employee.

--"The PAO hired 16 former employees under a contract. These employees are still working, doing the same job as they had done prior to being released." Six of them were gone by April 1, 1982, before the inspection report was issued. Five more have since been dropped. The five remaining are more than offset by fifteen other contractual reductions which we have made in FY-82 and '83.

GAO Comment

Although it is necessary to coordinate with the Department of State on similar management problems, the responsibility for addressing and correcting management deficiencies lies with agency management. Because PAOs believed they were required to perform programs and functions beyond the capacity of the limited resources available to them, they developed such practices as entering into contracts with former employees in order to supplement their staff. While USIA is seeking to establish a pilot system which would be used to obtain all commercial type services at overseas posts through contracts, such efforts should not be used to circumvent budget ceilings established for operating the overseas posts or to avoid the impacts of reductions in force.

We believe managers need to identify and assign priorities for those functions that must be performed with their limited resources and should perform those functions and programs which are most important and drop those for which resources are unavailable.

In the India case, if the post had not been audited and inspected, the PAO and his executive officer may not have taken such actions identified in the USIA response but may have continued the inappropriate personnel practices.

AUDIT REPORTS SHOW TYPICAL EXAMPLES OF WEAK MANAGEMENT PRACTICES AFFECTING AGENCY RESOURCES.

We would like to address the examples listed in the report.

Saudi Arabia

In this case, our PAO in Saudi Arabia brought two servants to Saudi Arabia from the Philippines and charged travel costs of \$1,120 to Agency funds. The auditors questioned the propriety of this payment. Our review found that in Saudi Arabia there were no host country nationals available for this type of work and that it was common practice for an employer either to bring in servants from outside or hire third country nationals locally where available. We further found that the Standardized Regulations which define "servants' maintenance" to include expenses required by law or custom in addition to wages would cover the international airfare in this case. Thus, the Agency Comptroller recommended that the PAO not be required to repay the travel costs. Since the Standardized Regulations are not clear on the question of payment of servants' travel, we are asking the Interagency Committee on Joint Regulations to review this issue.

GAO Comment

No new evidence was supplied by the USIA Comptroller on which to base his recommendation not to require the PAO to reimburse the government. We believe this practice sets a bad precedent if the PAO is allowed to fly his personal servants to his assigned post at Government expense. Further, as shown and discussed in the USIA audit report, the standard regulations contain no provision for reimbursement for "international" travel for servants. The Department of State's Chief for Standards and Differentials stated that such payments are not an official's residence expense. Also the Chief, Wage Division, Office of Foreign National Personnel, stated that he knew of no other regulation which would support the payment.

Burundi Lease Payment

The auditors questioned a lease payment for our facility in Burundi as being a duplicate payment, and recommended action (assigned to PAO) to recover the alleged overpayment of \$5,192.63. The former PAO believed that there was no overpayment since the Post was unable to comply with the terms of the agreement due to delays in receiving the additional funds needed for an advance rental payment of \$60,000. This lease included an option of the USG to purchase the building before December 31, 1980 at a cost of \$120,000, with the \$60,000 rental payment being applied to the purchase price. The Agency Comptroller agreed with the PAO and recommended that the matter be closed. However, we are forwarding appropriate documents to the Office of the General Counsel for a legal opinion as to whether or not there was an overpayment and, if so, what action should be taken to make recovery.

Uruguay Lease

USIA was informed on October 21, 1982, that the post in Uruguay believed the residence was not large enough for the incoming officer's family and that a replacement residence was being sought. The original lease could not be terminated until June 30, 1984 due to an improperly worded diplomatic escape clause.

We reluctantly acquiesced in the search for new quarters for the incoming officer. However, we asked the post to find new occupants for the leased quarters in order to avoid duplicate rent payments. We have been informed by the post that the Embassy placed one of their employees in this residence after two months, at which time the State Department assumed the lease payments. Therefore, the rent payments on a vacant residence extended only for two months at \$1,449 per month or \$2,898 in total.

GAO Comment

Based on subsequent review of the draft report within GAO, this example was deleted from this report.

Bangkok USIA Correspondent Imprest Fund

The post has been firm in its belief that the \$5,000 level of the imprest fund is needed for effective operations. The audit staff has decided to close that audit and review the use of the fund when Bangkok is re-audited in two years.

Munich VOA Correspondent

At first the large imprest fund was determined necessary for the payment of work by local language stringers. VOA later felt that this stringer work could be paid by USIS Bonn, thereby reducing the imprest fund. A 50% reduction will be put into effect and monitored to see if it is appropriate.

GAO Comment

No new evidence was provided by USIA to change the original conclusion in the USIA report. The VOA European Bureau authorized the \$10,000 petty cash fund to pay correspondents' expenses in Europe. Regulation VOA VII 923.3 and section 4 of the VOA Administrative Procedures provide that petty cash disbursements may not exceed \$250 for any single transaction or \$500 in an emergency. However, cash payments were made for items costing \$1,971, \$580, \$1,005, \$782, etc. These payments could have been made by checks out of the State Department's Regional Accounting and Management Center, Paris, or out of Bonn, Germany, according to the auditors. A petty cash fund of \$2,500 would suffice according to the auditor.

Payroll

The Department of State and USIA are evaluating a proposal to centralize payroll processing of all American employees--including those in USIA--in Washington.

East-West Center

The longstanding disagreement between the East-West Center and USIA has been resolved by a \$1.6 million settlement that is in the U.S. Government's favor. The Agency moved promptly and vigorously to resolve the issue after receiving the GAO decision of September 1982, which supported the position of the Agency's auditors. The Center has agreed to pay \$850,000 immediately to the U.S. Treasury, while the balance will be liquidated through offsets to future appropriations.

Use of the Delta Queen Riverboat for Duty Transfer

The report of this case has identified what appears to be a weakness in the present system which permits foreign service personnel transferring between posts to travel one way by surface transportation regardless of cost. In this case the USIA employee obtained permission from the Agency's Area Office to travel one way by ship. The post (Embassy Montevideo) then authorized a Government Transportation Request for such travel. The traveler then extended his surface transportation from New Orleans to St. Louis using this GTR. After investigating this case, the Agency determined that the traveler acted within the provisions of current regulations (6 FAM 131.1-2c). However, we fully agree with the judgment that the cost of the trip (\$12,760) for four first-class riverboat fares from New Orleans to ride far up the Mississippi is not an appropriate use of Agency resources. Since the regulations in question govern the travel of all foreign affairs personnel, we are asking the State Department, which chairs the travel management improvement group, to take up this matter at an early date with the objective of prohibiting such exorbitant surface travel in the future.

GAO Comment

The thrust of the report's comments is that travel of the type described was an imprudent use of Agency financial resources irrespective of whether the travel could be justified. The question of the adequacy of the Agency's justification is presently pending before GAO and is not addressed in this report.

Audit Reports Also Show Other Vulnerable Areas

The Agency fully agrees with the GAO that there are a number of management areas, such as cashier operations, property management, etc., that are inherently vulnerable to waste and abuse. The Agency maintains a close watch on these activities to insure that they are properly performed. Further, the Agency is now undertaking a review of its internal control systems as part of the vulnerability assessment called for by the Federal Managers' Financial Integrity Act of 1982 and OMB Circular A-123.

AUDIT RECOMMENDATION FOLLOW-UP AND COMPLIANCE SYSTEM INEFFECTIVE

While only 2.4% of audit recommendations made over the last five years remain unresolved, we agree that the system must be improved. The decision by the Director to appoint an inspector general and the establishment of an Agency Oversight Committee (see Tab A) is expected to effect the changes needed.

Four related points were raised by the report which we would like to address here.

1. Lack of Timely and Aggressive Follow-up

The Office of Audits is planning for its FY 84 fall audits to include visits to Posts to ensure that the follow-up actions reported are in fact being implemented. The Agency is currently working on the unresolved findings.

2. No effective Procedures for Resolving Disagreements

With the establishment of an Inspector General and a semi-annual report to the Director, the resolution of disagreements should be greatly expedited. The Inspector General will play an active role in pursuing the timely resolution of audit findings.

3. Increase in Number and Amount of Open Recommendations

The increase and amount of findings is a result of the aggressiveness with which recent audit reports have been addressing the Agency's operations. Some issues raised by the auditors are of such a substantive nature that the Agency has had to review its operational practices.

4. Top Management Notification of Unresolved Audit Findings

With the appointment of an Inspector General and the responses to items 1 and 2, top Agency officials, including the Director, will be notified of unresolved audit findings.

GAO Comment

These actions, if properly implemented, should improve the audit recommendation follow-up and compliance system.

We would like to comment on the following related cases.

West Germany post audit

Since receipt of the draft GAO report, the Agency has received from USIS West Germany a response addressing all items in the USIA audit report. The response is now under review.

American Cultural Association, Rabat, Morocco

This case has been closed for several years. The Agency was informed in February, 1980, that the Moroccan tax authorities issued a signed receipt acknowledging full payment of 1978 taxes. So this issue has been moot since 1980. Separately, an employee of the ACA, not an Agency officer, had managed the ACA financial records and could not account for the expenditure of approximately \$30,000. At the time the audit report was written, the employee had married a Moroccan Government official and was living in Europe. Upon advice from local legal counsel and discussions with Agency offices, it was concluded that the USG had no standing to bring suit against the former ACA employee and that it was inadvisable for diplomatic reasons for the USG to request legal action by the Government of Morocco against the former ACA employee. The USIA audit staff has closed this case.

GAO Comment

Based on our discussion with Agency audit staff, the American Cultural Association case has not been closed for several years. USIA officials had not received a response from USIA General Counsel and had not acted on the audit staff request for a response to this recommendation. The 6-month report dated March 1983 showed that the case was still open. The case was finally closed in July 1983.

Financial Reports and Accounting System Audit Compliance

Most of the major weaknesses identified in the Audit Staff's audit of the FY 1979 financial statements have been corrected and the overall accounting system has been strengthened and improved. As of July 20, 1983, only 11 of the 44 items remained open--not 19 as stated in the GAO report. Nine of these 11 items relate to inventory questions which are being actively pursued. Five relate to VOA inventory discrepancies and will be resolved in August after new physical inventories have been completed. Four relate to basic property management and inventory accountability procedures that require a major study to evaluate better methods and procedures. Such a study will be undertaken in FY-1984.

GAO Comment

As of July 1983 the audit and financial statement did have 11 of 44 items and not 19. This change has been made in the report.

International Theatre Institute

We agree that the resolution of the International Theatre Institute took longer than it should have. In 1978 we had just begun working with the educational and cultural exchange program grants, which had been transferred from the State Department to USIA, and this case was a State grant with which our staff was completely unfamiliar. Such cases are now handled much more expeditiously.

East West Center

See page 6 - this case has been favorably resolved.

Chapter 3

IMPROVEMENTS NEEDED IN ORGANIZATION, STAFFING, AND
OPERATIONS OF THE OFFICE OF AUDIT

AUDIT OFFICE MISPLACED IN AGENCY ORGANIZATION

The appointment of an inspector general and the establishment of an Agency Oversight Committee is expected to effect the improvements needed in the Agency's audit operation.

The Office of Audits (M/U) has had a dramatic change in workload in the last five years. The scope and function of the office has changed from primarily an overseas audit of Posts to an increased effort to conduct domestic audits. This increase is in response to the Office of Management and Budget (OMB) and the General Accounting Office (GAO), which have issued bulletins and standards for all Government audit operations.

We are now trying to redirect the audit workload to comply with OMB and GAO standards and regulations. To meet current and new requirements, the audit staff will be increased immediately by three positions. The need for additional positions will be considered later. Adequate travel funds will be increased as needed. The actual travel figures for audits have been corrected in our comments on page 2 and to reflect the considerably higher amounts that actually have been allocated to audits in the past three years than the figures contained in the GAO report.

GAO Comment

There were added travel funds in both fiscal year 1982 and 1983. In 1982, \$14,303 counterpart funds for the India review were added, for a total of \$76,638. In 1983 after we completed our work in the Agency, an additional \$30,000 was allocated for travel, for a total of \$87,885. With these additional travel allocations, the average travel for the 8 years amounted to about \$63,500. The travel figures in the report have been changed to reflect these additional funds.

Lack of acceptance of audit function

While it is true that some audit recommendations assigned to the Office of the Comptroller (M/C) have not been resolved, that office certainly recognizes and supports the audit function as an essential activity to ensure that waste, fraud, and abuse, and general inefficiencies are identified and corrected. The outstanding audit recommendations assigned to M/C have not been resolved for the following reasons:

- a. Additional information is being sought from other Agency offices so we can effect changes in the accounting records, such as inventory adjustment data from The Voice of America.
- b. Staff and fund resources are inadequate to implement extensive, but piecemeal, changes to payroll or accounting systems, such as audit recommendations, to totally revamp the Agency's property inventory accountability system. The steps necessary to establish a comprehensive property accountability system will be studied as a major effort in FY 1984.

Need to perform operational audits

The Secretary of Defense has agreed to the Director's request to provide assistance in developing and executing an operational audit of a Voice of America relay station. It is expected that the experience from this initial audit can be applied to other USIA requirements for operational audits.

Audit programs and workpaper need improvement

As noted by the GAO the audit workload has increased substantially over the years. To handle highest priorities first, the Office of Audits has not emphasized the referencing and indexing of its workpapers. Although its critical reports have measured up to those standards, other more routine reports have not. With planned increases in staff, the auditors will be able to devote additional time to those responsibilities.

Chapter 4

INSPECTIONS NEED IMPROVEMENTS AND STRENGTHENING
AS AGENCY MANAGEMENT TOOL

The tone of the draft report is diametrically opposite to the tenor of earlier, informal discussions with the GAO auditors. As the result of conversations in May, 1982, the Associate Director for Management, in a memo dated May 18 to the Agency Director, reported that:

"(The GAO auditors) told me they were greatly impressed with our inspection staff, which they consider the best they have seen in a foreign affairs agency.... They commended our inspectors for doing their homework before beginning an inspection, and said they were very thorough in their work."

GAO Comment

The discussion referred to was limited to the inspectors' preparation for inspections and did not include the actual field inspections. Our view was based on the background documentation and briefings which the inspectors told us they studied and were exposed to prior to an inspection. These discussions were held prior to our overseas field work where field officers discussed the actual inspection process with us and provided their views on the problems with the process.

Inspection process deficiencies

The Agency welcomes a discussion of the general problems of agency inspection standards and evaluation methods. The draft report conveys the impression that no such standards and methods exist. Current inspection standards and methods are in the Inspection Handbook maintained by the office of inspections. The GAO audit team is silent concerning them. The Agency will be reviewing the Handbook to see if any change is needed in our approach to inspections.

An examination of inspection office records shows that the overwhelming majority of inspectors' recommendations have been approved by agency management. Nevertheless, approval does not automatically imply implementation. This has long been of concern and the new Agency Oversight Committee, as well as the Director's July 19 announcement, should greatly assist the implementation of inspection recommendations.

The report's comment -- "Too many inspection reports have piddling little findings and recommendations." -- clearly focuses on earlier practices. Under the current format, instituted over a year ago, inspection reports contain only major findings and recommendations which require approval or action at the agency level. The inspection staff was commended by the GAO auditors on this change last year.

Full exit interviews, including meetings with ambassadors and DCM's, are standard procedure. In no case, in the recollection of present inspection staff, have they been omitted.

GAO Comment

Our review indicated that field officers had basic concerns about how field inspections were being carried out based on the handbook. As pointed out in the report, senior PAO officers with many years of experience said that they believed there were no standard criteria with which to measure the officers' contracts with the Agency and that the inspections process needed better focus and guidance to make inspections consistent. A review of the handbook for any needed changes to the approach to inspections should be helpful.

In regard to management's acceptance of inspectors' recommendations, we attempted to verify the documentation which supports this statement. No such documentation was available at that time. Subsequently, the inspectors made an analysis of cables and messages from inspected posts regarding recommendations and concluded that most recommendations were accepted. Because there is no recommendation follow-up system in place, we could not verify the accuracy of the inspectors' conclusions. Further, the inspectors now make suggestions rather than formal recommendations. Thus, what was accepted by Agency management and what recommendations were implemented is not clear from Agency documentation.

LOW PRIORITY PLACED ON GOOD MANAGEMENT IN USIA

At the conclusion of Chapter 4, the report quotes a number of senior officers stating that more management training is needed. In the last decade senior-level management training has been offered to 51 officers at the National War College or service colleges, and 26 at the State Department's top management course, the Executive Seminar. In addition, 300 mid-level officers attended the two-week Executive Development Workshop, 156 participated in the Public Affairs Officer Workshop and 79 attended the Information Officer or Cultural Affairs Officer workshops. In addition, about 50 employees per year are trained in a variety of management or supervisory courses at OPM, FSI, GSA, USDA and private universities.

The Agency is now in the process of strengthening its mid-career training program, and substantially expanding its long-term training opportunities, from 15 to 20 per year. Much of this training is management oriented.

GAO Comment

All the courses listed above are valuable depending on the officer's position, and efforts to strengthen mid-career training should be helpful. The comments in our draft report that there is a serious need for management training in the Agency was drawn from observations of many senior officers in the field. However, since this issue was not within our principal scope of audit work, the discussion has been deleted from this report.

Agency comments on related issues

In Chapter 3 the report discusses why the Inspector General of the Agency should not be a serving foreign service officer. The Office of Inspections agrees on the ground that continuity in this position beyond the normal two-to-three year Washington assignment cycle is desirable. We do not accept the argument in the draft report that foreign service officers cannot be objective in evaluating the operations of officers with whom they may have served in the past. Such an assertion is not compatible with the integrity and professionalism of the service, and contradicts the concept of peer review, which is recognized in both the public and private sectors.

In the Digest and Chapter 3, it should be noted that inspectors do not rate officers at inspected posts. They evaluate post programs. Officer evaluations are made solely through the Officer Efficiency Rating system. Officer promotion panels do not make reference in their deliberations to post inspections.

Throughout the report Agency foreign service officers are referred to as "communication specialists." In fact, foreign service officers are typically generalists, drawn principally from university teaching staffs, journalism, business and other professions, including law.

GAO Comment

Several senior officers at various posts in the field specifically pointed out the problems concerning objectivity of evaluating fellow officers' programs and operations. We were not questioning the integrity and professionalism of the Foreign Service Officers. We were expressing the view that the inspector general position should not be filled by a Foreign Service Officer. One of the general standards for government auditing involves independence and addresses a number of impairments, including personal ones that could affect independence. Among the potential personal impairments noted are the prior involvement of auditors in a decisionmaking or management capacity and biases resulting from employment in or loyalty to a particular group, organization, or level of government.

Based on subsequent review of the draft report within GAO, discussions of these specific matters were deleted from this report.

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